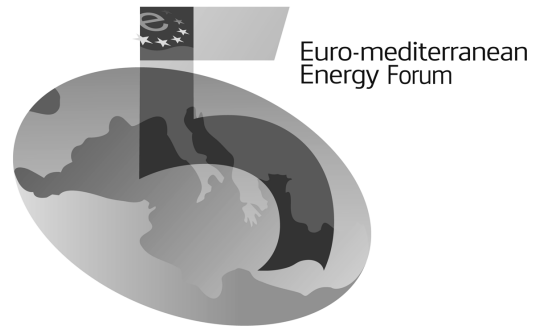
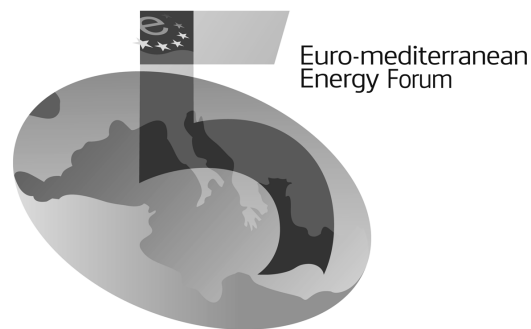


**THE INTEGRATED ENERGY AND CLIMATE POLICY  
IN THE EUROPEAN UNION AND ITS INFLUENCE  
IN THE MEDITERRANEAN REGION**

---







## THE INTEGRATED ENERGY AND CLIMATE POLICY IN THE EUROPEAN UNION AND ITS INFLUENCE IN THE MEDITERRANEAN REGION

---

### **Working Group 1 - Water and Energy: Resources, Consumption and Rational Use**

Water and Energy are the two most important medium-term concerns throughout the planet, particularly in the Euro-Mediterranean scenario.

The imbalances in the availability and the use of resources are currently very pronounced and only by implementing a decisive and intelligent policy of solidarity and sustainability, in the economic as well as in the environmental fields, it will be possible to satisfy the needs of everyone.

Many of the necessary technologies are already available although, in some cases, such as in solar energy and electric vehicles, it will take a few more years to be fully competitive.

Funding for major investments in energy and water is ensured only in some countries while, in the majority of others, many different types of uncertainties abound.

Since the last edition of this Forum, major political events have taken place in certain Southern and Eastern Mediterranean basin countries, while Europe has been immersed in a financial crisis that makes the possibility of having a common response, particularly in the field of energy, increasingly difficult.

It is important to identify the main current difficulties for developing a common policy of solidarity and sustainability, classifying these into three major groups:

**Principles:** The political willingness of neighbouring countries to collaborate in a realistic vision with short-term objectives, but without losing sight of a common horizon underpinned by shared principles.

A good example of a constructive approach is the Union for the Mediterranean (UfM) and the progress made within this Institution, such as the Mediterranean Water Strategy (although formal approval has not yet been possible) and the Mediterranean Solar Plan. Nevertheless, it is evident that real progress will only be made with a more practical decision-making process, preventing incomprehensible blockings, enabling variable geometries and sharing common interests.



**Legislation/regulation:** Creation/development of legal mechanisms in each country, region or through bilateral agreements that provide legal security, supporting action plans or specific projects in order to attract public, and most important, private investments.

**Actions:** Conception and implementation of programs or specific projects for advancing in the better use of available resources and for creating new ones.

## PRINCIPLES

As part of the first identified area, the Working Group proposes the adoption of the following shared principles:

- Water and energy resources are essential for life and for development. Their use, production, transport, and enjoyment can and should be considered opportunities for collaboration among countries in the region since all have something to contribute and from which they can benefit. Natural resources, technology, and funding capacity can and should be reasonably and fairly combined for developing and optimising resources.
- Energy and water which are not wasted are the most economic: efficiency and the reduction of unneeded consumption should be prioritised.
- The subsidy policies on energy and water of the Southern Mediterranean countries should be revised. Subsidies should be limited and addressed to promote the adoption of new technologies and measures for the implementation of renewable energy. We should not also forget to guarantee access to water and energy, especially on poor regions, through transparent processes and with direct and explicit incentives.
- Citizens should be informed about the real cost of energy and water in order to promote savings.

Economic sustainability over the long term requires that the price consumers pay for water and energy contemplate all the costs incurred in making possible the enjoyment thereof, including the costs involved in environmental sustainability.

