The Need for an Integrated Energy Market in the Euro-Mediterranean Region for Stability and Economic Growth

Alessandro Rubino
Associate professor
University of Bari Aldo Moro

Tamer Rawashdeh
PhD researcher
University of Bari Aldo Moro

The discussion around the creation of an integrated energy market in the Mediterranean region is regularly revamped each time there is a major international energy crisis. Energy cooperation has been presented as a priority area on the EU's policy agenda since the promulgation of the Euro-Mediterranean Partnership (EMP) in 1995. Since then, with oscillating emphasis, energy market integration in the Euro-Mediterranean has been proposed as a priority at regular intervals in the last 28 years. Most recently, the European Union, in 2021, put forward a new agenda for the Mediterranean: "the Renewed Partnership with the Southern Neighbourhood," aimed at strengthening cooperation in the field of energy, low carbon transition and sustainable development, in order to mitigate the adverse social and economic impact of climate change in the region. Parallel to the political agenda, the EU has identified specific instruments such as the Neighbourhood, Development and International Cooperation Instrument (NDICI) and the European Fund for Sustainable Development Plus (EFSD+), able to mobilize €7bn between 2021 and 2027, with direct funding, and an additional €30bn from public and private investments in the region.

The Russia-Ukraine war has been a wake-up call, as it demonstrated the limitations of energy market integration in the Mediterranean region and has highlighted gaps in the current architecture, calling for a more coherent approach to energy security. However, it has also marked a structural break in energy imports from Russia, suggesting that some of the contingency plans put in place in the aftermath of Russia's invasion of Ukraine are here to stay. The aim of this article is to review the history of Euro-Mediterranean energy cooperation, through the lens of the gas market, and to offer some policy implications for the short and long-term evolution of Euro-Mediterranean energy market integration.

Review of Euro-Mediterranean Cooperation in the Gas Market

Natural gas is a significant contributor to primary energy consumption in the EU, accounting for around a quarter of total consumption. The volume of natural gas consumed in Europe is enormous, with over 14.28 exajoules consumed in 2021, making it the world's second largest market after the United States (29.76) and ahead of China (13.63). While European gas consumption has risen irregularly over the past 25 years, internal production has not been able to keep up with demand. This trend has led to growing import dependency, which stood at 83% in 2021, raising concerns about energy security and prompting European governments and national utilities and operators to adopt broader strategies to secure supply from international markets.

To address the issue of energy supply vulnerability, European countries developed individual solutions, such as nuclear generation for France, North Sea oil and gas field development for the UK and diversified supplies for Italy and Spain. However, securing gas supply from major gas exporters, such as the then Soviet Union and North Africa, required substantial investment in long-distance pipelines, distribution

systems and storage facilities, which took place as of the late 1970s. In parallel to national initiatives, EU institutions have always played an active role in promoting energy cooperation. This role was initially confined to coal and nuclear energy, which were the resources representing the main concerns in the past and for the future.

The steps taken for Euro-Mediterranean energy cooperation began as early as 1995. The EMP was established in 1995 as part of the Barcelona Process, with regular inter-ministerial meetings and technical roundtables between the Commission and EMP partner countries to foster the energy dialogue. The subsequent development of the Euro-Mediterranean dialogue led to the establishment of the European Neighbourhood Policy (ENP), which included the EU-Mediterranean dialogue in a wider cooperation programme between the EU and its southern and eastern neighbourhoods, with a specific focus established with strategic countries, typically, energy-exporting countries and strategic transit countries, such as Algeria, Egypt and Turkey. This bi-dimensional approach was necessary to overcome the deadlocks that the region was experiencing. The effectiveness of the ENP was greatly influenced by the strong momentum that the development of the Internal Energy Market (IEM) was experiencing, particularly with the implementation of the second energy package and the signing of the Energy Community Treaty (ECT). The ECT led to the adoption of the energy acquis in six states and territories of the Balkans, thus enlarging the IEM to territories outside the EU. The enlargement process also shifted the emphasis towards a strong reinforcement of the IEM through its internal progression, which added weight to the EU's potential bargaining power with southern and eastern Mediterranean Countries (SEMCs), and helped to balance the dependency on the Russian energy supply, the only natural gas supplier for most eastern European countries.

