

Global Energy: Strategies and Values

Summary and Conclusions

The Spanish Committee of the World Energy Council (CECME), which is also part of the Spanish Energy Club, held its traditional, international perspective annual Event on November 20th, 2014, under the title **"Global Energy: Strategies and Values"**, including additional participation on the part of the Elcano Royal Institute, with sponsorship provided by Repsol.

The event which took place at the Repsol Campus in Madrid for the third consecutive year, attracted over 400 attendees, as well as bringing together various highly experienced professionals from various national and international organizations. These included: the International Labor Organization (ILO), the Confederation of Amazonian Nationalities of Peru (CONAP), the International Petroleum Industry Environmental Conservation Association (IPIECA), the Toledo International Center for Peace (CITpax) and Wise Pens International.

The inaugural session was attended by the honorable **Jaime García-Legaz**, Secretary of State for Trade from the Ministry of Economy and Competitiveness, who was also accompanied by **Antonio Brufau** and **Pedro Miró**, Chairmen of Repsol and Enerclub, respectively.

The Secretary of State covered a number of issues in his speech including international trade rules and other existing challenges, focusing especially on energy. Trade revolves around three different pillars, he said, one of these being of key importance in relation to the protection of investments. This pillar is of special interest to Spain, and particularly the energy sector. "The energy sector is one of the areas that has the greatest amount of trade, but has so far remained on the periphery of world trade regulations for various reasons. However, changes in recent years have created a framework that is enabling the energy sector to become a "standard" industry in relation to trade and commerce, facilitating a greater level of legal certainty", he stated.

As a parting comment, he also emphasized the importance of opening up markets through a series of bilateral and multilateral agreements. More specifically, in terms of the Transatlantic Trade and Investment Partnership (TTIP), he iterated that Spain is working together with the European Union (EU) to reach an agreement on resolving restrictions on free trade in all areas, including the energy sector.

In the plenary meeting, **Emilio Lamo de Espinosa**, Chairman of the Elcano Royal Institute, and **Arturo Gonzalo Aizpiri**, Chair of the CECME and Vice-president of Enerclub, talked about energy as a key aspect of the globalization process.

Furthermore, over the course of various sessions, participants debated relevant international topics such as the aforementioned Transatlantic Trade and Investment Partnership (TTIP), human rights and geopolitics. Without doubt, this was an interesting and ambitious program laid out in a dynamic format, which dealt with various aspects of a varying nature, but also had in common the need for analysis from a global and multi-discipline perspective.

The meeting therefore counted on the presence of top-level panelists from renowned national and international institutions, not only from the energy sector, but also from the economic, political, military and social arenas. Additionally, leaders of CECME member companies gave their views on the issues that need to be analyzed through the traditional Front Row schema, which characterizes this event.

To bring proceedings to an end, the conclusions and closing session was conducted by **Charles Powell**, Director of the Elcano Royal Institute, and **Arturo Gonzalo** who had some final thoughts on the matters covered.

The following points provide a summary of the main messages and conclusions that were arrived at during the event.

Global Energy: Strategies and Values

Summary and Conclusions

Energy as a key aspect in the globalization process

There are currently several major shifts taking place in the world. First and foremost, the economic crisis that started back in 2007, with the ongoing globalization and the rise of the so-called emerging countries. Given this context, two essential dynamics can be identified; one of rapid demographic growth in countries located in the East, but also a much slower population growth in countries located in the West. This process has been linked with the transfer of technologies from West to East. To summarize, we are living in a time of "radical re-balancing and global homogenization".

In this respect, energy has been one of the cornerstones and drivers of international relationships since the Industrial Revolution, and continues to remain essential. Furthermore, geopolitical tensions related to the energy sector are a central component at the present time, forming a scenario largely characterized by uncertainty.

We are heading towards a time where the major demographic powers are becoming increasingly strong economically and militarily, for example, and a situation in which the role of certain countries will vary in terms of their actual relevance.

On the other hand, in terms of the resources on offer, it is worth noting that these are infinite, while only human ingenuity and the technologies to make use of such resources are finite, at least in the short term. If technologies are not developed appropriately, imbalances between supply and demand may arise.

