

REGIONAL CONFERENCE ON TRANSBOUNDARY COOPERATION IN THE ENERGY SECTOR IN SOUTH AND CENTRAL ASIA

Afghanistan-Central Asia-India-Iran-Pakistan

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Executive Summary

Regional integration and energy trade in Central & Southern Asia region lags significantly behind most of the world. The energy sector in the region has not been able to keep pace with the growth and has been continuously experiencing chronic problems of supply and poor quality of service, due to several social, political & economic differences. This also causes an adverse impact on economic and social development.

The potential of power trade within the South Asia has been discussed for many years, especially due to their vast potential in widespread underexploited energy sources. Several successful examples of such cooperation can be found in the different parts of the world, like cross border energy trade in Europe. Such cooperation helps countries to strengthen their national energy security, reduce the costs of energy supplies and provide electricity to all.

From the regional cooperation and energy trade perspective, an important characteristic of the region is the variation in the energy demand and supply situation. Variation in resource endowment and disparity in energy consumption pattern across the region along with the cost of non-cooperation in terms of consumer welfare gains made a strong case for the energy cooperation.

Thus, to achieve regional cooperation there is a need for strong & robust political and social mandate. The existence of well defined, coherent/harmonious energy policies, enabling legal and regulatory framework are an essential criterion for regional trade and investment. As such there is an urgent need to put in place related mechanism that would not only facilitate but also encourage energy trade among the Central & Southern Asia region. Hence, there is a need to know the prevailing legal and regulatory frameworks that have been put in place in the region; how these mechanisms facilitate and/or impede regional energy trade and what can be done to harmonise the regulatory mechanism within the region.

Key take homes from the event are as follows:

1. There is a political will within the region for integration and trade relations. However, there is a need to translate it into action through systematic approach.
2. Regional integration or trade relations cannot be looked in isolation, as other countries and regions also play a vital role to create an ecosystem for such relations.
3. Regional differences can easily be resolved through trade and investment, as potential mutual benefits forces political and social leaders to bring harmony and stability within the region.
4. Involving private players in regional integration process will make it more economic oriented instead of politically or socially motivated and thus brings quick & better results.

5. One of the major barriers in regional integration is trust deficit within the countries and that can effectively be resolved through involving Civil Society Organisations (CSO's). Being a consumer representative and government watchdog, CSO's plays a vital role in trust building at grassroots and policy level.
6. Consumers are one of the key sufferers of non-cooperation within the region, as it directly affects the consumer welfare cost.

Background

In spite of diverse energy resources and tremendous potential of regional cooperation, South & Central Asia region has had very limited cross border energy trade so far, due to several social, political & economic differences between the countries. Almost, all the countries in the region have been experiencing chronic problems of supply and poor quality of service. Thus, to resolve such diversified social, political & economic differences in the countries, there is a need for robust political, economic and social mandate from the government and non-government organisations for regional cooperation in the energy sector.

Several successful examples of such cooperation can be found in different parts of the world. Especially cross border energy trade in Europe and South East Asia. Such cooperation helps countries to strengthen their national energy security, reduce cost of energy supplies and provide electricity to all. However, to sustain achieved accelerated growth rates and progressing further with regional power trade, there are several legal and implementation hurdles, in addition to infrastructure development, technology competence and investment issues.

About the Conference

CUTS International in collaboration with Sustainable Development Policy Institute (SDPI), Pakistan and with support from Friedrich-Ebert-Stiftung (FES India & FES Pakistan) had organised this conference with the aim to create a platform for dialogue among relevant stakeholders to achieve greater cooperation, coordination and integration of energy systems. The platform allowed discussion among relevant issues, such as - natural gas pipelines, electricity, energy efficiency, renewable energy, technology transfer, energy policy and knowledge sharing - the potential, challenges involved and possibilities to overcome, among relevant stakeholders.

The conference was well attended and had close to 100 participants from varied nationalities (Iran, India, Pakistan, Kazakhstan, Afghanistan, etc.) and profile i.e. Ministry of Power, Government Institutions, Non-government Organisations, Academic Institutions, Power Producers, Media etc.

