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REPORT

**FOR THE GENERAL COMMITTEE ON ECONOMIC AFFAIRS,
SCIENCE, TECHNOLOGY AND ENVIRONMENT**

“Strengthening Human Security in the OSCE Region”

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INTRODUCTION:

The aim of the report is to underscore the role of the economic dimension in a global approach to security. The signatories of the Helsinki agreement were aware of the importance of the economy for consolidating an area of peace in Europe.

This subject is still topical since threats of new kinds, such as terrorism, have appeared in the OSCE member countries. While terrorism may thrive on political or religious claims, it derives its source from economic and social frustrations. Its funding encourages all kinds of trafficking, linked to drugs, arms sales or trafficking in human beings. It also encourages money laundering and corruption.

One of the chapters of this report will be dedicated to regional economic integration as a means of guaranteeing stability and security. In view of new risks of conflicts, one solution would be to foster the economic integration of geographical areas, in order to create de facto solidarities, common interests that dissuade States from resorting to force in order to settle their differences.

The impact of China and India on the energy and prime materials markets has brought the issue of energy security to the fore. The gas conflicts between the Russian Federation and its neighbours have revived the economic weapon as a means of exerting pressure in international relations.

In the face of growing demand and stagnating supply, energy insecurity is a peril that has come back into the news. A threat to both stability and security, it will be the subject of the second chapter of this report.

The report will conclude by suggesting the role that could be played by the OSCE.

I – REGIONAL ECONOMIC INTEGRATION, FOR GREATER STABILITY AND SECURITY

A – A whole array of approaches

1. Economic integration can be achieved in several ways

Economic integration may take on several forms: free trade areas of an informal nature, without a political purpose, or more structured zones of economic cooperation and exchanges, accompanied by common policies.

In Western Europe, the European Union, devised from the outset with a political aim - to ensure political union and peace on the European continent - has evolved into an area of economic integration.

In Eastern Europe, following the collapse of the USSR, the presidents of the Russian Federation, Belarus and Ukraine founded the Commonwealth of Independent States (CIS) in Minsk in December 1991: it comprised twelve of the fifteen former Soviet Republics (Belarus, Russia and Ukraine as founding members, and Armenia, Azerbaijan, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Uzbekistan, Tajikistan and Turkmenistan as associate members). This body acts as a forum for dialogue and economic rapprochement.

2. Economic integration in the Balkans

Economic integration has been evolving well in south-eastern Europe thanks to the creation by the European countries, in the Balkans, of a global policy: the Stability Pact.

Since June 1999, the stated aims of this programme have been to consolidate peace, ensure the respect of human rights and restore economic prosperity to guarantee the region's stability and, in the long term, enable the region's countries to join the European Union.

The Stability Pact involves all the States in the region: Albania, Bosnia-Herzegovina, Croatia, the former Yugoslav Republic of Macedonia, Bulgaria, Moldova, Romania, and Serbia and Montenegro, plus the United States, the Russian Federation, Canada and Japan, together with various financial institutions, such as the EBRD and other international organizations.

This programme is structured around a regional commission, presided by a special coordinator, with three sub-commissions: democratization and human rights, reconstruction-cooperation, and economic development and security questions.

Economic aid is given in tandem with support for democracy and good governance: aid for cross-frontier cooperation, support for parliaments and the fight against organized crime.

By means of this programme the European Union and the other partners seek to encourage regional cooperation, between countries that remain devastated and mistrustful, following the former Yugoslav conflict.

This logic is based on the following postulate: the return to a healthy economy conditions peace and stability throughout the region.

B – A geographical area to be paid special attention, the Caucasus and Central Asia, the new “great game” of the 21st century

1. Crucial economic integration

If the Caucasus and Central Asia are at the centre of a new “great game”, to use the expression coined in the 19th century by Rudyard Kipling, to define the rivalry between Russia and Great Britain in their fight to control Central Asia, it is because in the 21st century this part of the world, at the crossroads of the West and the East, has once more taken on a strategic importance, in particular owing to its natural resources.

Central Asia is home to 1.5 to 4% of all discovered oil reserves and 6% of all gas reserves. It is also an area of instability where trafficking is rife as are hotbeds of radical Islamism.

Greater economic integration of this region is necessary on several scores.

