

European Policy and the Mediterranean Energy Dimension

Abdenour Keramane

Former Algerian Minister of Industry and Mining
Director of the journal *Medenergie*

Energy, an Element of Euro-Mediterranean Cooperation

The participants in the Euro-Mediterranean Conference held in Barcelona on 27th and 28th November 1995 realized the importance of the energy factor as a structuring element of European-Mediterranean cooperation and urged the strengthening of energy links, the establishment of significant infrastructures and, more concretely, the creation of electrical and natural gas connections uniting both shores of the Mediterranean. Since then, the multiplication of high-level meetings, continual dialogue in the sphere of energy policies, the creation of a favourable climate for investment and the activities of energy companies have given a definitive boost to energy cooperation.

The *Observatoire Méditerranéen de l'Energie* (Mediterranean Energy Observatory, or OME), an association grouping together energy actors and companies operating on both shores of the Mediterranean, founded in the early 90s, constitutes a permanent framework for dialogue, collaboration and research that plays a prominent role in strengthening this cooperation.

In fact, the energy links between the southern and northern shores of the Mediterranean are very strong and growing stronger every year. Simply consider that the European Union (EU) depends on Mediterranean producers for 36% of its natural gas imports and 20% of its oil imports. Seen from the perspective of the producing countries, dependence is even greater: 86% of their natural gas exports and 49% of their oil exports go to European countries, principally Mediterranean European countries (92% and

53%, respectively, go to the latter).

The international energy context of the past few years, marked by geopolitical tension and the uncertainty of energy supply security, has strengthened European resolve to foster dialogue in the Mediterranean Basin, accelerate cooperation initiatives and launch new projects.

This article intends to provide an overview of the situation, make certain reflections and draw conclusions on the future potential of this cooperation.

The International Energy Context

The world energy context has been marked by new developments over the past few years, in particular:

- Globalisation and liberalisation of energy markets;
- The Kyoto Protocol and post Kyoto, with the development of mixed energy and the diversification of energy sources;
- Sustained rise in the price of oil and derivatives.

This unstable context brings the crucial issue of the security of the energy supply to the fore, although today's global energy crisis does not arise from political grounds but rather for technical reasons, i.e. insufficient production and refining capacities due to lack of investment over the past 20 years. This notwithstanding, the slightest geopolitical tension entails an increase in price.

By the end of 2006, prices were back to the late 2005 levels, with an average rate of \$60/barrel, after reaching a high of \$78.30/b in August. This price, which corresponds to an OPEC basket of \$55/b, seems to have levelled off somewhat and has met with the satisfaction of OPEC members. Although according to well-informed analysts, there is a slightly decreasing trend, the fundamental situation is favourable and as new investments are made, the production margin in

relation to demand will become comfortable (at least 2 million b/d).

In this regard, the demand of producer countries to consider that “security of supply and security of demand are two sides of the same coin”¹ must be kept in mind. Even if we sense the stench of a return to economic nationalism – not only in the sphere of energy, incidentally – there is no risk of radicalisation or use of energy for political ends. The existence of the International Energy Forum, which meets periodically, indubitably constitutes a major step forward for energy cooperation on a global scale.

Nevertheless, energy poverty remains a critical problem, to the extent where, as emphasised in the World Energy Outlook publication, 2.5 billion people in the world use fuelwood, charcoal, agricultural waste or animal dung to meet most of their daily energy needs for cooking and heating, with serious consequences for human health, the environment and economic development. 1.6 billion people in the world are still living without electricity, particularly in Africa, so close to Europe.

European Policy

In this context, Europe has carried out particularly intense activity over the course of 2006 in the sphere of energy, which has become a priority at European summits and meetings with non-EU countries. In early March 2006, the European Commission published a policy document entitled, “*Green Paper: A European Strategy for Sustainable, Competitive and Secure Energy*,” indicating the following priorities: completing the internal gas and electricity markets by developing a European network, whereby a single regulator and control centre are also being considered (IEA, 2005); developing new legislation on gas reserves; developing a global, integrated approach to meet the challenges of climate change through an appropriate energy mix; adopting a long-term Renewable Energy Road Map; adopting an innovation technology plan; and formulating a common external energy policy to establish a new partnership with Russia and step up dialogue with producer countries.