Along with significant progress of the IEM, in particular for gas and electricity, in 2004 its external dimension gained steam, with an initial focus on rule harmonization as a step toward market integration. However, its emphasis shifted quickly toward ensuring energy supply security. It was not until 2006 that the European Commission explicitly linked the development of the internal market with the European external energy policy. Following the gas disruptions with Russia in 2006 and 2009, the Commission found an opportunity to establish the IEM as the preferred tool for cooperation between EU Member States and SEMCs. This led to the idea of expanding the ECT to the Mediterranean, which gained pace as a partial response to the Russia-Ukraine disputes (Maltby, 2013). However, the ECT enlargement never came into operation and was finally abandoned because of the fierce opposition of domestic players in SEMCs and the existence of differing agendas among Member States (Rubino, 2021).

The Russian war in Ukraine has certainly put European overdependence on Russian energy imports in the spotlight and shifted the centre of gravity of natural gas supply towards the Mediterranean neighbourhood

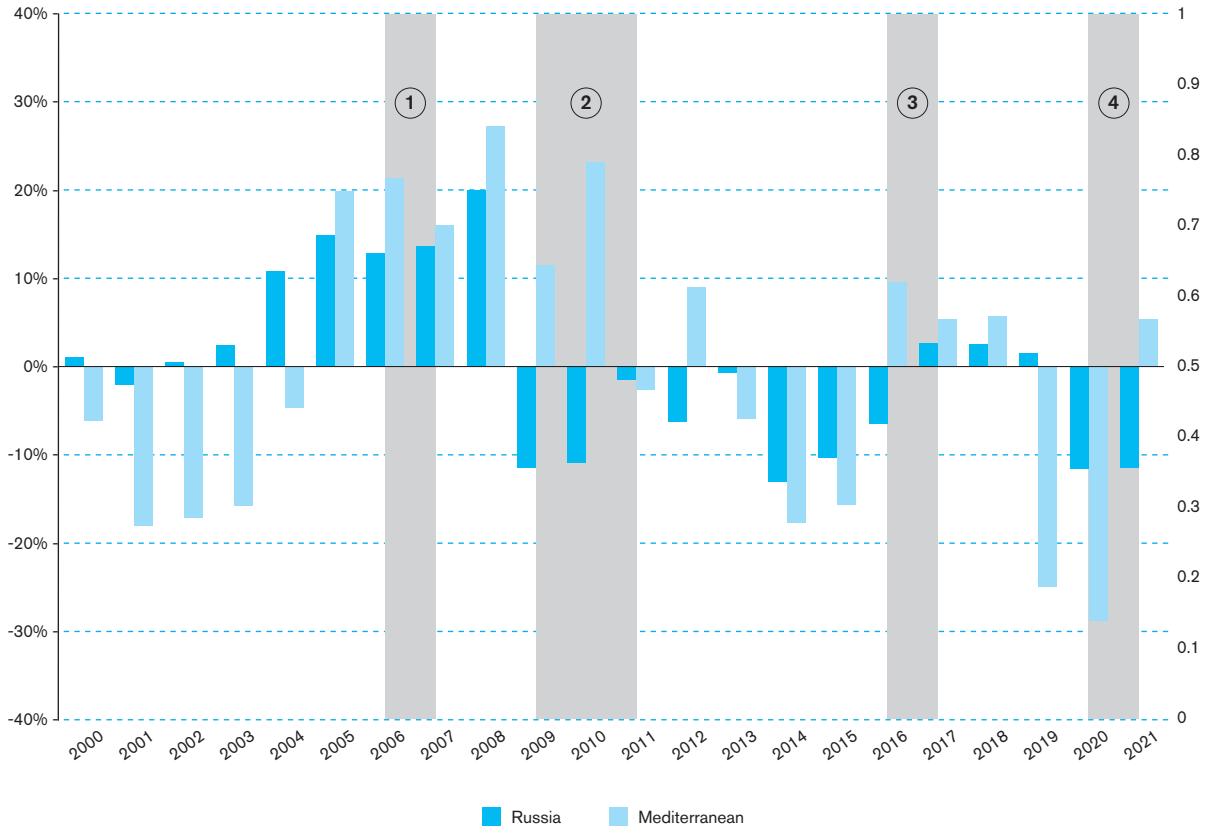
More recently, to respond to the potential threats represented by dependency on Russian gas exports, in February 2016, the EU Commission released a new regulatory package.[1] The "Energy Security Package" focuses on the revised Regulation on Gas Supply Security, also including a revised EU strategy on LNG and gas storage. The Commission also proposed the establishment of a binding and formal information exchange mechanism, regarding intergovernmental agreements and non-binding instruments between Member States and third countries, in the field of energy. This recent example confirms that security of supply became a central concern in defining both the shape and rules of the IEM and in the relationship with the EU's commercial partners. As a last piece in this puzzle, following years of low energy prices, the EU has experienced