Firstly, because of the ethnic diversity of the region: the arbitrary drawing of borders under Stalin favoured the dispersal of the numerous minorities present in several States. The Ferghana Valley is just one example: this territory, a single economic unit, is shared between three States, Uzbekistan, Tajikistan and Kyrgyzstan.

Secondly, the economic integration of these countries is of primordial importance owing to the disparity of their economies and the diversity of their natural resources. Tajikistan and Kyrgyzstan, rich in water resources, will have to cooperate with Uzbekistan, Kazakhstan and Turkmenistan, all of which have considerable oil and gas reserves.

Thirdly, this integration is also necessary in order to ensure a more rational share of profits. Since the size of these States’ domestic markets is limited, any regional cooperation can only help to achieve economies of scale.

The fledgling States of Central Asia face a challenge: making good use of their outstanding natural resources while developing their economies in order to meet the expectations of their populations in an area marked by tensions. Only regional cooperation and greater integration can enable them to meet that challenge. Accordingly this cooperation is an obligation rather than a choice.

2. Many structures but of symbolic scope

In Central Asia and the Caucasus, there are a good many structures for economic cooperation but many of them are of symbolic scope only.

The first attempts at economic cooperation were initiated by the new Central Asian republics following the break-up of the Soviet Union. They led to the creation of intergovernmental commissions on specific subjects: water, cotton – in an endeavour to coordinate their policies.

Numerous organizations followed, with diverse structures and purposes.

In April 1994, the Treaty of Cholpon-Ata, signed by Uzbekistan, Kazakhstan and Kyrgyzstan, created the CAEC (Central Asian Economic Community). Tajikistan joined in 1999. It is now called CACO (Central Asian Cooperation Organization).

Its aim is gradually to bring about economic integration, mainly by allowing the free circulation of goods and services, capital and persons, by harmonizing fiscal policies and establishing the equivalence of diplomas.

GUUAM, on the other hand, brings together five countries (Georgia, Ukraine, Uzbekistan, Azerbaijan and Moldova). Created in 1997, this economic cooperation structure also has a political and military cooperation arm. It closely follows the unresolved conflicts in Transdniestria and Ossetia, and fights terrorism and drug trafficking.

In October 2000, Belarus, Kazakhstan, Kyrgyzstan, Russia and Tajikistan signed the treaty founding EurAsEc or the Eurasian Economic Community. Uzbekistan joined in January 2006.

Its economic objectives include the creation of a market of free circulation of goods, a customs union and the harmonization of customs duties.

In 2005 it was decided that it would merge with CACO.

In June 2001, the Shanghai Cooperation Organization (SCO) was created. Its members are China, the Russian Federation, Kazakhstan, Uzbekistan, Tajikistan and Kyrgyzstan. Its two priorities are cooperation in the field of security and economic cooperation, which is becoming increasingly important.

II – ECONOMIC INSECURITY IN THE OSCE AREA: THE EXAMPLE OF ENERGY

A. Energy insecurity: a threat back in the news

Ever since 1973 and the first oil crisis, economic growth has been threatened by energy price hikes and the risk of interrupted supplies.

The rocketing oil price in autumn 2005 and the gas conflicts involving Ukraine, Armenia, Belarus and the Russian Federation reminded the OSCE member countries that energy security was more than ever a topical subject.

It is also significant that the Russian Federation, this year presiding the G8, has made it one of its priority subjects.

Several factors are helping to accentuate energy insecurity: increased demand as consumption steadily rises, and shorter supplies as resources dry up and supplies becoming harder to ensure.

1. Increased demand

The perennial imbalance between the supply of producer countries and the demand of consumer countries has worsened further in recent years.

In 2005, the total consumption of primary energy in the world amounted to around 11 billion TOE (tonnes of oil equivalent) compared with 8 billion in 1990. 83% of energy production comes from fossil fuels. Oil is the source of energy most used, accounting for 35 % of the market.

North America accounts for 29 % of world consumption, while Asia accounts for 20 %, China 11 % and India 4 %. These two countries have been enjoying strong growth and have become large consumers of energy. The European Union consumes 17 % of the world's energy.

2. Dwindling supplies

Furthermore oil and gas reserves will not last for ever.

Most of the exploited and surveyed oil and gas reserves are located in the Middle East. In this region, 63% of the world's oil reserves (25% in Saudi Arabia) and 35% of its gas reserves are to be found.

There is uncertainty over the state of known or proven reserves. Reliable data are required and, in that sense, the Joint Oil Data Initiative (JODI) is a positive step. Greater transparency offers investors greater visibility.