It appears that there are currently two players that will continue in the spotlight in the future. On the one hand, China as a great military power, but also constituting a major unknown. Its rate of growth is spectacular and appears, in



2014, to have surpassed the North American economy in purchasing power parity, as did the North American economy with the UK in 1872. It is predicted to continue growing, with estimates that its GDP will equal that of the entire world at present by 2050. With 1.3 billion citizens, the Asian country needs every possible type of resource. "And this is its main problem, that of securing supplies."

On the other hand, the United States is leaning in the direction of Asia, with Chinese relations becoming increasingly important. In this scenario, unconventional resources are coming to the fore, as well as their consequences, among these being the re-industrialization of the US.

Against this backdrop, Europe – which currently has 7% of the world population – must resolve two essential tasks: first of all, to complete its internal integration process (European political union) and thus realize its potential as a power in international politics and, secondly, contribute to the integration of Western countries and the United States, the Atlantic basin, Latin America, etc.

Energy as part of the TTIP

The session began with an explanation of what the *Transatlantic Trade and Investment Partnership* (TTIP) does and does not consist of, also emphasizing the high expectations for this partnership, some of which are not fully substantiated. It was thus clarified that the partnership is principally a political agreement, with the objective of eliminating or reducing existing barriers hindering international trade and investments.

There are also a number of strategic TTIP components related, for example, to boosting economic growth and the creation of employment, or which focus on reviving transatlantic leadership for the benefit of the world economy. Regarding this latter point, it was highlighted that there are currently only two regions with the necessary political, economic and institutional might to provide this level of global leadership. The center of economic gravity is moving from the Atlantic to the Pacific; a level of displacement that does not affect the US as much as it does Europe. The TTIP's promise is to empower the West. Turning to energy, it was noted that this sector is not only crucial to the world economy, but

Global Energy: Strategies and Values

Summary and Conclusions

also a strategic factor for governments. The TTIP has a unique opportunity to introduce energy into trade relations between the United States and the European Union, thereby setting a precedent for the freeing up of this market and terminating the so-called "resource nationalism". In this respect, the European Union is putting forward solid arguments for including a specific energy chapter in the TTIP. At present, however, there has been a muted response to this proposal in the United States due to the political sensitivity to any form of initiative aimed at ending restrictions on the export of crude oil.

There are certain factors that are still under negotiation. These are related to energy sector services such as transportation, equipment and other components, for example, that have been the subject of debate during previous international agreements.

However, these components are not the most important aspect of energy sector relation between the United States and Europe, which are imbalanced and where Europe is extremely focused on having a specific chapter on energy in the Treaty. A certain amount of friction exists that has complicated negotiations in this particular area. These relate, among other issues, to current differences in prices between regions, a shift in European policies towards greater interventionism, the on-going debate about the use of non-conventional hydrocarbons, and the need to protect current investments.

For the TTIP to be able to fulfill expectations and, at the same time, for energy to have a more important role therein, which is highly desirable, it is first necessary to address three main aspects:

1) *"Internationalism – like charity – begins at home"*

The ability of Europe to broker trade agreements will depend on its capacity to comply

with its own regulations and policies which, in turn, are compatible with the pursued objectives. European energy policy needs to be based on market principles because, without these, it would be very difficult for the energy sector to have sufficient weight in any trade agreements, such as the one hoped for with the US.

2) *"Europe is a 'demandeur', not a rules-setter"*

Europe needs to understand that it is not responsible for setting the rules because, among other factors, its demand for imports is enormous and it also has a great amount of interest in diversifying energy sources. Furthermore, it is necessary to have more energy interconnections between Member States and an Internal Energy Market that functions on an appropriate footing. If these issues are not resolved, Europe will not be in a position to establish the rules of the game.

3) *"US trade restrictions will not stand up"*

Current rules governing commerce deal with the movement of certain contributors to production: labor, capital, investments and other key factors, such as information and energy. These factors are currently responsible for driving the world economy, and will do even more so in the future. The US should not utilize these factors as strategic elements for its own benefit and should lift restrictions that currently exist on its own energy sector exports.