The development of a European Energy Policy being

a long-term challenge, in particular due to deep disagreement on the energy mix to adopt (coal, nuclear), the EU intends to regularly publish a *Strategic EU Energy Review* covering the problems identified in the Green Paper beginning in January of 2007. This Review will offer a clear framework for national energy mix decisions and will serve as a basis for transparent and objective debate on the future role of nuclear energy, as well as for formulating a common vision allowing EU Member States to speak as a single voice. The crisis occurring in late 2005 between Russia and the Ukraine regarding the price of natural gas, fortunately short-lived, was about to trigger frantic, individual initiatives by each European Member State to ensure the security of their oil and natural gas supplies, all the more concerned since the demand of emerging Asian countries, in particular China (Yang, 2007) and India (Ouki, 2007), continues to rise at a steady rate. European imports of natural gas are expected to nearly double between 2005 and 2020, from 290 billion cubic metres (bcm) to some 565 bcm, according to the EU's DG-TREN.

Negotiations with Norway, one of the greatest exporters of natural gas in the world as well as one of the three main suppliers to the EU, along with Russia and Algeria, led to an agreement on 15th September between the European Energy Commissioner, Andris Piebalgs, and the Norwegian Minister of Energy, Odd Roger Enoksen, for a delivery of 125 billion cubic metres of natural gas to the EU by 2010 (as opposed to the current 85 billion being supplied now), making Norway “an important, reliable gas supplier for the EU for a good many years,” according to Mr. Enoksen.

At the Lahti Social Summit in Finland on 20th October 2006, European leaders established the foundations for a long-term partnership agreement with Russia based on balanced mutual interest and containing firm commitments to transparency and reciprocity in their energy relations. EU Member States advocate “market rules, the opening of markets and non-discriminatory access to the transport network” for hydrocarbons, Moscow insisting that its natural gas giant, Gazprom, not be relegated to the role of supplier but be allowed access to the entire European supply chain (Issaev, 2006).

The EU is increasingly dependent on external im-

¹ “Oil Outlook to 2025,” speech by Mohamed Barkindo on behalf of the OPEC Secretary General at the 10th International Energy Forum, Doha, Qatar, 22nd - 24th April 2006

ports for its energy supplies, with Russia alone supplying over 25% of its natural gas and oil consumption. And it is seeking a reliable source, although the US warns the EU against dependence on Russian natural gas. Russia seeks an “ambitious global agreement based on new strategic objectives” with the EU, not limited to energy but encompassing the whole of their relations.

On the 14th November, an agreement qualified as ‘historical’ was signed in Milan between the Italian oil group, Eni, and Gazprom, allowing the Russian giant to sell its natural gas directly to Italy as of 2007. In exchange, Gazprom extended its natural gas provision to the Italian group until 2035, consolidating Eni as the leading client of the Russian concern. Gazprom will sell its natural gas directly on the Italian market as of 2007, attaining a volume of 3 billion cubic metres by 2010, which will be maintained throughout the remainder of the contract. The new strategic alliance between Eni and Gazprom covers numerous projects to be jointly developed both in Russia and abroad regarding production and transport by pipeline and liquefied natural gas (LNG) to supply the world gas market.

On various occasions, the leaders of the European Commission have condemned the EU’s divisions on energy issues and the absence of a coordinated European external energy policy allowing Europe to act coherently vis-à-vis its suppliers. A certain psychosis has even taken root following agreements between natural gas producing countries, suggesting that there could soon be a ‘natural gas cartel’ or ‘OPE-Gas’, as some have ventured to call this possible future organisation.

With regard to electricity, the year 2006 was marked by the major blackout on 4th November, the greatest in thirty years or so, which affected millions of European homes, particularly in Germany and France, but also in Belgium, Italy, Spain, Portugal and the Netherlands, lasting about one hour on the night of 4th to 5th November. The blackout, which originated in Germany, was due to a power surge on its network after a high-voltage line was temporarily switched off, triggering automatic safety mechanisms (‘power cuts’) subsequently affecting other European networks delivering electricity to Germany, such as France. At first analysis, it appears that the dysfunctions leading to the 4th November power outage are similar to those occurring in the past, in particular the blackout occurring in Italy on 23rd September 2003, for which Italian and French regulators had already proposed remedies.

The preliminary report by the European Regulators’ Group for Electricity and Gas (ERGEG) points to the need for urgent intensification of cooperation among Transmission System Operators in order to guarantee the improved security of the power supply in Europe. A definitive report is expected in February 2007. Moreover, upon request of the European Energy Commissioner, Andris Piebalgs and following the “Strategic EU Energy Review” to be presented on 10th January 2007, ERGEG will propose measures to the European Commission for inclusion in the third legislative package on energy. Among these proposals, which should be submitted by July, is that of greater separation between producers and transport and distribution system operators, possibly going as far as complete scission.

