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# **Cross-Mediterranean energy transition: A multi-dimensional endeavour**

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## Cross-Mediterranean energy transition: A multi-dimensional endeavour

Bonn, 30 April 2012. In a few weeks leaders and experts from around the world will gather at the Rio+20 Summit to explore strategic channels for governments, private sector and global institutions to promote sustainable development. The challenges that need to be overcome have proved to be not so much in terms of availability of technical solutions, but primarily with respect to political will and alignment of interests between stakeholders that are pro and against what the German Advisory Council on Global Change (*Wissenschaftliche Beirat der Bundesregierung Globale Umweltveränderungen* – WBGU) calls “the great transformation”. Moreover, there is increasing awareness that addressing this goal will not emerge from isolated solutions (from one specific technology, project, or country level strategy). Rather, integrative solutions and cross-regional strategic approaches are necessary. Within this context, concerns on expanding the use of renewable energy sources in the European energy sector are increasingly taking into consideration the existing potential for clean energy production in the Middle East and North Africa (MENA).

One example of such an approach is the German-led initiative DESERTEC aiming to achieve unprecedented energy market integration between MENA and European countries. As such, exports of clean energy from the MENA countries offer the potential of achieving renewable energy and CO<sub>2</sub> reduction targets in Europe, driving private sector competitiveness, job creation and could support the transition to low-carbon development in the southern Mediterranean countries.

Yet, the challenges that MENA countries face following the *Arab Spring* upheavals, bring more complexities to the transformation process. For these countries the need for a sustainable energy transition is essential. Most countries in this region are importers of fossil fuels which, in the context of increasing energy demand, pose significant pressures on national budgets and raise energy security problems. At the same time, high levels of youth unemployment (as high as 25% in Egypt), low technological capabilities, limited engagement in the political and economic transi-

tion process, and weak institutions plague the development process in these countries.

The expected inflow of international financial resources geared towards renewable energy projects holds the potential of enabling MENA countries to enhance technological capabilities, catch-up with more advanced economies and support the development of a dynamic private sector. Moreover economic diversification can support a shift away from rent-based economies, crucial for the region.

As such, the challenges of achieving these outcomes lie mostly in the socio-economic and political realm. Among various aspects two distinguish themselves as important and relevant for a long-term integrative energy transition: the need for a *new social contract* that encompasses primarily a reform of the fossil-fuel subsidy regime, and finding *new channels for development cooperation* based on strong partnerships and regional integration. Germany, as a core partner of the region, has an important role to play in this respect.

### A new social contract

The social contract that prevailed under such neopatrimonial governance regime relied on strategic redistribution of rents as means of political legitimacy. Fossil-fuel subsidies have been the core channel of legitimizing the political ruling class, benefiting disproportionately middle and upper income population groups (see “The Current Column” of 4 April 2011 and 13 February 2012).

Maintaining the current fossil-fuel subsidy regime is problematic for several reasons, preventing new investment opportunities from arising and delaying the transformation towards sustainability and competitiveness. *First*, fossil-fuel subsidies have become increasingly costly for the MENA governments. For example, based on conservative estimates Egypt currently spends at least 6% of Gross Domestic Product on fossil-fuel subsidies (approximately 12 billion Euro). *Second*, government spending on fossil-fuel subsidies reduces the scope for social transfers and employment programmes. *Third*, fossil-fuel subsidies have encour-

aged overconsumption contributing also to higher CO<sub>2</sub> emissions. *Forth*, they obstruct the deployment of renewable energy sources, setting electricity prices artificially low, and making it costly for governments to support renewable energy investments at the same time. As fossil fuel prices start to increase, these effects are exacerbated. By postponing action, policy makers are wasting valuable fiscal resources, engaging in regressive policies and missing opportunities for transforming the energy system.

Hence, changing the fossil-fuel subsidy regime, a core element of the existing social contract, is critical for enabling an energy transition in the MENA region and delays future possibilities for energy market integration with Europe, by making large-scale renewable energy projects too costly. While such reform is difficult to implement, the positive experiences of other countries show that a politically and socially acceptable reform is possible if the motivations for reform are transparent and social compensation schemes are put in place.

### **Cohesive cooperation approach**

Recognizing the multi-dimensional importance of renewable energy cooperation with the MENA region, German Federal Ministries have pursued various initiatives in this field. Germany's energy strategy document explicitly mentions that North

Africa has an important role to play for Germany and for Europe more generally. However, defining clear policy priorities and bundling the efforts of various Ministries, implementing agencies, industry, and university initiatives under a "whole-of-government" strategy is needed. Moreover, following Arab Spring uprisings, new opportunities for regional cooperation were created within the North African region in particular. Hence, the energy transition in the region should be viewed as an opportunity for finding new ways of international and inter-regional cooperation rather than top-down transfer of know-how for enhancing technological capabilities. For example, a strategic approach, coordinated among different public and private stakeholders, with strong backing from the Chancellery, as part of the German "Energiewende" is necessary. Such an approach should link high-level policy dialogue on issues of cross-Mediterranean energy transformation with research collaborations, institutional twinning programmes and technical and financial cooperation.

Hence, these two dimensions suggest that solutions to the prevailing energy transition in the North and South of the Mediterranean have to cut across the socio-economic and political spectrum, while also seeking to envision new ways of international cooperation.



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