Energy companies and human rights

View from the academic world: key challenges and developments of the international agenda on human rights and business.

The international human rights movement gathered additional strength through the adoption of the Universal Declaration of Hu-

man Rights by the United Nations General Assembly on December 19, 1948. Drawn up as "a common ideal to which all peoples and nations should strive", for the first time in History, the Declaration clearly established the basic civil, political, economic, social and cultural rights that all human beings should be able to enjoy. The contents of the Declaration have been widely accepted over the years as the basic human rights standards that should be respected and protected by all.

The Universal Declaration, together with the International Covenant on Civil and Political Rights, including its optional protocols, and the International Covenant on Economic, Social and Cultural Rights, make up the so-called "International Bill of Human Rights".

The growing influence and impact of transnational companies and other types of businesses, equally at international level as at national and local level, have given rise to a full debate on the role they play in society, in addition to discussion on their social and legal responsibilities. Convention 169 on Indigenous and Tribal Peoples from the International Labor Organization (1989) is an example of the commitment shown by businesses on carrying out operations in sensitive geographical areas where indigenous peoples live. Since its adoption, the provisions set out by this Convention have influenced numerous documents on legal policies and decisions at both regional and international level, as well as policies and legislation at national level.

Over the last decade, the United Nations (UN) has adopted various initiatives concerning the possible impact of business activities on human rights. Noteworthy international standards developed to tackle this matter include the Guiding Principles on Business and Human Rights adopted by the UN's Human Rights Council on June 16th, 2011.

Global Energy: Strategies and Values

Summary and Conclusions

These Guiding Principles are grounded in recognition of:

- a) States' existing obligations to respect, protect and fulfill human rights and fundamental freedom;
- b) The role of business enterprises as specialized organs of society performing specialized functions, required to comply with all applicable laws and to respect human rights;
- c) The need for rights and obligations to be matched to appropriate and effective remedies when breached.

These Guiding Principles apply to all States and to all business enterprises, both transnational and others, regardless of their size, sector, location, ownership and structure. These Guiding Principles should be understood as a coherent whole and should be read, individually and collectively, in terms of their objective of enhancing standards and practices with regard to business and human rights so as to achieve tangible results for affected individuals and communities, and thereby also contributing to a socially sustainable globalization.

Three years after its adoption, the initial consensus has been divided, as evidenced by the recent impetus given to the position of a group of countries in relation to their adoption of a multilateral Treaty on multinational companies and human rights, which has since been approved by majority vote at the Human Rights Council on June 26th, 2014. Is this the solution for moving forward and filling existing gaps in this field? The Treaty could be an additional path towards a set of Principles that offer a series of answers, but which do not appear to be the panacea in the short term due to, among other reasons, the procedures up until the actual entry into force of an international Treaty itself, which

could take decades and have potentially different results from initial expectations. Another interesting route to explore could be to extend the mandate of the Working Group for a Business and Human Rights Treaty, which already exists within the special procedures of the Council. This pathway could reinforce application of the Guiding Principles and also the integration of such principles as part of the national routes for remediation.

In all respects, the Guiding Principles can be seen as very important tools, albeit just starting points. Further progress is needed.

Viewpoint of civil society: indigenous communities (The CONAP case)

Over the last decade the State of Peru has promoted private investments as part of its policy. Recently it approved new Environment Protection and Management regulations for mining operation, beneficiation, transport and storage, and environmental protection related to hydrocarbons. The Government has indicated that with these regulations it hopes to encourage private investments in a sustainable manner, through social inclusion and by ensuring the protection and conservation of the environment.

The Confederation of Amazonian Nationalities of Peru (CONAP) is hopeful of such results, through the belief that energy sector companies play a crucial role in driving development in the areas where they operate, provided that the human rights of indigenous peoples are fully respected. They are convinced that all projects involving private energy investments and industrial operations can bring development to their country and their respective communities.