Increasing Energy Cooperation in the Mediterranean

In this situation of crisis marked by agitation and anguish, the EU has launched initiatives directed at the Mediterranean countries. Thus, an energy cooperation agreement with Algeria is soon to be concluded, as announced by the EU Commissioner for External Relations, Benita Ferrero-Waldner, at the opening session of a recent European energy conference. A draft memorandum has been submitted to the Algerian authorities and discussions will soon be held with a view to establishing an energy partnership. 10% of the natural gas consumed by the EU comes from Algeria, and with the prospect of doubling Algerian exports, this level could approach that of Russia, the prime EU partner in the energy sector.

During November of 2006, high-level leaders from Spain, Italy, Portugal, Germany and France successively travelled to Algiers to engage in negotiations on the delivery of additional amounts of natural gas and, in some cases, to sign contracts. The Energy Commissioner himself went there at that time, which constitutes a clear demonstration of EU interest in this Mediterranean country so close to Europe, a country that is an important producer and exporter of natural gas by pipeline and in LNG form.

In addition to existing facilities, new projects are on the table, designed to reinforce the infrastructure and increase the natural gas export capacity of Algeria in order to meet the growing European demand. They involve increasing the capacities of the Enrico Mat-

tei (or Trans-Mediterranean) Pipeline (from 25 to 32 bcm) and the Pere Duran Farell Pipeline (from 11.5 to 15 bcm), building two new pipelines across the Mediterranean and enlarging and constructing new LNG plants.

The project for building the Medgaz Pipeline, the second one connecting Algeria to Spain, advanced significantly in November 2006 with the visit of a delegation from Sonatrach to Spain, followed by that of the Spanish Minister of Industry, Tourism and Commerce to Algiers. The three Spanish companies, Cepsa, Iberdrola and Endesa, have signed natural gas purchase contracts with Sonatrach. With a capacity of 8 billion cubic metres per year in its initial phase, Medgaz will transport natural gas from Beni Saf on the Algeria coastline to Almería, Spain. The pipeline will cover 200 km and reach marine depths of up to 2,160 m. Once it reaches Spain, it will be connected to the Almería-Albacete Gas Pipeline. According to the timetable established by the Consortium, the gas pipeline should become functional by early 2009. With regard to Algerian exports to Italy, Sonatrach proceeded to sign five natural gas sales agreements on the past 15th November with, respectively: Edison, for a volume of 2 bcm/year; Enel for 2 bcm/year; Hera for 1 Bcm/an; Ascopiave for 0.5 bcm/year and Worldenergy for 0.5 bcm/year. The contracts were signed on the Italian Premier Romano Prodi's official visit to Algeria and pave the way for the construction of the second major gas pipeline from Algeria to Italy via Sardinia, with a total capacity of 8 bcm/year. Construction is to begin in 2007 and the pipeline's inauguration is expected in late 2009.

Romano Prodi, who had expressed concern upon hearing of the partnership agreement concluded by Sonatrach and Gazprom last August, took advantage of his visit to ensure an additional supply of natural gas and to obtain information on the Gazprom agreement, as it had been cause for some concern to the European Union. In reality, the Sonatrach-Gazprom agreement is a classical cooperation contract between two oil companies, similar to that concluded between Sonatrach and Eni. No part of this agreement should give rise to such concern, neither in Europe nor elsewhere.

The EU likewise plans to step up relations with other exporting countries of the Mediterranean Basin, such as Egypt (6th LNG exporter to the EU) and Libya, which has not concluded any agreements with the EU. Syria seems to be emerging as a potential natural gas exporter as well, due to recent discoveries of gas

deposits and its intermediary potential for the transport of gas to the EU from Iraq, Egypt and Persian Gulf Countries. In Egypt, two new, low-emission LNG plants and an extension of the regional gas pipeline to the eastern Mediterranean, known as the "Arab Gas Pipelines" are planned. The aim is to export Egyptian natural gas to neighbouring countries in the Eastern Mediterranean, supplying Jordan, Palestine, Israel, Lebanon and Turkey, but also Spain. Other projects concern four LNG plants (Damietta, Idku-East of Alexandria), to be built in conjunction with the European companies Unión Fenosa, BPAmoco together with ENI, British Gas together with Edison International, and Shell.

Libya is developing onshore and offshore gas facilities producing gas for export to Italy via the Greenstream submarine pipeline and is expanding and building new LNG plants.

The EU is moving to progressively integrate the Maghreb electricity market (Algeria, Morocco and Tunisia) and the Mashreq gas market (Egypt, Jordan, Syria, Lebanon, Palestine and Israel) into the European energy market. The countries in question have, in fact, created an appropriate agreement framework, in this case, the Mediterranean electricity liaison committee (Medelec), through which a group of specialists on major electricity networks shall determine the issue of electrical grid interconnections, that is, the interest and conditions of coordinated operation of national electricity grids, and define a framework for coherence within which each operator shall abide by common regulations while retaining its freedom in developing its own grid. This involves establishing the conditions for continuously functioning interconnections and for the creation of regional electricity markets.