- Whenever it is necessary to attract local and international private capital for developing energy and water infrastructures, it is essential to have a transparent private partners selection process for Public-Private Partnership (PPP) programs or projects
  - The role of Multilateral Organisations will be more efficient if, besides improving their functional efficiency, it combines their role as financial backers of non-profitable projects with the role of guarantors of risks (especially political or collection risks). This will make
-

it easier to attract private capital (and reduce the related cost) for profitable projects

• The implementation and development of the Mediterranean Water Strategy is essential for the decisive progress towards the sustainable satisfaction of current and future needs; the following principles, already contained in the strategy, are identified as priorities:

- Gradual implementation of the user's payment for all the costs of resources
- Whoever pollutes, pays
- Encourage private participation in the water sector through PPP, maintaining strongest regulations
- Prioritise management of demand rather than the construction of new infrastructures, particularly non-conventional ones, for capturing or generating water resources:
  - Enhance the efficiency of the use of resources: improvement of distribution infrastructure
  - Prevent pollution
  - Incentivise irrigation savings

• The limits of the energetic cooperation and integration should spread beyond the Mediterranean, including the Gulf and North European countries.

• On the basis of existing consensus on moving towards a carbon-limited economy, it is essential to create the conditions to enable the integration of energy markets and, particularly, the electricity market, with the long-term goal of minimising energy costs through the optimal use of existing resources.

• Some attendants to the working group from both sides of the Mediterranean considered important the benefits of nuclear energy concerning electricity supply and obtaining water. They also considered the importance of technological transfer.

• Setting up synergies between water and energy policies is a priority. Water and energy strategies should go together, as they are directly linked to the food security issues.

• The region has a huge potential on solar energy. In the medium term it will be a manageable and massive energy if we can produce it competitively. Also, it should be a back up for the development of other renewable energy, such as wind power.

• Southern governments should provide transparent and actualised data on energy and water issues.



## LEGISLATION/REGULATION

The following issues are identified:

- Political stability must be guaranteed in Southern countries.
  - The leadership concept should be given up, and coordination, cooperation and collaboration between the South and the North should be prioritized.
  - Peace and security should be reached in the Southern region of the Mediterranean.
  - It is important analyzing energy, water and environmental issues from a technical point of view and warning governments against the common regional threats.
  - Avoid copying, in the South, mistakes from the North.
  - Energy markets should be open as well as a priority.
  - Attention on consumers and guarantee energy and water supply to the citizens should be focalized.
  - Press ahead with the structuring of countries' energy systems to separate power generation, transport, and distribution activities and other energy vectors. This is the first step for clarifying costs and prices to ensure free access to grids and to promote the conditions that will make it possible to attract private capital.
  - Promote standard conditions for creating and managing North-South and South-South large capacity interconnectors as the means for increasing the penetration of renewables and contributing to the progressive unification of the electricity market. The Union for the Mediterranean (UfM) should conduct studies and promote the creation of a supranational entity whose purpose would be to design, prioritise, promote via concessions, and manage a grid designed for the exchange of large amounts of electricity. This connection could operate as an extension of the Southern part of the Supergrid.
  - It is urgent to support the practical development of the Mediterranean Solar Plan, encouraging collaboration over the long term among European Union (EU) countries as the possible buyers of renewable electricity, and Southern and Eastern countries as potential suppliers, both for their own use as well as for the partial export to Northern countries.
  - Speed up the measures so that the EU countries can draft long-term incentive programs, in a harmonised manner, if possible, on renewable energies from Southern and Eastern
-

countries, so as to give sense to Section 9 on the Directive 2009/28/EC on the promotion of Electricity from Renewable Energy Sources.

- Guaranteeing the environmental sustainability

## **ACTIONS**

The Group identifies the following measures of interest:

- The inclusion, as one of the UE priorities – at the behest of the European Commission, and until the future of the Supergrid is clarified – of several large North-South continuous interconnectors throughout the European territory, as part of the major European electricity grid:
  - the enlargement and extension to Central Europe of the Strait of Gibraltar interconnector
  - a new Tunisia-Italy interconnector
  - the enlargement of interconnections with Turkey
  - a new Egypt/Libya interconnector with Greece?
- The creation of a Trader or Renewable Energy Financial Coordinator who can act as an intermediary with the renewable generation projects to be developed in Southern countries and the purchasers from EU countries.
- Guarantying access to water and energy for all Southern shore of the Mediterranean should be the base for any action plan with the objective of planning specific policies.
- The coordination among Multilateral Entities of the various current initiatives to facilitate “ad hoc” finance lines for Water and Energy projects, to simplify procedures, and to reduce the time it takes to conclude the corresponding funding.
- To study, by Multilateral Organisations, of specific lines of risk covering of payment for PPP projects whose off-taker is a local provider company.
- To study, by the International Monetary Fund, of the water and energy acquisition commitments of State-owned water and energy distributors with local companies (including foreign capital companies) even when these commitments are backed by the respective state, provided that the generation company collects for the availability of the plant or by means of take or pay agreements.