Opening Session: Regional Cooperation in Global Perspective

Adil Khattak, CEO Attock Oil Refineries & Board of Governors, SDPI, Pakistan in his welcome address presented a brief overview of economic situation in South Asia. He highlighted that South Asia is home to one-fifth of the population in the world, has a sizeable population living below the poverty line and low per capita energy consumption as well as low level of production. In order to have a greater access to cheaper goods and uninterrupted supply of commodities, he said it is imperative to develop strong trade ties within the South Asian region. He further emphasised that with the new governments in Pakistan, India and Afghanistan, the leadership should adopt a collective political approach to bridge the demand in South Asia by engaging Central Asian countries.

Adding further, **Bipul Chatterjee**, Deputy Executive Director, CUTS, India mentioned that there is a dichotomy in the sector i.e. per capita energy consumption is very low and there is wide spread energy poverty but on the other hand, it is also a fact that there are several sources of energy that exists in the region, such as hydro, renewable, gas, nuclear, etc. Thus, the key question to be discussed is why are we unable to tap the sources? Lack of transparent and effective regulatory governance is one of the most important reasons, which the countries would need to address to ensure effective regional cooperation. Chatterjee stressed on the importance of political will to trigger the need to bring about the reforms. He mentioned that unless we address the question that how much is the lack of energy costing our economy and cost of non-cooperation, until then it will be difficult to generate the political will.

Chatterjee further asserted that nearly 2-3 percent of the GDP of Pakistan is lost as a result of energy deficit. In addition to this, the cost of non-cooperation between India and Pakistan in terms of consumer welfare gains is estimated to be at \$3 billion. Both the neighbours have huge potential of energy trade; India can supply excess energy to Pakistan whereas Pakistan can trade its huge coal reserves. These energy reserves can be utilised with the help of inter-Government collaboration for which there is a need for advocacy by the civil society. While there exists huge demand for cooperation across the region, it is crucial to find champions to actively support and precede this cause.

Introducing the initiatives of FES for regional cooperation, **Philipp Kauppert**, Resident Director, FES, Pakistan said that FES has been highly supportive of the projects on regional connectivity and integration since long. Given the critical situation of this region in the wake of US withdrawal from Afghanistan, it is important to bring all the stakeholders together to jointly discuss the way forward for the region. In this context, FES has been organising series of inter-country dialogues focusing on peace and stability in Afghanistan. He also highlighted the need for greater integration in the region and said that cooperation in energy would be a stepping stone for effective regional cooperation.

Rajesh Kumar Agnihotri, Counsellor, High Commission of India to Pakistan reiterated the earlier observations that intra as well as inter regional cooperation in the energy sector is crucial for South Asia, given the context of energy crisis. He pointed out the need for establishing a harmonised power market which calls for huge investments in this sector along with the technical and assessment reports on trans-boundary cooperation in energy. He further highlighted various bilateral agreements on trade which India has entered into with or negotiating with other neighbouring countries including India-Bangladesh power line, India-Sri Lanka power project and India-Bhutan hydro power project. He also highlighted recent deliberations on energy trade between India and Pakistan which according to him is likely to deliver in a few months' time.

Muhammad Naveed Iftikhar, Governance Advisor, Regulatory Reforms, Economic Reforms Unit said that government of Pakistan is cognisant of the fact that energy is not only required for their own economy but also for enhancing social development. However, while discussing issues pertaining to energy trade; it is crucial to take into account the institutional architecture in Pakistan which needs to be reformed. Various issues related to energy governance, regulators, pricing, transmission and distribution persist in Pakistan which should be resolved to ensure creation of effective energy market, he added. He also stressed on achieving the UN goals of 'Sustainable Energy for all' which includes universal access to energy, doubling the share of renewables in the world and improving energy efficiency. Promotion of knowledge sharing of best practices would help this region to achieve substantial amount of energy production, he emphasised.

