Europe’s Quest for Energy Security and the Renewed Case for a Strong Mediterranean Green Energy Partnership

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Introduction: The Case for a New Euro-Mediterranean Energy Partnership

The European Union (EU) adopted in 2021 a new agenda for the Mediterranean: “Renewed partnership with the Southern Neighbourhood.” The strategy recognizes that the Southern Neighbourhood is one of the main hotspots in the world as regards climate change and environmental degradation, and at the same time it outlines that the region is home to some of the world’s best solar and wind resources, presenting unparalleled opportunities for clean energy cooperation. By outlining that the European Green Deal represents a unique opportunity for Euro-Mediterranean cooperation, the strategy postulates that the EU and its partner countries in the Southern Neighbourhood should work together to strengthen environment, energy, and climate change resilience – in view of helping mitigate risks to human lives and livelihoods and promoting sustainable development, job creation and transition to high value sectors.

The strategy notably outlines four focus areas for cooperation in the green transition: i) Climate and environmental governance, its link with public finances and fiscal initiatives, and monitoring of targets; ii) Supporting carbon pricing initiatives; iii) Administrative capacity and targeted technical assistance to implement and enforce legislation both at the central and local levels; and iv) Education and awareness raising, within both the private sector and the population at large as agents of change.

In terms of tools, the strategy outlines that the EU is committed to using all its instruments to ensure the efficient, effective, swift and tailor-made roll-out of the new agenda for the Mediterranean, taking into consideration the region’s diversity, interests and needs.

The Neighbourhood, Development and International Cooperation Instrument (NDICI) and the European Fund for Sustainable Development plus (EFSD+) are viewed as the main instruments for EU cooperation with partner countries in the region. The European Commission (EC) indeed proposes to mobilize up to €7 billion in this area between 2021 and 2027, with the aim of supporting the mobilization of private and public investments of up to €30 billion in the region. On top of financing, policy dialogue with all relevant stakeholders is seen as a cornerstone of cooperation, with particular attention placed on the local level to ensure that the impact of cooperation is distributed geographically in an adequate manner.

After the Russian aggression against Ukraine, this strategy is now more important than ever. The EU indeed seeks to rapidly phase out its energy imports from Russia, by both diversifying oil and natural gas supplies and accelerating the green transition. In both cases, the Mediterranean region can play an important role. This is particularly the case for the green transition, where the case for a stronger collaboration on renewable energy and green hydrogen between the two shores of the Mediterranean is now stronger than ever. But for this vision to turn into reality, significant investments are required. In this article, we review the current status of the green transition in the Southern Neighbourhood, and provide a set of policy recommendations on how to raise private sector investments to boost the green transition in the region – with the aim of fostering both regional sustainability and energy security.
The Green Transition in the Southern Neighbourhood: Current Status

Partner countries in the Southern Neighbourhood are richly endowed with solar and wind energy resources, which are estimated to be among the best in the world. Solar photovoltaic (PV) potential is widespread in the region and can be tapped at both household and utility levels. Concentrated solar power performs optimally in utility-scale projects situated in the region’s deserts, where the intensity of solar irradiation is among the highest in the world. Wind power also has great potential in the region, given the favourable wind conditions that characterize all these countries.

In recent years, partner countries have slowly started to exploit this potential. As outlined by the International Energy Agency, over the last ten years regional countries have increased their renewable electricity generation by 40 percent, by adding a total of 4.5 GW of wind, solar PV and solar thermal capacity to their renewable energy power fleet. Modern renewables remain poorly used in the region in the sectors of transport and heating. Traditional biomass continues to be the predominant renewable energy source used in heating, which represents a problem in terms of indoor air pollution, health and overall sustainability. Solar heat market continues to be underdeveloped, notwithstanding the important potential of the region. Likewise, renewables play a marginal role in transport in all regional countries, as electric mobility is still not developed and biofuels are yet to be used efficiently.

Notwithstanding the initial progress on the renewable electricity front, wind and solar were still a minor contributor to partner countries’ primary energy mixes in 2019, with shares of 0.01 percent in Algeria, 0.2 percent in Egypt, 2 percent in Jordan, 0.3 percent in Lebanon, 1.5 percent in Morocco and 1 percent in Tunisia.

It should be mentioned here that the reason why renewable energy sources continue to be marginal contributors to these countries’ energy mixes relates to the persistent investment focus of these countries on fossil fuels. As illustrated by the International Energy Agency, in 2019, regional countries invested $30 billion in oil and gas supply, while only around $7 billion in power supply – only a fraction of which goes to renewables.

Regional countries’ NDCs present different levels of ambition, different targets and different priorities, but they do share a common feature: linking action to external (financial) support. The partner countries have indeed committed to only modest greenhouse gas reductions through their own efforts – and have promised much more substantial action only if external technical and financial support is made available. International climate finance thus has a crucial role to play in fostering the green transition in the Southern Neighbourhood – just as it plays a fundamental role in developing countries all across the world.

Under the Paris Agreement, developed countries committed to mobilizing $100 billion per year by 2025 from various sources – public and private, bilateral and multilateral – to support developing countries in their efforts to reduce emissions. With a contribution of €20.2 billion in 2016, the EU is the world’s largest contributor of climate finance to developing countries.