[1] Brussels, 16.2.2016 COM (2016) 52 final.

skyrocketing energy prices since late 2021, and, following the Russian invasion of Ukraine, the European government and EU institutions have been forced to diversify their energy supply away from Russian imports.

Within this alternating prominence of Euro-Mediterranean energy cooperation, mainly seen as a complementary source of diversification to be reignited to lessen gas dependency on Russia, the Mediterranean region has responded to major gas supply disputes[2] by increasing gas exports at short notice to integrate gas shortfalls from Russia (see Chart 7). This acts as a safety cushion to any swing in the Russian supply. The recent dramatic events have changed the paradigm linking Europe to Russian exports, and which have shaped energy and political relations between Europe and Russia for over five decades. Russia had behaved as a reliable supplier ever since hydrocarbon imports from Russia started, and both Russia and Europe have built a long-lasting energy relationship based on the belief that such a relationship would enjoy the positive benefits of interdependence. However, the Russian war in Ukraine has certainly put European overdependence on Russian energy imports in the spotlight and shifted the centre of gravity of natural gas (and hydrocarbon) supply towards the Mediterranean neighbourhood.

CHART 7 **Yearly Change in Gas Pipeline Imports to Europe over the Long-Term Average**



Source: Produced by the authors based on *BP Statistical Review of World Energy*, June 2022.

1) 2006 – Russia cut off all gas supplies passing through Ukrainian territory
2) 2009 – Major drop (or complete cut off) of gas supplies transported through Ukrainian territory
3) 2015 – Gas Supplies to Ukraine cut off
4) 2021 – Russia only selling according to contractual terms[3]

[2] Except for 2006, when volumes from Russia did not decrease, as the dispute resulted in four days of gas export suspension between 1 January and 4 January 2006

[3] IEA's key statements and communications on the natural gas crisis in Europe www.iea.org/news/iea-key-statements-and-communications-on-the-natural-gas-crisis-in-europe.

Notwithstanding repeated efforts, strategies to increase energy cooperation in the Euro-Mediterranean region are littered with failed attempts to build resilient multilateral cooperation into action. One of the main reasons for the limited results achieved so far can be found in the general framework around which EU-Mediterranean energy cooperation was conceived. In addition to the constant pressure to develop the IEM, the EC acted outside its physical borders to export its model to its immediate neighbourhood, with the ambition to create a Euro-Mediterranean harmonized regulatory space (Rubino, 2021), either via voluntary adoption or formal inclusion into the EU regulatory framework, with the extension of the Energy Community to the Mediterranean partners.