With regard to funding, the instruments have been created and the European Investment Bank (EIB) has been invited to become the main development agent for the Mediterranean Partner Countries, fostering investments of mutual interest in Mediterranean countries in the fields of energy, communications and environmental protection, in particular through the establishment of the "Euro-Med Facility."

Finally, among notable initiatives launched during the course of 2006 was Italy's proposal on 1st December at the 3rd Mediterranean Energy Forum (Palma de Mallorca). Italy reiterated a proposal to set up a standing committee ensuring that the recommendations made at the Rome Euro-Mediterranean Energy Industry Summit (1st December 2003) were followed. The recommendations, known as the Rome

Euro-Mediterranean Energy Platform (REMEP), involved increasing development of energy transport infrastructures between southern and northern Mediterranean shores and among the southern Mediterranean states, as well as developing local distribution networks in these countries. These constitute key elements in order to: guarantee stable energy supplies at low cost for both the EU and producer countries; ensure market security for North African export countries; and foster the stability and socio-economic development of the region.

Conclusions: Towards Extensive, Sustained Cooperation

The structure of what could be called a common Euro-Mediterranean perspective on energy matters seems to be gradually emerging. In any case, objective onlookers may well ask themselves whether this constitutes real cooperation or simply commercial exchange. Are these important exchanges, these imposing infrastructures, these connections in multiple formats established among countries of the Mediterranean Basin the result of true cooperation or do they simply constitute a series of exchanges established on the basis of mutual interest? Can the intensification of commercial exchange (namely, hydrocarbon exports and equipment and expertise imports) be considered a determining factor in energy cooperation as defined at the Barcelona Conference (Keramane, 2005)?

The fact that the EU – unexpectedly faced with short-term natural gas supply problems over the course of 2006 – suddenly became aware of its vulnerability is beyond doubt. Isolated initiatives were undertaken by the largest Member States vis-à-vis supplying countries with a view to ensuring the security of their supply without coordination or a jointly-defined, global, coherent policy. Nonetheless, with the publication in early 2007 of the *Strategic Energy Review*, an important step will be taken towards adopting a global approach, thereby laying the foundations for a true European energy policy.

With regard to the contacts made by the EU with producer countries, their acceleration and multiplication in 2006, though uncoordinated, must be considered a major asset for improved mutual understanding and more in-depth cooperation. After all, to prevent crises, the same language must be spoken, not only by Eu-

ropean countries amongst themselves, but by Europe and its energy product suppliers. When Europe appeals to the notion of security of supplies, the producers call for security of demand to justify the significant investments necessary to meet the growing energy demand. Shouldn't we substitute these concepts of security with the notions of interdependence and solidarity beyond European borders, at least in the Mediterranean Basin, which seems ready for such a step?

Moreover, if energy is increasingly becoming a focal point of international relations, and justifiably so, shouldn't energy issues be integrated within a broader framework, as indeed suggested by Russia? A broader framework of sustainable development, encompassing environmental protection, the struggle against energy poverty, research and technology transfer from North to South and true industrial partnership?

This entails seeking and strengthening dialogue, cooperation and partnership, not only in the energy sphere, but also in the industrial and technical spheres; Euro-Mediterranean cooperation with greater involvement of the countries and actors of the Southern and Eastern Mediterranean. The establishment of a Euro-Maghreb electricity market could become an excellent example of industrial and energy cooperation with long-term effects.

References

- INTERNATIONAL ENERGY AGENCY (IEA) *Lessons from Liberalised Electricity Markets*. 2005.
- INTERNATIONAL ENERGY AGENCY (IEA) *World Energy Outlook 2006*. Paris.
- ISSAEV, Vladimir. "Gazprom et le marché gazier européen", in *Medenergie* No. 20, July 2006.
- KERAMANE, Abdenour. "La coopération énergétique en Méditerranée, dix ans après Barcelone", in *Medenergie* No. 17, October 2005.
- ORGANIZATION OF PETROLEUM EXPORTING COUNTRIES (OPEC) *Long Term Strategy*. Vienna, 2006.
- OUKI, Mostefa A. "India's Emerging Gas Market & its Development Challenges", in *Medenergie* No. 22, January 2007.
- EC *Green Paper: A European Strategy for Sustainable, Competitive and Secure Energy*. Brussels, 2006.
- YANG, Baoyun. "L'énergie et la Géopolitique de la Chine", in *Medenergie* No. 22, January 2007.