In recent years, Southern Neighbourhood partner countries have received increasing flows of European and international climate finance – here referred to as purely public sources, and not also the private financing these flows mobilize. Between 2013 and 2016, Germany was the top contributor with a cumulative investment of $2.8 billion, followed by the...
World Bank Group ($2.4 billion), France ($2 billion), the European Bank for Reconstruction and Development (EBRD, $1.8 billion), Japan ($1.7 billion), the European Investment Bank (EIB, $1.2 billion) and other EU institutions ($0.5 billion).

Looking at the latest available year, 2016, we see how half of the energy-related climate finance flows to the Southern Neighbourhood were devoted to renewable energy generation, 30 percent to non-renewable energy generation, 15 percent to energy distribution and two percent to energy policy related activities.

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In absolute terms, the Southern Neighbourhood thus received $0.8 billion of European and international climate finance to support renewable energy projects in 2016. This figure, amounting to 0.8 percent of the annual climate finance pledged by developed countries under the Paris Agreement, could be scaled-up in the future, notably on the basis of a stronger EU commitment to the region.

More robust EU action to foster the development of renewable energy in the region via climate finance should, however, be linked to the implementation of certain energy reforms. These would be directed at removing the key barriers to the private sector’s engagement in renewable energy in these countries.

Linking Climate Finance to Better Governance for the Green Transition in the Region

Scaling up renewable energy in the region in line with countries’ NDCs will be costly. For instance, the World Bank Group estimates that Egypt, Jordan and Morocco alone would need around $100 billion in investment in renewable energy generation between 2016 and 2030 to meet their NDC targets.

International private investment is essential to meet this large investment need. However, various barriers in the region continue to prevent international investors from becoming more engaged in partner countries’ renewable energy sectors. Two key barriers stand out.

Legal and regulatory barriers: All Southern Neighbourhood partner countries have renewable energy targets, but achieving them ultimately relies on the presence of sound and stable renewable energy regulatory frameworks. On this front, much remains to be done in the region. Renewables have been “locked out” of many regional countries as a result of distorting fossil fuel subsidies, as well as the simultaneous presence of risk and uncertainties, weak institutions and inadequate grid infrastructure. Frequent changes in feed-in tariff schemes are also a concern for investors in several countries, while in other countries the lack of an independent regulatory authority or of a fully developed regulatory framework is a matter of concern for investors.

Financial barriers: Currency convertibility, inflation and lack of foreign reserves are concerns for investors in several countries. The cost of financing and the limited availability of debt from commercial sources for renewable projects represent a general challenge in several countries, though to different degrees. These barriers are felt either through the non-availability of finance or inflexible grace periods that are not adapted to the characteristics of such investments.

Partner countries have the responsibility of taking action to overcome these barriers, by reforming their energy sectors in order to unleash private investment. However, the EU can support this process by offering individual countries more ambitious climate financing, aimed at cutting the cost of capital for renewable energy projects and leveraging more private investment.

But such action should be conditional on the implementation of the reforms necessary to attract further private investment. To be clear, these reforms should not be aimed at replicating in the Southern Neighbourhood the EU frameworks and rules, but to formulating pragmatic solutions to the countries’ specific legal, regulatory and financial bottlenecks.

In the legal and regulatory areas, concrete solutions to be promoted in specific countries might include measures to increase clarity and transparency of rules; to provide legal and administrative support to international energy companies willing to invest in the country; to enhance transparency and clarity of rules in dispute procedures and to shorten dispute resolution timeframes; to phase-out fossil fuel subsi-
Raising Awareness Is the Other Key Element to Unleash the Green Transformation in the Region

Education and awareness raising in both the private sector and the population at large can also be important drivers of change. That is, the green transition should also be bottom-up. After all, the European Green Deal itself is an illustration of how important it is to mobilize people, foster behavioural change and clarify the costs and benefits of climate action. Civil society organizations can play an important role in influencing climate policy formation and implementation. The complementary role to central government actions is thus important in raising awareness about the transition and promoting it. But how can civil society organizations help shape and support the green transition? There seem to be two sensible actions in this field. First of all, environmental NGOs, social organizations and networks can take up positions to support / call for stronger climate policy. Secondly, cities can play a key role in the green transition, for instance by promoting green mobility solutions. It must be noted that one of the main issues in most of those partner countries is the absence of unimpeded access to information and transparency. That is, NGOs and individuals can do little if access to public policy and public sector information is not guaranteed. The EU can play an important role in getting these countries to adhere to open access standards. This represents a key step in the process of raising awareness to unleash the green transformation in the region. It should also be mentioned that civil society stakeholders are key to dealing with “just transition” issues. It is therefore important to illustrate to civil society the socioeconomic benefits of the green transition (e.g., green jobs, green industrial opportunities, etc) and this can also be done with devoted educational programmes. All this is key to ensuring the long-term stability of the green transition – in the Southern Neighbourhood as much as in Europe and elsewhere in the world.

Conclusions

In view of the Russian aggression against Ukraine, the EU needs to reinvigorate its energy partnership with southern Mediterranean partner countries. This action should notably focus on the green transition, where the case for a strong collaboration on renewable energy and green hydrogen between the two shores of the Mediterranean is now stronger than ever. But for this vision to become a reality, the two shores of the Mediterranean need to work together to unlock private sector investments. This is the key to boosting the green transition in the region, with an aim of fostering both regional sustainability and energy security – something which is so vital after Russian’s invasion of Ukraine.