The EU and energy in the Arab countries

Executive summary

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This briefing looks at energy investments by the EU in the Southern Mediterranean region and the impacts on the social, economic and environmental rights of citizens and communities by highlighting the compliance of these activities with the values of democracy, human rights and economic development for Egypt, Morocco and Tunisia. It also assesses the type of the investments that would be beneficial both for host countries as well as for the EU.

Arab countries face a significant energy challenge. The region is the fastest growing in terms of energy consumption and usage[1], at rates much higher than those of energy production and of GDP growth (77 per cent increased consumption compared to 37 per cent increased production projected for 2035). The 'energy intensity'[2] of economies has doubled in the Middle East since the 1980s, contrary to global trends[3], and is three times the world average. Arab countries are characterised by high levels of energy inefficiency that creates structural impediments for economic growth. The Middle East is a major CO2 emissions contributor worldwide, second only to southeast Asia, while its share of renewables in the energy mix is the lowest.

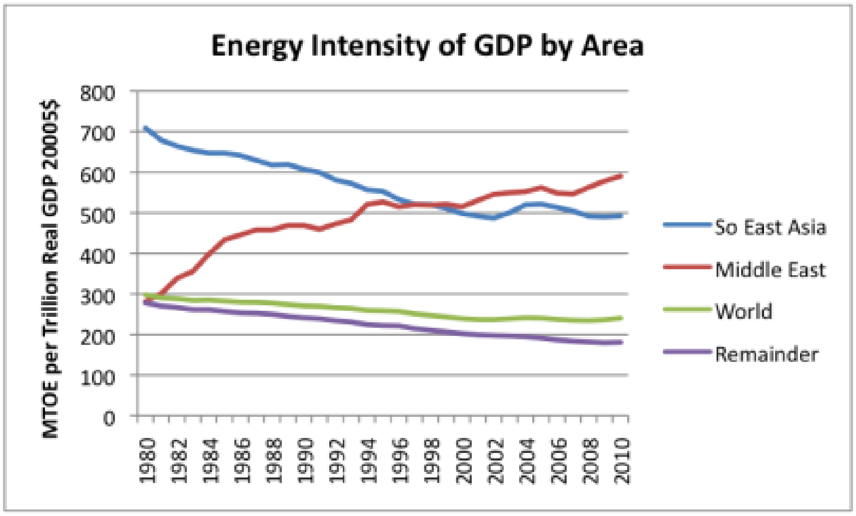

Figure 1. Energy Intensity of GDP by Area, based on BP Statistical Data regarding Energy Consumption in Barrels of Oil Equivalent and USDA Economic Research Data regarding real GDP. After Gail Tverberg.

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1 BP Energy Outlook 2035, www.bp.com/energyoutlook

2 Amount of energy consumed per unit of real GDP

3 Gail Tverberg: Thoughts on why energy use and CO2 emissions are rising as fast as GDP, November 30, 2011, http://ourfiniteworld.com/2011/11/30/thoughts-on-why-energy-use-and-co2-emissions-are-rising-as-fast-as-gdp/

Arab states thus face a serious energy transition crisis. The average growth rate of electricity consumption is 7 per cent annual, mostly due to population growth and rural-urban migration, but also due to recently established energy-intensive[3] industries. All Arab countries experience electricity cuts. Subsidised energy (electricity, transportation, heating and so on.) creates no incentive for energy efficiency and is simply a way of buying social peace in times of turmoil, as the necessary investments for efficient construction and equipment are significantly high compared to subsidising living cost.

The IMF estimated that in 2011 subsidies for the MENA region amount to USD 237 billion or 8.6 per cent of regional GDP. It accounts for 22 per cent of government spending and constitutes 48 per cent of energy subsidies worldwide[4]. Comprehensive energy sector reform plans are needed to improve energy efficiency and intensity and must run in parallel to targeted social programmes. The potential for saving with energy efficiency is enormous. Depending on scenarios, primary usage of energy could be reduced from 27 to 56 per cent by 2030.[5]

Since 2007, the European Union has assisted the development of Southern Mediterranean countries mostly in building infrastructure and energy projects, through a number of instruments, including the European Investment Bank (EIB), the European Bank for Reconstruction and Development and the Neighborhood Investment Facility (NIF).