Highlighting the interest of the present Government of Pakistan on the subject, **Khurram Dastagir Khan**, Federal Minister of Commerce, Government of Pakistan said that various ministerial level bilateral meetings have been concluded on regional connectivity in energy. He stressed that trade brings mutual gains for every party concerned and thus would be a win-win situation for all South Asian countries. Talking about the issues regarding trans-boundary cooperation in energy, he mentioned that obsolete infrastructure, security threats and lack of political will likely hamper the process of energy connectivity. Moreover, dominance of a single energy source in Pakistan i.e. furnace oil and rising dependence on energy raw materials are some of the key challenges facing Pakistan. He further emphasised that the government has now realised that for trade and investment, the third pillar is connectivity, i.e. banking, infrastructure, cell phone, energy, etc. Connectivity is paramount in regional integration, as regional cooperation provides opportunities and is a win-win situation for all the countries in the region, the minister said. He hoped that the balance between demand and supply of energy would be achieved in 2-3 years. He said a number of energy projects such as the KASA 1000 are in the pipeline, but these are subject to peace in FATA and Afghanistan region.

On the issue of trade with India, the Minister said the government has changed the traditional stance of trade with neighbours. The Minister informed the audience that TAPI project is in progress and an electricity grid between Pakistan and India is under construction. He said energy trade depends upon diplomatic goodwill. He added that after the recent visit of Prime Minister of Pakistan to Iran connectivity and trade between neighbours will be improved. He stressed on the point that the Government wants to change the impression in future years that ‘SAARC is a least connected region’, he concluded.

Session I: Emerging Patterns of Regional Energy Trade and Role of Multilateral Institutions

Kirit Shantilal Parikh, Chairman, Integrated Research and Action for Development (IRADe), India highlighted the compatibilities of resources in the region and stressed on the need to exploit non-conventional sources of energy as well as increase in regional connectivity to boost trade and investment in South Asia. Issue of climate change and clean energy development has gained importance around the world and lot of progress is happening on these issues in the region, which is very important for regional energy cooperation. It’s time to reorganise and identify the issues on which we agree, as a region. Multinationals can persuade the countries for energy trade and facilitate the process of compatible transport mechanism. Parikh said that assured market with fair price and transparency can lead to fair trade within the region and win-win situation for all the countries.

Mohsin Khalid, Executive Director, ITC Logistics & Former Chairman, Islamabad Electricity Supply Company said South Asia is facing chronic energy shortages especially India, Pakistan and Bangladesh and only Bhutan is the exemption because of low per capita consumption. He stressed the need for private sector’s involvement in multilateral projects. He further added that energy is available across the border on cheaper rates but absence of effective connectivity is the biggest hurdle. He referred to CASA 1000/TAPI project and mentioned that it should not be the immediate goal but the government should ensure ‘ways and means’ to involve businesses in transportation of energy. He emphasised on the need of harmonising regulatory mechanism in the region, so as to involve private sector and establish an energy market and energy transmission market within the region. He said power grid networks of Bangladesh, India and Pakistan may be used for the energy exchange. He stressed the need for a market based system where multilaterals can play their role. Further, open access policy, competition, transparency

and fair pricing will also play a major role in integrating the region and will also benefit the end consumers.

Mohammad Alami Bayat, Senior Expert for Asia and Pacific, Ministry of Petroleum, Iran stated about the huge potential of cooperation and emphasised on the importance of the relations between the countries. He said that Iran is open for investment projects from public-private partnership and in order to attain greater stability we have to improve business within the region. Data shows that we have a great potentiality for cooperation in the region. We have many things in common including cultural similarities. Energy is not the only mean, but definitely one of the ways to expand our relations. IP pipeline has been primarily named as peace pipeline to send the message that the countries in the region are concerned about stability. Energy flows brings more stability to the region, every country in the market has a certain role to play. He noted that, considering Iran is a country that holds both natural and fossil energy resources in the region, sanctions against it should soon be lifted for better integrated energy relations. He proposed a pipeline for transmitting petroleum products through Iran or Central Asia to Afghanistan. Currently petroleum products are delivered to Afghanistan by roadways. He also reiterate that Iran is the most economical and secure route to transmit energy from Caspian Sea to free waters in the south making Iran strategically and geographically important.