The reserves and fields whose potential is still mostly unexploited include those around the Caspian Sea, a focus of rivalries and struggles for influence. The countries around the Caspian all claim full rights to the sea bottom. Until 1991, only two countries controlled the area: the USSR and Iran. The break-up of the Soviet Union led to the creation of three new States: Azerbaijan, Kazakhstan and Turkmenistan. Moreover, is the Caspian a sea or a lake? The share of resources and their exploitation differ according to that status. According to international law, the use of resources in a lake must be decided unanimously by the lakeside States whereas in the case of a sea each State can decide at its own will which areas it wants to exploits.

Given that known reserves are being depleted and that there are uncertainties over the state of the reserves, it is important that prospecting continue.

For that reason the problem of investment is a crucial one, both for the producing countries which have neglected prospecting and for the consumer countries that need to reinforce their refining capacities. For example, world refining capacities in 2004 were no greater than in 1980. This trend seems to have been reversed in recent months. The majors have announced the construction of new refineries. As far as prospecting is concerned, in view of fast rising prices, it is focusing on riskier or costlier projects such as extra heavy brute oil reserves in Canada.

Furthermore, when production relies on a few economic actors the dependence of consumer countries is increased even more. The European Union mostly depends on the Russian Federation for its gas supplies, which total 55% of all world reserves. Europe receives 90% of all the Russian Federation's gas exports. Dependence on a single supplier differs from country to country: Germany depends on Russian gas for 41% of its supplies and Poland for as much as 87%.

The freedom of exchange and trade is therefore necessary. In this context, the practice of long-term contracts may offer some security. It guarantees consumers a steady supply and ensures that the producers have a minimum demand.

Political conflicts (terrorist attacks in Saudi Arabia, Iran's nuclear programme) heighten the importance of energy supplies as an issue.

The war in Iraq, where 70% of the known oil reserves are located, has helped to raise the price of a barrel of oil.

3. Difficulties along supply lines

Finally, another factor contributing to energy insecurity: increasingly uncertain supplies.

To avoid supplies being cut off, the transport of energy resources must be guaranteed, which is why it is so important to have strategically placed gas and oil pipelines. The construction of the BTC pipeline (Baku–Tbilisi–Ceyhan) is revealing: although longer and costlier than a straight line, it deliberately avoided conflict zones such as Chechnya, Ossetia and Abkhazia.

Most fossil fuels are transported by sea, a means vulnerable to attacks. Both the United States and the European Union have taken security and monitoring measures to limit this risk. Since April 2004, the ISPS (International Ship and Port Facility Security) has been applicable in all European ports. This regulation imposes controls on goods and passengers.

The production, distribution and use of energy may affect more than one country, making transit an important issue. In 1991, the European Commission drafted an Energy Charter with the aim of improving energy cooperation in the fields of investment, transit and trade. In an annex it calls for free transit.

It contains the following recommendations: each party must take the necessary measures to facilitate the transit of energy materials and products, regardless of the origin, destination and ownership of such products. It also calls for a ban on interrupting or reducing the flow of an energy product in case of litigation, before the arbitration procedures are exhausted.

Dialogue should take place among all the parties to ensure that energy does not become a means of exerting pressure.

The international energy forum is an appropriate arena for this dialogue.

B. Both technical and political responses

Both technical and political responses are possible to try and reduce the risk of a dearth of natural resources.

1. Technical responses

Consumer countries without natural resources should try to diversify their supplies.

The first response lies in using renewable and substitute energy forms.

There are, principally, five sources of renewable energy: water, sun, wood, biogas and wind.

Finland and Sweden are among the leading users of this type of energy and use, respectively, in the order of 22% and 26%.

The European Union is trying to encourage the use of biofuels in petrol (vegetable oil, bioethanol); a directive of 8 May 2003 calls for the inclusion of 5.75% of biofuels in petrol; the aim is to bring the share of these fuels to at least 20% of European petrol consumption by 2020.

Nonetheless turning to this type of energy remains costly and cannot replace traditional energy sources in terms of sheer volume.

The second response to help to increase energy source diversity is the use of non-fossil energy sources.

These include nuclear energy. This choice differs from country to country: France has placed much emphasis on the nuclear option and produces 78% of its electricity in its nuclear power stations.

