

Make energy the first common Euro-Mediterranean Policy



SUMMARY

ENERGY IS THE DOMAIN in which the interdependence of Euro-Mediterranean countries is the most strategic: a third of the gas consumed in Europe and a quarter of the petrol come from North Africa, without counting the proportion transited through Turkey; 70% of North African oil exports and 90% of its gas exports go to Europe. This interdependence involves long-term commitments, such as multi-decennial gas contracts to finance the infrastructures involved; the imperative gradual move towards non-carbon energy sources; and the time it takes to plan profitable solar production or produce nuclear energy in the South.

It is also in energy that concrete cooperation has been the strongest, as seen by the decision to move towards Euro-Mediterranean electricity and gas markets, the creation of the Mediterranean electricity ring, and the launch of the Mediterranean Solar Plan. Yet for the time being, major commercial contracts are not extended into industrial agreements; significant distrust persists between producing countries and consuming countries, including those in the South; and we are still a long way from the ambitions declared at the start of the Barcelona process.

UFM'S PROPOSITIONS FOR ACTION

Six decisions, the sixth being the most important, would lead to a common policy that would put an end to the distrust and parcelling of markets:

- 1) long-term security of purchases and sales, since sustainable cooperation cannot be founded on erratic exchange rates;
- 2) technological and industrial partnership between North and South;
- 3) more ambitious, shared targets on non-carbon energy sources;
- 4) a more central role for operators;
- 5) setting up joint finance tools and securing investments;
- 6) involving SEMCs in European strategic thought processes before discussions get started, without any prerequisites or conditions.

This entails making the following decisions:

- Complete interconnection between electricity networks and make progress on integrating gas and electricity markets as decided

in 2003, because this technical and commercial interconnection is the prerequisite to regional partnership;

- Maintain long-term agreements for energy purchases (especially gas) between UFM countries, with delivery guarantee systems;
- Secure investments in SEMCs and facilitate participation agreements between countries in the region, especially in order to accelerate the Mediterranean Solar Plan and the production of nuclear power stations;
- Create a Euro-Mediterranean network for transferring knowledge on energy and the water-energy overlap ("Mediterranean Institute of Sciences and Techniques relating to Energy and Water");
- Establish quantified targets (for the whole of the UFM and not just the European Union) on saving energy, the proportion of non-carbon energy (joint target of 50% by 2050), and reducing greenhouse gas emissions (including

a combined regional plan to develop nuclear energy in SEMCs);

- Make operators stakeholders in regional energy integration, by increasing resources available to the Mediterranean Energy Observatory and funding a large annual Euro-Mediterranean event to bring together public and private decision-makers in the energy domain;
- Because a European energy policy does not yet exist, because there is no international institution that associates consuming countries with producing countries, and because SEMCs and Europe are strategic partners in this domain, offer countries that want it a joint framework for strategy and action in the energy domain: involve SEMCs in European thought processes on strategic energy, extend to SEMCs European cooperation on gas purchases, jointly draw up a management plan on "South-South trans-Mediterranean energy highways".

1. Energy is the domain in which we are most interdependent

1.1. Sustainable, strategic Euro-Mediterranean interdependence

UNLIKE THE NORTH, which consumes high levels of energy (European energy dependency will reach 65% by 2025 and up to 80% for gas), the South possesses 5% of the world's oil resources and 3% of its gas; SEMCs supply significant resources to Europe (a third of the gas and a quarter of the petrol consumed in Europe come from North Africa) as well as transit zones (Turkey). Production and transit countries are similarly dependent on European consumer markets: 70% of North Africa's oil exports and 90% of its gas exports are sent to Europe.

The potential for energy collaboration between UFM countries is therefore strategic and set to last. It could be the basis of an ambitious partnership in the three sectors of energy, environment and industry.