There are a number of issues with various projects financed in the MENA region where energy infrastructure projects effect social, economic and environmental rights of local communities, often with CSOs having limited means of voicing their concerns. The Environmental Impact Assessment processes do not always guarantee risk mitigation for local communities in terms of air and water pollution. Additionally, issues of land acquisition are often opaque processes and lead to involuntary resettlements without proper compensation.

3 Economist Intelligence Unit: Securing MENA's electric power supplies to 2020; 2011.

4 IMF: Energy subsidies in the Middle East and North Africa : Lessons for reform; March 2014.

5 http://siteresources.worldbank.org/INTMNAREGTOPENERGY/Resources/MENA_Energy_Efficiency_2009.pdf

Contracts over natural resources exploitation often allow minimal state revenues from royalties and taxes while granting fiscal advantages for the extractive industries, thus having negative implications on government budgets and promises of employment and growth. [6] Issues of workers' rights and working condition including temporary contracts, intermediary agencies, low wages, as well as depletion of natural resources, especially water, paint a rather negative picture of the social, economic and environmental impacts of EU investments in the MENA region.

In brief, EU energy investments in the MENA region are focused on the EU's energy security while the region itself experiences a fully-fledged energy crisis due to increasing energy demands. The most critical situation is in Morocco which heavily relies on imported fuels, and the situation is becoming critical in Tunisia and Egypt. All three countries have problems in developing a sustainable energy path by significantly increasing renewable energy's share of the mix, reducing the high-energy inefficiency, and removing subsidies by replacing them with efficient social protection systems.

Despite increased EU investments following the Arab uprisings, the European approach to energy investments does not seem to be changing or to be taking into account the strategic medium and long-term needs of the MENA countries. The ENP's financial instruments play a limited role in responding to the needs of the local population, with the exception of Morocco, where the focus is on renewable energy. If EU financial interventions in the region continue on the same path, the whole region will be unable to solve the existing energy crisis and ensure the implementation of sustainable development goals.

Therefore the EU should establish comprehensive dialogue with MENA countries to ensure that its neighbourhood policy towards MENA progresses more strategically by:

6 http://economie-tunisie.org/fr/observatoire/visualeconomics/couts-incitations-investissements.
It shows that the fiscal advantages correspond to 70% of total taxes collected from companies.

- Considering Arab Mediterranean countries as more than an energy supply route to Europe
- Supporting MENA countries to accelerate energy sector development to cope with the rapidly growing demand through significant increases of funds for renewables and energy efficiency. This effort will ensure solid grounds for economic and social development, particularly for the youth, and will reduce the inevitable instability and massive migration flows to Europe
- Increasing the amount of neighbourhood financial instruments to reach a level corresponding to the needs of the countries and their population. This level should grow from around 20 per cent of investment needs in the energy sector to at least 50 per cent.
- Supporting the elimination of energy subsidies through a comprehensive economic and social development approach.
- Increasing transparency on all aspects of project development, systematically performing social, economic and environmental impact studies, publicly scrutinising and being fully accountability towards the complaints formulated by CSOs and local communities.
- Evaluating the impact water resources and the environment. MENA countries drastically lack water resources due to the rapidly growing population, and the preservation of water resources and the environment are crucial for further development in these countries.
- Ensuring that all projects funded by EU financial instruments abide by a country's regulations and involve standards for proper taxation, especially in the case of natural resources' development and interconnection projects. Such standards should avoid impunity of investors through investor-state settlement mechanisms (ISDS).
- Ensure that projects guarantee systemic territorial economic contribution (TEC) of project implementation and benefit local communities. TECs could alleviate the foreseeable impacts of large projects on local communities, allowing the development of local infrastructure and jobs. It will significantly contribute to the empowerment of regional institutions and reduce the inter-regional development gap.