Its use is controversial. It may help to diminish energy dependence on imports and it reduces gas emissions, thereby helping to fight climate change. But the consequences of an accident at a nuclear power station would be dramatic, while the storage and treatment of nuclear waste are further issues.

At the G8 Summit of Ministers in March 2006, dedicated to energy matters, the final communiqué called for the nuclear option to be revived in order to diversify energy supplies.

Any reduction of energy dependence also calls for a change of behaviour and incentives to control demand, from industry, households and transport.

Energy savings may result from actions designed to reduce consumption, such as the use of low-consumption light-bulbs or the construction of energy-saving buildings, or from policies aimed at making optimum use of energy consumption, such as for example making use of energy waste or recovering the heat lost from combustion gases.

Incentives to make savings could include public awareness campaigns, such as those employed in France in the 1980s, and the introduction of regulations and tax incentives.

2. Political responses

A genuine energy security policy depends on a comprehensive security policy.

Following the oil shock, the International Energy Agency (IEA) was created in 1974 to fulfil a number of objectives.

An autonomous agency of the OECD, the IEA strives for a policy of cooperation and information exchange. It sets out to be an area of dialogue between consumer countries and producer countries, with the aim of improving arrangements for tackling supply crises. To that end, the member countries are committed to maintaining 90 days of net import stocks of oil over each civil year. It also encourages policies to rationalize demand and the diversification of supplies.

The European Union is also seeking to revive its energy policy. Although coal and the treaty founding the European Coal and Steel Community (ECSC) contributed to European construction, energy is not one of the common policies at present.

In 2000, a first Green Paper for a European strategy for supply security took stock of the energy situation in Europe and called for an integrated approach.

In October 2005, European leaders meeting at Hampton Court wished to give the European energy policy a new fillip.

Of the six priorities were defined, three included the creation of a genuine energy internal market, the diversification of energy resources and boosting energy efficiency and savings policies.

At the same time, the European Union is endeavouring to encourage technological research.

The Commission is also insisting on the need for greater solidarity among the member countries. It is recommending the creation of a European supply observatory, which would sound the alarm in the event of a crisis. Furthermore, it would call for the introduction of a minimum level of gas stocks, based on the model of the directive for oil, which obliges European states to maintain a stock of 90 days of consumption.

It also recommends that supplies be made more secure, by means of defining partnerships and stronger dialogue with the producer and transit countries.

Three priority geographical zones have been defined: the Russian Federation, the Mediterranean and south-east Europe.

In the case of the latter region, a treaty aimed at creating an “energy community” was signed in Athens, in October 2005, bringing together the European Union and the Balkan countries, in order to extend the internal energy market to the whole of south-eastern Europe.

III – The OSCE: A ROLE TO BE REDEFINED

1. The economic dimension is one of the baskets created by the Helsinki Act

When the Helsinki accords were signed, the economic basket was included among the three fields of action selected for consolidating peace in Europe.

In 2003, at the Ministerial Council in Maastricht, the participants recalled the importance of that dimension for helping to ensure security and stability in the OSCE area, in particular for preventing or managing conflicts.

This is reiterated in the OSCE “Strategy Document for the Economic and Environmental Dimension”.

Improved regional integration is one of the actions proposed.

The same document also expressly mentions the importance of energy security, by means of predictable, reliable, rational and environment-friendly supplies.

2. Instruments

a) Support for existing structures

The OSCE may prove an effective and complementary partner for other international organizations. It should encourage existing initiatives and cooperate with international organizations already working in the OSCE area.

1) Cooperation with international organizations

The United Nations and the World Bank have set up programmes targeting the Caucasus and Central Asia. European and Asian neighbours are also interested in these regions.

The European Union has stepped up its presence in the Caucasus and Central Asia, through several programmes whose aim is to encourage regional cooperation between States, such as TACIS.

TACIS is a European Commission programme for technical assistance created in 1991, to help the countries of the former USSR to develop their market economy and consolidate their democratic structures.

Within its scope are the promotion of the protection of the environment and the management of natural resources, together with the development of transport networks. On that score, the TRACECA (Transport Corridor Europe Caucasus Asia) programme, launched in 1993, is helping to create a corridor from Eastern Europe to Central Asia across the Black Sea, the Caucasus and the Caspian Sea. Its aim is to link this corridor to the trans-European network. This programme is intended to promote regional cooperation between the participating States, by

harmonizing the countries' transport policies, in particular customs procedures and transit tariffs and taxes.