ENERGY. The issue is to make both supplies and commercial markets secure. Securing supplies is as relevant for European countries as it is for SEMCs that do not produce hydrocarbons. In SEMCs, ten million people still have no access to energy and their demand for primary energy is set to rise by 5% per year up to 2030. It is therefore vital that an agreement between UFM countries should relate to supplies as a whole, both South-North and South-South. The issue of securing markets calls for preserving long-term gas agreements. Given that no joint legal framework exists between EU countries and SEMCs, a common policy needs to be based on long-term commercial commitments. Without these, the region would have to make do with isolated opportunities and lack the necessary visibility to construct in the long term.

ENVIRONMENT. The Mediterranean is one of the regions of the world where the impact of global warming is set to hit hardest. Sustainable development must therefore be a priority. The "climate and energy package" sets an ambitious ceiling on European energy consumption by 2020. SEMCs are also making an effort by adopting environmental measures, although these remain insufficient. Article 9 of the European EnR directive in the "climate and energy" package is a potentially important cooperation tool, including in terms of investment: EU countries will be able to include in their energy balance renewable energy produced outside the EU, notably from SEMCs.

INDUSTRY. Energy represents immense industrial potential for the whole region. The EIB estimates that SEMCs need to invest € 100 billion in energy over the next ten years. The Mediterranean Energy Observatory goes further: in the electricity sector alone, it estimates that by 2020, countries bordering the Mediterranean – essentially on the south side – will have to obtain additional capacity of 220 GW; without including the renewal of existing power plants, 440 new 500 MW units will have to be built, for a total investment of 120 billion Euro. The Mediterranean Solar Plan will cost tens of billions of dollars, not counting increased numbers of trans-Mediterranean electricity lines. To transport gas, a gas pipeline costs around 10 billion Euro, and a liquefaction factory around 1 billion. For oil, the region has a huge fuel oil production deficit. An immense technological and industrial co-development project could be set up, provided that we can transcend simple commercial relationships.

1.2. Current state of affairs

Energy is the domain in which the Euromed partnership has been the most tangible. The energy ministers participating in the Barcelona process decided in 2003 to move towards integrated gas and electricity markets. The scheduled completion of the Mediterranean electric ring is a significant component in this process. The launch of a 20 GW Mediterranean Solar Ring in 2008 by 2020 will imply an intensification of this programme, involving the infrastructures for producing and conveying electricity and the regulations involved.

Institutionally, the Euromed Energy Forum gathers the ministers concerned and takes place regularly, although not particularly often; networks exist of national agencies dedicated to energy savings and renewable energy sources (e.g. Medener), national regulators of electricity and gas as well (Medreg), and Medelec works on furthering the electric ring. Lastly, the Mediterranean Energy Observatory provides the region with a tool for cooperation between operators.

However, commercial contracts are not currently extended into industrial agreements because of a lack of joint legal and financial tools and the lack of a shared vision. There is strong distrust of producing countries, whose power to "turn off the taps" is overestimated, and of consuming countries, accused of closing their retail markets.

2. Launch the first Euro-Mediterranean common policy

Euro-Mediterranean energy cooperation today needs six decisions to be taken so that a genuine joint policy can be established. The most important of these is to include SEMCs in strategic European thought processes before discussions get started, with no prerequisites or conditions.

2.1. Secure supply agreements between producing and consuming countries

This shall involve:

- Accelerating the set-up of a Euro-Mediterranean market for electricity and gas;
- Making access to energy for inhabitants of SEMCs as much of a priority as securing energy supply to European countries;
- Ensuring that long-term agreements are maintained for energy purchases between UFM countries (notably gas) with guarantees for deliveries, both South-North and South-South, to facilitate South-South exchanges, which are currently very limited.

2.2. Establish an industrial and technological partnership

All commercial agreements for delivering energy should be part of a framework of regional technological and industrial partnership. SEMCs that produce hydrocarbons should no longer be simply a source of raw materials but should develop their own industrial and technological potential on this basis. A regional partnership would comprise two components:

(i) Investment security in SEMCs and easier participation agreements (mixed societies) between countries in the region, both North-South and South-South:

- Encourage – by associating investments from the North, the South and the Gulf – refining capacities in the South that will help reduce the rising fuel oil deficit, and the production of oil derivatives (petrochemicals, fertilizers, etc. of which e.g. North Africa could become a world-scale production platform);
- Intensify joint North-South participation in gas prospection and production, pipeline transportation, regasification, and electricity production and distribution;
- Terminate and develop electric network interconnection (Mediterranean ring);
- Accelerate the set-up of the Mediterranean Solar Plan (linking in the Desertec and Transgreen pro-

jects), by encouraging production of components in the South (e.g. photovoltaic unit parts, thermo-solar power stations, etc.).