Significant progress has been made in Peru over the last two decades concerning the human rights of indigenous peoples and the horizontal dialog between the State of

Peru and the aforementioned peoples. An important milestone was the publication, two-and-a-half years ago, of the Law on the Right to Prior Consultation, a standard which guarantees the right to participate in legislative measures and other programs when the State wishes to implement such measures in favor of such peoples. The Law establishes the foundations for social peace and dialog that enables companies to securely invest in Peru. In this context, it is hoped that when investing, energy sector companies will consider and respect the right of indigenous peoples to develop and of the environment.

Today, indigenous peoples can claim to be the masters of their very own destinies. This is one of the challenges posed by CONAP in the current climate, as part of a series of strategic activities that need to be developed within its own framework of political-organizational alignments. Most Amazonian tribes now wish to be strategic allies, as well as being potential partners of the State and private companies, in addition to working hand in hand with the private sector. However, there are often many barriers.

There are a number of success stories, such as the Camisea project – the most important energy project in the country, located in the Cusco and Ucayali regions inhabited by the indigenous Machiguengas along the upper and lower Urubamba River. The indigenous peoples have been working with the Camisea consortium for more than ten years, receiving rights to compensation, easement, rights of way, etc, as well as receiving funds directly from companies, which have been used to fund development projects within the communities themselves (education, health, sustainable agriculture projects, handicrafts, etc), and other projects related to improving the standard of living of the population.

Global Energy: Strategies and Values

Summary and Conclusions

Viewpoint of the business world (IPIECA) and the energy sector companies

IPIECA is a world association operating in the oil and gas sector, specialized in environmental and social issues. Its working groups bring together all of the knowledge and experience of oil and gas companies and other associations, responsible for more than half of the world's oil production.

Founded in 1974 after the creation of the United Nations Environment Program (UNEP), IPIECA is the main channel through which the oil and gas industry communicates with the United Nations. Furthermore, it contributes to improving the environmental and social performance of the oil and gas sector by:

- developing, sharing and promoting best practices and solutions
- enhancing and disseminating knowledge
- engaging members and others in the industry
- working in partnership with key stakeholders

Documents defining the best practices undertaken by the IPIECA are frequently used as reference manuals, as well as being an essential resource for disseminating ideas and tendencies prevalent throughout the industry. A total of more than 50 documents and guidance briefs on best practices for the oil and gas sector have been developed, including a guide on implementing the Voluntary Principles on Security and Human Rights. Furthermore, IPIECA has worked on documents together with the EU.

Its activities include organizing meetings on areas of specific interest, where experts from inside and outside the industry exchange knowledge and experiences, strategies and approaches, aimed at finding the answers

to environmental and social challenges around the world.

IPIECA launched a new initiative In June 2011 - *the Business and Human Rights Project* - with the aim of supporting IPIECA members in the development and application of human rights, as well as serving as an authoritative reference body for the oil and gas industry on business and human rights issues, including the UN Guiding Principles. It is currently developing practical guidance on these issues.

Today significant progress is being made in relation to the protection of human rights on the part of businesses. Putting such principles into practice is a great challenge, but in order to achieve this, it is essential businesses do not act alone but work collectively with other companies and governments, respecting human rights even if the governments in question are not doing their jobs correctly. Furthermore, it is necessary to adhere to the principles on a daily basis in all the industry's activities. It is not enough for top management to simply express its level of commitment, but this message must be transmitted to all field personnel in terms of what the company expects from their conduct. Similarly, it is also necessary to translate this commitment to the various links along the supply chain (contractors, suppliers, etc).

In Europe it also makes sense to talk about the protection of human rights along the aforementioned supply chain, including the potential indirect impacts thereof, and also because of such rights such as data privacy, gender equality, environmental aspects, product safety, etc, which also fall under the scope of human rights.

In this process, dialog and communication with stakeholders is key. It is important that well prepared professionals work closely together to target the communities in question

in order to try and understand their needs and expectations, as well as to produce a climate of mutual trust.