Two other programmes exist:

BOMCA (the Border Management Programme for Central Asia) aims to help the countries of Central Asia improve the monitoring of their frontiers. Several projects are proposed to train border guards, and introduce a common and coherent legal framework.

In connection with this programme, CADAP (the Central Asia Drug Assistance Programme) assists countries in their fight against drugs trafficking. A coordinator is present in Kazakhstan. The region's airports have been provided with equipment, police officers have been given specific training, and legal assistance is on offer.

The Asian neighbours are also present in the shape of the Asian Development Bank. It has initiated a major programme specially devised for Central Asia called CAREC (Central Asia Regional Economic Cooperation). It finances projects in the fields of transport and energy and encourages free trade. For example, for the period 2006-2008, it has planned to support 16 investment projects worth a total of 943 million dollars.

2) Field visits

The principal asset of OSCE is its field missions. There are 17 in the Balkans, the Caucasus and Central Asia.

Mission chiefs are appointed by the Chairman-in-Office. Therefore they are not affected by the need for consensus and are agreed to only by the host country.

Thanks to their autonomy, they have a good deal of latitude for carrying out their actions. This approach is original and realistic: the States concerned identify their own problems and the OSCE endeavours to solve them.

The centres located in Central Asia assist the authorities in monitoring borders and fighting terrorism.

The OSCE offers technical assistance, in the form of training courses and campaigns to raise awareness of rights. Thus, it seeks to favour the development of small and medium-sized enterprises (SMEs) and female employment.

A programme in Uzbekistan aimed at young entrepreneurs helps them to lobby and put together dossiers and lends them legal assistance.

a) Encouraging good governance

No economic development is possible in a context of insecurity.

The return to economic prosperity goes hand in hand with the introduction of the principle of good governance. This means a set of actions aimed at consolidating democracy and the rule of law, favouring parliamentary and judicial institutions, and fighting against transnational crime, together with a set of actions aimed at strengthening healthy management of the State, in particular by fighting corruption and encouraging the existence of an independent civil service.

In their final declaration at the International Conference on Financing for Development held in Monterrey in 2002, participants emphasized that good governance enabled sustainable development, economic growth and the eradication of poverty.

Above all, good governance entails relentlessly fighting corruption and money laundering.

The United Nations defines corruption as any transaction between actors in the private and public sectors by means of which collective services of public utility are illegally turned into personal profits. Whether it affects the political system, the legal apparatus or the public sector, it harms democracy and the rule of law, and favours inequalities.

The United Nations Convention against Corruption, adopted by the General Assembly on 31 October 2003, sets out rules and principles for prevention and repression alike. It sets up an original mechanism: the signatory countries of the convention in which embezzled public funds are deposited must return them.

For that reason, the OSCE member countries should sign and ratify this convention.

The OSCE, and in particular the coordinator for economic activities, are organizing partnerships with other international institutions (OECD, European Commission and the United Nations) to strengthen their actions in this field.

It organizes awareness-raising actions, publishing brochures on “good practices for combating corruption”, and holding workshops. It is also piloting training actions, mainly for civil servants.

The OSCE is heavily involved in the Balkans. Against a difficult regional background, with a complex institutional situation (dismembered States) and the inheritance of years of conflict, the OSCE has encouraged the introduction of the principle of good governance, in particular with a view to the accession of these countries to the European Union.

It encourages the return to the rule of law, through police reform and the fight against corruption. It is also concerned with the protection of minorities and the return of refugees.

3. Limits

In spite of everything, the OSCE is still in search of an identity.

a) A motivating force, making recommendations

The OSCE has a political rather than economic vocation. The priorities set each year tend to be rather general. The member countries are free to follow the recommendations and resolutions adopted, or not.

Field missions depend, above all, on how they are received by the host countries.

b) Limited finances

The OSCE is not a donor agency. By way of comparison, its Central Asia budget is 10 million euros, whereas the World Bank's is 400 million euros and the Asian Development Bank's is 115 million euros.

c) Possible ways of achieving successful regional economic integration

- Exchanges of experiences between countries through forums and conferences, as a prelude to stronger integration;
- Specific actions, focusing on defined sectors at the outset of the process – before creating the free trade area of the Common Market, European countries set up the European Coal and Steel Community (ECSC), a pioneer in European economic integration; and
- Harmonization of legal and fiscal rules, necessary before any successful economic integration can take place.