Energy Security and Energy Transition in the Euro-Mediterranean Region

The new scenario defined after the Russia-Ukraine war broke out is based on two main strategies: on the one hand, the complete phase-out of Russian energy imports by 2027, and, on the other, a strong push toward the energy transition to decrease import dependency, with more ambitious renewable targets by 2030. In this setup, cooperation with Mediterranean partners could play a key role in supporting Europe's shift away from Russian energy. Energy cooperation with Mediterranean partners (in particular with Algeria, Libya, Egypt and Israel) should be based on two complementary strategies: to provide alternative sources for hydrocarbons (in the short run), and develop renewable energy resources thanks to their untapped potential for solar and wind generation (in the long run). Renewables deployment will need significant investments for electricity generation and transport, to be developed with dedicated financial vehicles. The wider MENA region needs over €91bn a year (7% of the annual regional GDP) over the next five years to maintain existing and create new infrastructure, according to the World Bank (OECD, 2021). The electricity needs alone will require 3% of the region's annual GDP. Oil importing countries will also need to spend around €80bn to upgrade transport networks. Not only is new infrastructure needed, but also proper maintenance and quality control of the existing assets.

Investments of this size cannot be sustained by the target countries alone, and without the support of private investors. Therefore, effective Euro-Mediterranean energy cooperation requires the development of a long-term joint strategic vision for infrastructure development that combines the needs and opportunities for both shores of the Mediterranean. The region has become a privileged partner in relation to energy security, as European countries are struggling to substitute Russian gas. The great political commitment to increase the use of non-Russian energy will drive the EU closer to the Mediterranean countries. However, our brief review of the strategies for Euro-Mediterranean cooperation has revealed that the emphasis in the past on regulatory convergence does not square well with effective energy cooperation, especially when the focus is security of supply. Although some specific regulatory interventions can be foreseen in the long run, this should not be an objective per se, as the concept of the EU as a regulatory state, even in its external dimension, has suggested until recently (Vantaggiato, 2016).

Energy cooperation with Mediterranean partners should be based on two complementary strategies: to provide alternative sources for hydrocarbons (in the short run), and develop renewable energy resources thanks to their untapped potential for solar and wind generation (in the long run)

Conclusion

The recent aggression against Ukraine and the subsequent sanctions against Russia have reopened the case for strengthened Mediterranean energy cooperation as a valuable option in both the short and long term. The long-term vision can be justified only if Euro-Mediterranean energy cooperation is considered with a holistic approach that includes the wider regional potential of renewables

(and perhaps hydrogen), along with natural gas and oil exploitation (in the short run). This multifaceted strategy will allow Mediterranean partners to achieve multiple goals (energy security, low carbon transition, cooperation) and attain a better diversification of risk in terms of the natural resources, technologies and geographies involved. Yet, despite the obvious complementarity and interdependence underpinning Euro-Mediterranean energy relations, efforts in the past to secure the required investments and to accomplish greater integration remained subdued.

The long-term vision can be justified only if Euro-Mediterranean energy cooperation is considered with a holistic approach that includes the wider regional potential of renewables

This contribution has revisited the energy cooperation components of the EU Mediterranean policy frameworks to date, emphasizing the disruptive role that prescriptive institutional and policy interventions might play, as opposed to energy market dynamics. We have highlighted that the reconfiguration of global energy flows away from Russia could benefit the Mediterranean region, but only if the EU decides to enhance its geopolitical projection, making Euro-Mediterranean cooperation a strategic priority for future years.

References

Maltby, T. "European Union energy policy integration: A case of European Commission policy entrepreneurship and increasing supranationalism." *Energy policy*, *55*, 2013, 435-444.

OECD, *Middle East and North Africa Investment Policy Perspectives*, OECD Publishing, Paris, 2021. https://doi.org/10.1787/6d84ee94-en.

Rubino, A. "The political economy of Euro-Mediterranean cooperation in the gas market: The role of domestic stakeholders and the European Commission." *Resources Policy*, 70, 2021, 101883.

Vantaggiato, F.P. "Defining Euro-Mediterranean energy relations." In Rubino, Alessandro, et al. (Eds.), *Regulation and Investments in Energy Markets*. Academic Press, 2016. https://doi.org/10.1016/B978-0-12-804436-0.00002-3.