Moreover, it should not be forgotten that there are 1,300 million people around the world with no electricity, and that here the energy companies play a key role in providing technical and financial assistance, for example. It is therefore necessary to find solutions to tackle this problem, such as new business models that engage communities right from the start, otherwise projects may not be viable over the long-term.

Lastly, even though energy does not feature as such in the Millennium Development Goals, it is worth remembering that energy is still required for fulfilling each and every one of these goals. It would be desirable for goals in this particular field to be approved in the post-2015 proposal on new sustainable development objectives.

Geopolitics and energy: Hot Spots

We are living in a global context where the distribution of power is not stable and in which there are major weaknesses. New alliances between countries are also emerging, in addition to new stakeholders such as multinational companies and social networks which are gaining an unprecedented level of prominence.

In this climate of worldwide tensions and uncertainties, energy is ever present. Various technologies are playing an increasingly important role, particularly energy technologies, and we face new geopolitical environments in terms of energy consumers, processors and producers. The concept of energy security is moving to the fore, with a multitude of definitions related to the economy, diplomacy, military power, etc, in addition to extremely varied objectives such as accident avoidance, price volatility, energy dependency, etc. In this respect, the diversification of energy, its sources and its

Global Energy: Strategies and Values Summary and Conclusions



supply origins are indispensable requirements. Traditionally it is perceived that oil prices rise during international conflicts, but we are witnessing however, in recent months, prices that have actually dropped and, at the moment, there is no clear explanation as to the causes of such a decline. Some sources simply point toward market movements, in which two separate circumstances have converged: the gradual ramping up of US production due to new extraction technologies, and surplus oil production combined with lower demand due to economic slowdown from importing countries such as China and the EU. However, these same circumstances have already existed two years ago.

Certain quarters believe that OPEC member countries have not been the cause of this fall, inasmuch that these countries have not agreed on any production cuts in order to increase those prices. There are various interpretations of this situation, where geo-strategic considerations could be affecting markets.

Some opinions attribute this to a strategy for positioning OPEC countries ahead of countries such as Iran and Russia, who are very dependent on the price of oil, whereas others interpret this situation as the search for a disincentive to North American extractions through *fracking*, which requires relatively high oil prices in order to be profitable.

It seems evident, in any event, that there is a direct relationship between energy (especially hydrocarbons) and periods of instability in certain regions. Therefore, current or potential conflicts in countries undergoing political transition, such as Egypt, for example, whose role of ensuring transportation through the Suez Canal is essential, or Libya, a big exporter of hydrocarbons, are causes for concern among the international community.

Russia without a doubt plays an important role in world energy geopolitics. With the eighth largest proven oil reserves in the world, a relatively low internal consumption of hy-

drocarbons and a high refining capacity, the Russian Federation exports 9 thousand million barrels per day, with 66% of this destined for Europe. In terms of natural gas, its position is even more dominant, possessing the second largest gas reserves in the world, only behind Iran, with the resource constituting more than 53% of Russia's domestic consumption of primary energy. The impact of this sector on Russia represents 16% of its GDP and 30% of its fiscal revenues. Its energy wealth, therefore, has a high strategic value, with the Government holding a significant stake in companies within this sector. On the other hand, however, Russia requires Western technology in order to produce resources in areas such as the Arctic.

Due to tensions with certain Western regions, Russia is focusing its relations in other regions, as demonstrated by new agreements with Iran for the manufacture of nuclear power plants, and with China for the export of energy resources. Russia and China have been negotiating since

Global Energy: Strategies and Values

Summary and Conclusions

2006 on a strategic energy partnership, which was finally agreed in May 2014, as a partial consequence of the crisis between Russian and the West. The two countries have signed more than 40 trade agreements, in addition to a "Joint declaration on the new stage of comprehensive partnership and strategic cooperation", with the aim of achieving, by 2020, a total trade volume of 200,000 million dollars per year.