(2) Creation of a Euro-Mediterranean network focusing on the transfer of knowledge on energy (“Mediterranean Institute of Sciences and Technics relating to Energy and Water”, IMESTENE)

- Specializing in energy and the overlap between water and energy;
- Centred on strategic planning, managing demand and promoting non-carbon energy sources;
- Acting as an interface between academia, government and industrial sectors, and drawing on science clusters;
- Offering training courses (Masters label), research courses (doctoral and post-doctoral school open to professionals in the region), technology transfer, technical cooperation and exchange of experience;
- Structured in a consortium of half a dozen national focal point partners, with a skills centre playing the role of network leader (based on the model of Ciheam for agriculture), possibly assured by EMUNI;
- Funded by UFM governments who choose to do so, but managed independently and transparently by specialists from both sides of the Mediterranean whose authority is recognized by their peers.

2.3. Take non-carbon energy targets further, to envisage a regional nuclear plan

Forecasts anticipate that fossil energy resources will continue to constitute 80% of primary energy in Mediterranean countries by 2030. This is neither ecologically nor economically tenable, since producing countries do not have inexhaustible reserves and are too dependent on exports of hydrocarbons. In the context of a Mediterranean strategy for sustainable development, it is imperative, for the whole of the UFM and not just the European Union, to establish quantifiable targets on:

- Energy savings (for which there is huge potential in SEMCs because their energy intensity is high, as a result of “energy-greedy” economies);
- The proportion of non-carbon energy sources (the EU’s 20% renewable energy target by 2020 should be extended to SEMCs, a joint target of 50% of non-carbon energy by 2050 could be set);
- Reduction of CO₂ emissions, including a concerted plan for developing nuclear energy in SEMCs, inevitably on a transnational scale (particularly the Maghreb).



2.4. Make operators stakeholders in regional energy integration

This kind of partnership assumes that states will agree to provide forecasts of their mid-term energy requirements and production levels and regularly communicate this information known to the OME, which would play the role of regional expert and receive increased resources for the task. The main advantage of the OME is that it is primarily a pooling of operators. If operators are to be involved in strategic thought processes and funding the Euro-Mediterranean partnership (operators play a key role in European cooperation in the absence of a European energy policy), the OME needs to become a reference. A regular event could be organized to gather Euro-Mediterranean energy stakeholders, government decision-makers and operators.

2.5. Funding

Specialized funds, combining private and public capital, could contribute to financing energy projects and ensuing industrial operations. A regional carbon fund could facilitate investment in CDM (Clean Development Mechanism) projects and encourage more restrained use of carbon in energy development.

2.6. Immediately start involving SEMCs in European thought processes on strategic energy

Because as yet there is no European institutional and legal framework relating to energy, because no international institution exists to associate consuming countries with producing countries, and because SEMCs and Europe are strategic partners in this domain, the UFM could make a radical innovation by proposing a joint framework for strategy and action on energy to countries that want it, by:

- Reflecting together – right from the start, and pooling strategic information, with no prerequisite political conditions – on a regional plan for energy efficiency and the promotion of non-carbon energy resources (with shared diagnosis and targets);
- Jointly drawing up a management plan for “Trans-Mediterranean and South-South Energy Highways” that would encompass existing energy transportation channels and future projects and take into account imperatives for sustainable development and industrial partnerships between UFM countries. This plan, once approved, would receive preferential funding designated to this type of liaison;
- Extending the cooperation that exists between state authorities and operators to SEMCs, which would both reinforce Europe’s negotiating power and involve producing countries to the South of the Mediterranean (their strategic position is much more compatible with Europe’s interests than Russia’s is).



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