Farkhod Aminjonov, Deputy Director for Chinese and Central Asian Studies in Kazakhstan, said South Asia, as a potential customer, looks towards Central Asia as energy producer and trade partner. He said Tajikistan and Kyrgyzstan are rich in electricity generation and South Asia is looking towards external producers to cope with the regional energy crisis. South Asia is very much interested in electricity and potential Central Asian upstream countries could fulfill the demand, but there are several challenges in import of electricity from Central Asian countries. The cost of transmission lines from Central Asia to South Asia is about one billion USD (it is the construction of Rogun HPP that accounts for more than two million). At the moment China is also planning to build transmission lines, but with all established links with Central Asian states in energy sector has more chances to implement this project and thus seriously threatens CASA-1000. Further, it will be difficult for South Asian countries to compete with China in import of electricity from upstream countries. ‘China is a direct competitor and it has created the largest energy pipeline and grand strategy in this regard. China has already invested hugely in oil and also started building transmission line for import of electricity, leaving minor chances for South Asian to import from Central Asia,’ he explained. He noted that, TAPI project may not materialise soon because of energy shortage and securities issues.

Ashfaq Mahmood, Former Secretary Ministry of Water & Power highlighted that price is the key. He suggested that opening of market and open access can obtain the objective of the price, provided there is competition and transparency in the market. Regional institutes should come together to achieve this goal and try to materialise all realistic possibilities. He suggested that instead of wasting too much time on the process, we should try to resolve the issues through market based approach to match the speed of our neighbouring countries like China.

Rajesh Kumar Agnihotri, Counsellor, High Commission of India to Pakistan, said that energy security is the key issue. It is important for all countries in the region to focus on intra-regional aspects and various factors that need to be taken into consideration, such as need for infrastructure, which will require huge investments; need for harmonisation of regulatory mechanism so as to support the creation of a common market.

During the floor discussion several participants realised the need to move from projects such as CASA 1000 & TAPI considering funding limitations and limited surplus in the proposed region.

Participants emphasised on the need for empirical studies and analysis in the region to identify the resources and possible collaborations. Khalid emphasised on the need for prioritising the process for harmonisation of regulatory mechanisms in the region to encourage private sector involvement in the energy sector. He ensured that finance is not an issue with right balance sheets. However, government should stay away from the energy sector, as it will make it too politically sensitive issue and allow the private sector to lead.

Session II: Shifting from Bilateralism to Multilateralism for Sustainable Development of the Region

Idrees Khwaja, Associate Professor, Pakistan Institute of Development Economics, Pakistan said that due to huge investments and long gestation periods public sector shy away from trade in energy sector. Thus, it is important to involve other stakeholders, especially private sector in regional trade. He emphasised that regional issues can be resolved through trade and commerce between the countries. If private players start investing, then it will be a responsibility of the government to ensure peace and harmony in the region to protect the investment of their stakeholders.

Mohammad Najeeb Azizi, Professor, Public Policy and Economics, Kabul University, Afghanistan, said that issues like Climate Change shifted the interest from regional to global approach. He said that multilateralism is a precondition for discussing issues involving trans-boundary issues. Thus, domestic issues cannot be resolved only on domestic resources and it's time to move from exchange of goods & services to economic empowerment. He suggested that energy cooperation should be considered as a business and a long term agenda should be drawn and that multilateralism is must for long term development.

Wener Leipach, Country Director Asian Development Bank, said that location of power station and grid system is devised keeping in view the demography of a country. He added that starting from lower level indicates that you want to move ahead to mega projects. He further said that private sector is ready to invest in Pakistan, but Pakistan should try to work on security aspects.

Faheem Sardar, Chief Executive Officer Askari Securities Limited emphasised that we should talk about the issues on which no country will disagree, such as business and profit. He highlighted that financial market and structure is fundamental to any cross border trade. Our financial structure is structured top down, which needs correction. This can be easily fixed through logic but it's a process and cannot happen overnight.