In terms of gas, according to the contract, Russia will supply 38 billion cubic meters (bcm) to China per year over a period of 30 years. Although the actual amount has not been published, the value of the operation appears to surpass 400,000 million dollars, which translates to about 360 dollars per 1,000 m³. The new agreement also implies the need for new infrastructures and new fields. The signing of these agreements is of great importance to Russia, but does not seem to indicate a change concerning the energy security of Europe, since the 38 bcm that is allocated for delivery to China will come from new fields located in Eastern Siberia, which are not currently used for supplies to the EU. There would be more impact if Russia established a western route to divert production, originating from the western Siberia fields, from Europe to China.

The Arctic is another region which is expected to play a key role in the energy sector and in geopolitical relationships. The thawing process is opening up new shipping routes and access to new resources. At the same time, highly advanced and expensive technologies are required, whose viability greatly depends on international energy prices. China is one of the countries with a significant interest in this geographic area, in particular for having safer shipping routes and shorter journeys. Another aspect which is considered to be important in relation to this region is the delimitation of sea boundaries by coastal countries.

In terms of Europe and its better positioning from an energy perspective, interconnections are of fundamental importance but still a long way from reaching the necessary parameters for attaining a true Internal Energy Market. In this respect, there is a certain lack of governance that needs to be clearly reinforced for Europe to overcome its position of vulnerability in relation to other regions. There is a wide divergence in prices between relevant Member States, in addition to different tax burdens, therefore requiring a lot of work in this particular area. Additionally, there are very ambitious climate and energy plans in place for 2030, fulfillment of which requires the integration of all European energy markets. An effective European market for CO₂ emission rights, energy efficiency, and the promotion of R&D and innovation regarding not fully mature energy technologies, among other measures, also play an important role in this field.

In relation to non-conventional hydrocarbons in the US, it is considered to be too early to analyze their long-term impact, although over the short-term there is evidence of their positive impact in an industrial and geopolitical respect. Thanks to this energy revolution, the US is strengthening its role in the international arena. Europe should closely follow the development and production of non-conventional resources taking place in the US and other regions, as part of its commitment to industrial development, economic improvement and greater environmental sustainability, while seriously contemplating methods of fully exploiting indigenous resources.

Final thoughts

To fully comprehend what is taking place in the energy sector, it is necessary to understand the interaction between energy and society and in terms of global governance.

The link between the energy industry and social and environmental concerns of the societies in which it operates is one of the boundary conditions currently set before us. Access to resources may be limited for various reasons, with one of these being, without a doubt, due to lack of knowledge on how to correctly address the concerns of global society.

This necessary dialog parts of much more favorable conditions than those expected. Clearly, between the large business associations, international companies, governments and their own communities, there is a certain amount of agreement on objectives, making collaboration in this area feasible, which needs to be explored in greater depth.

We are living in a global context where the distribution of power is not stable and where there are major weaknesses. Additionally, new alliances between countries are starting to emerge, in addition to new stakeholders which are gaining an unprecedented level of prominence. We are certainly living in a time of connecting vessels in which everything influences everything else.

In this complex and unpredictable system, where energy is key, better governance will reduce risk and uncertainty. There is no doubt that the world is currently falling way short in terms of global governance.

Europe faces a number of crossroads in terms of its relationship with neighboring countries, alliances with other major stakeholders such as the US, and its energy security and vulnerability.

It therefore faces two essential tasks: the need to internally integrate (the European political union) to become a player on the world political stage, and the need to contribute to the integration of the West. A large concentration of the riches of the world and a considerable flow of relations can be found

Global Energy: Strategies and Values Summary and Conclusions



between Europe, North America, South America and Africa, which Europe should help to integrate, and where Spain could exercise a certain amount of influence and play an important role (the idea of the Atlantic basin

as a priority geopolitical area for Spain). There are a number of questions related to the energy sector which are key to addressing these tasks, such as the full realization of the Internal Energy Market, or those related to the

TTIP. In order for the TTIP to be able to meet expectations and for energy to play a more important role, which is highly desirable, it will first be necessary to resolve a number of issues from a US and European perspective.



This document was originally published in Spanish in "Cuadernos de Energía", the Spanish Energy Club quarterly magazine. For more information on this, please see: <http://www.enerclub.es/es/frontNotebookAction.do?action=viewCategory&id=40&publicationID=1000109998>