Joseph Wilson, Chairman, Competition Commission of Pakistan emphasised on the need of economic integration alongwith political integration. He highlighted that political system plays a crucial role in Central and South Asia, and economic regulation cannot happen without political will. Adding further to this, he emphasised that European Union is a very good example where economic integration was followed by political integration, however in the Central and South Asia region there are several unresolved issues which make this preposition difficult. Thus, to begin with we should focus on areas in which governments have no interest.

Session III: Panel Discussion on Domestic Reforms of Institutions for Regional Trade in Energy

'Different energy policies across the South Asian economies calls for reforms to synthesise policies' said **Farkhod Aminjonov**, Deputy Director, Research Center for Chinese & Central Asian Studies, Kazakhstan. Describing the unified power system in Central Asia, he said that

Central Asian economies are highly inter-connected in energy supply. Kyrgyzstan and Tajikistan faced energy challenges in 2009 after which they partially liberalised their energy markets for private as well as foreign investment and resultantly a huge number of short-term projects were initiated in the region. They focused on attracting investment in the small scale energy projects and alternate energy technologies. Having said that, he stressed that short term planning should be the current focus for South Asian countries because of the aggravating energy poverty. Another domestic reform in Tajikistan in energy sector was the collection of funds within the country for the hydro-power project which proved to be partially successful.

Bipul Chatterjee mentioned that there is an absence of interest of the business community in energy trade due to various apprehensions about the returns on investment. On the contrary, the current Governments in both India and Pakistan have shown increased interest for cooperation in the energy sector. He suggested that the regulatory environment across the border can help address the concerns of the private investors. India has introduced progressive reforms in the telecom sector which helped attracting the huge foreign investment in the country. This makes a strong case for a link between policy reform and foreign investment.

He also emphasised that it is equally important to consider energy sources as an input rather than output because electricity, gas, etc, is extensively used as an input to many other economic activities. Apart from this, there is a need to view energy as a regional public good in the context that no one should be excluded from enjoying benefits from consuming it.

Some recommendations put forth by Chatterjee for enhanced cooperation in trade included:

- Harmonisation of regulatory regimes in both goods (electricity, gas, coal etc) and services (energy service) across the South Asian region to create regionally integrated market for energy in this region.
- Harmonisation of energy policies to facilitate South Asian energy grid. National energy policies of each South Asian country must be compared and analysed to come up with a consolidated regional energy policy.
- Establishment of a cognate sector regulator instead of large bodies of regulators is necessary for smooth regulation of the energy flows across borders. Having said this, capacity building of the current regulatory institutions is also required.

Commenting on the policy regime in India, he said that India has a look-East policy which must be complemented with the look-West policy which exemplifies energy trade. Both India and Pakistan are rightly pressed to create energy market in South Asia. There are huge supply gaps in Pakistan and Afghanistan. On the contrary, Western India is producing surplus energy which can be exported to both these countries. Moreover, Central Asia and India can also collaborate to reduce energy poverty.

Fraidoon Sekandar, Director, Department of Development Economics, Afghan Institute for Strategic Studies (AISS) spoke about the current statistics of energy sector in Afghanistan. Afghanistan having oil reserves of 1,596 million barrel, natural gas reserves equivalent 15.7 trillion cubic feet and huge capacity of hydro power has to import electricity from Iran, Tajikistan, Turkmenistan, and Uzbekistan. More than 50 percent of the population is deprived of the energy resources. Afghanistan also has the lowest per capita energy consumption as compared to the world and the current energy demand is estimated to be 1,500 megawatt out of which it only produces (including imports) 800 megawatt. The current potential of Afghanistan to produce energy is estimated to be around at 3,390 megawatt using all its energy resources like coal and water, he said. Tapping of these resources would allow Afghanistan to export energy to other South Asian countries and for this, investment is needed.

He reiterated the idea of regulatory reform to promote energy trade particularly in the context of Afghanistan which differs from the reforms needed to be put in place in other South Asian countries. First, pervasive corruption in Afghanistan needs to be taken care. Second, there is a need of a strong benevolence Government with a defined political will along with the institutionalised markets for energy. Civil society should also be educated to support this cooperation in energy. Moreover, Afghanistan is in dire need to improve the capacity of its human capital in the energy sector and to implement a transparent mechanism of energy Governance. Competition must be encouraged to promote fair practices and due diligence in required in this sector, he added.

Talking about the regional aspect of cooperation, he said that this region is over politicised and a pragmatic development agenda is needed to promote economic cooperation. He opined that the private sector is less likely to participate in the energy trade due to price fluctuation, political instability, security threats, etc. Lastly, he stressed that the western model of reforms might not work for this region for which we need to come up with new and effective reforms specific to this region.

Engr M A Jabbar, Chief Executive Qaim Automotive Manufacturing, Pakistan talked about the importance of regulatory regimes that it provides ease of doing business vis-à-vis an inflow of foreign investment. Similarly, common border reduces the cost of trade by a substantial amount. Both of these combined together; pave a way for smooth trade relations. He also said that energy is a demand driven investment but it is important that it should be fairly protected and regulated. He further mentioned that Pakistan has had a regulatory regime framework in form of Oil and Gas Regulatory Authority (OGRA), National Electric Power Regulatory Authority (NEPRA), etc, but there is a need to make these institutions independent and accountable. In most cases, these reforms are heavily dependent on the Governments and in some cases (such as Indus Water Treaty) on the multilateral organisations. In case of Pakistan in particular, bilateral agreement with favourable terms and conditions would deliver more, he added.

He also highlighted that the harmonisation of regulatory policies across borders is very difficult because the regulatory structures are the off-shoots of the constitution and thus are hard to re-structure. Apart from this, it is important that the stringency of the regulatory barriers should be in the interest of the consumers. Moreover, India-Pakistan trade should be guided by research especially in case of energy sector. Research shows that India has made huge progress in the development of the alternate energy technology from which Pakistan can benefit.

Towards the end, **Saeed Ahmed Khan**, Chairman, Oil & Gas Regulatory Authority said that currently two situations in South Asia would unfold the dynamics of cooperation in trade in this region. First, Afghanistan holds a very crucial position in the South Asian region, particularly in the context of 2014 scenario and must be included in every dialogue concerning this region. Secondly, new governments have been formed in this region and they are enthusiastic to work for economic integration. Also, it is equally important to note that politics and business cannot be separated when it comes to trans-boundary cooperation in energy. They are mutually inclusive when it comes to trade.

Adding further, he said that interests of both producer and consumers should be taken into account with respect to energy trade. Central Asia has excess energy which can be supplied to the South Asia. There is a dire need for cooperation between both these regions, he concluded.

Few of the participants highlighted that, huge number of population in the South Asian region is using off-grid technologies. Moreover, this region is also dominated by certain energy resources

and they might end up securing more resources than required. So prior to opening energy trade with Central Asia, this exclusiveness issue needs to be addressed.

Closing Session

Vaqar Ahmed, Deputy Executive Director, SDPI in his closing remark stated that business community in the whole region is on the same page and now it's time to materialise the past dreams. He stressed the need to bridge the gap between the government, civil society, and business community.

Sarah Hees, Regional Coordinator, FES India in her concluding remarks mentioned that such conferences brings several aspects of peace and development in the South Asia region and bring together the actors of political and economic cooperation on the table. She appreciated the first hand perspective from Iran and Central Asia shared by participants and noted that geo-political issues will play a vital role in realisation of CASA 1000 and TAPI projects. She acknowledged the importance of the partnership with CUTS and mentioned about the continued support for organising the next round of the seminar in India.

Udai S Mehta, Director, CUTS International in his closing remarks thanked all the participants, speakers, colleagues of SDPI and FES for their involvement and participation in the meeting. He mentioned that as an output of the event, CUTS would be preparing a report of the event and once finalised, it will be shared with all the participants.