## **Working Group 2 - The Mediterranean region and the post-Kyoto agreements: current situation and outlooks**

The Kyoto Protocol represented the beginning of increased global awareness of the problem of climate change, establishing emission reduction targets for six greenhouse gases. To establish new reduction targets for greenhouse gases beyond 2012, many meetings (formal and informal) have been held and some progress has been made. All countries must contribute to the success of climate change mitigation and adaptation strategies, especially developing countries: Brazil, China, India, South Africa, the Mediterranean region, etc. It is a matter of achieving a fair burden sharing agreement to ensure an acceptable climate regime, which limits the emissions of developed countries and also increases the benefits of limiting emissions for developing countries.

Although much progress still needs to be made, it is interesting to reflect on the instruments that may facilitate this progress through an effective combination of policies to combat climate change.

Right from the start, the Mediterranean countries have participated actively in the agreements reached to date. The Cancun agreements represent a step forward towards the goal of fighting climate change and conserving biodiversity, ecosystems and the planet's resources, with progress in all areas: mitigation, financing (immediate and long-term), adaptation, technological development and reduction of emissions due to deforestation and improved forest management. After the Copenhagen Summit it was feared the agreements might break down or the multilateral system within the sphere of the United Nations might be dismantled, which could have left out the poorer, more vulnerable countries. However, faith in the process has been recovered and a practically unanimous consensus has been achieved, which is therefore binding on us all: A significant step towards a green economy and strengthening international environmental governance before the Conference of the Parties to be held in Durban (COP 17) and the Rio+20 Summit.

It is important to remember that, within the framework of Cancun (COP 16), Spain declared its commitment to reduce greenhouse gases by up to 30%, within a process in which the international community as a whole assumed significant emission reduction commitments. The Spanish Government has called for the EU to adopt this target, as this would lead to a much more sustainable model of consumption and production, as well as to a low-carbon economy, to guarantee the welfare of the world's population and also generate new opportunities for economic activity in these times of global crisis.

The Cancun agreements contain the tools necessary for commencement of implementation, and for achieving the goal of limiting the increase in the average global temperature to below 2°C, which has been recognised as the environmental target established by international actions



and negotiations. Agreements are also included in the two negotiation processes: long-term cooperation and the Kyoto Protocol, leaving the possibility of a second period of commitment of this Protocol open.

The fight against climate change is a global challenge in which we all play an important role: national, regional and local governments, and civil society. General public awareness can be a major player in a swift of production-consumption mode. We should not forget that the Mediterranean region is particularly vulnerable to climate change and its effects and our mitigation and adaptation efforts in this area must therefore be great. Adaptation, as the poorer countries claim, has become particularly relevant. An adaptation committee has been established which, among other things, will provide technical support, prepare recommendations, promote the exchange of knowhow and experience and further existing synergies. This can be of great help to the Mediterranean region. We should not forget, for example, the effects of climate change on hydric resources.

Another priority issue has to do with the forestry sector and a mechanism has therefore been established for the reduction of emissions by avoiding deforestation and degradation of forests in developing countries.

Despite the global crisis, funds have already begun to be mobilised, both those corresponding to immediate financing (2010 and 2012) and long-term financing (\$100.000 M/a year mobilised by developed countries) and the establishment of the Green Climate Fund. But it is clear that it has become necessary to improve these financing mechanisms, through public and private sources, in order to achieve a fair, supportive transition which promotes the start-up of policies and actions against climate change in developing countries.

This is a necessary transformation which, in addition to economic developments, raises technological challenges. Work is therefore being carried out on improving the development and transfer of clean technologies in both climate change mitigation and adaptation. Without a doubt, this can contribute significantly to a change in the model of development of the Mediterranean area, for example, with a great wealth of renewable energy resources based on a low-carbon economy. Energy efficiency is the other main interest in the region, both on consumer and producer sides. Some best practices could include: regulation, demand side management, public model, and raising awareness. New opportunities may be furthered, which will generate economic and social growth while protecting the environment. The so-called diffuse sector, especially building and transport, is one of the main greenhouse gases emitters. So, more efforts shall go in that direction. Sustainable biofuels (second generation), electric vehicles, and the promotion of public transport have been identified as areas of cooperation.

We should not forget the importance that international market mechanisms have had and will continue to have. These mechanisms, defined within the context of the Kyoto Protocol, consist

---

mainly of CO<sub>2</sub> emission rights markets and project-based mechanisms. Clean Development Mechanism (CDM) has also played an important role in the mobilisation of low-carbon investments in the Mediterranean region, helping, for example, to encourage the use of renewable energies, energy efficiency and in creating an institutional network. Some improvements proposals in this sense could include:

- Achieving a higher participation (in volume of registered CERs) of renewable energies and energy efficiency projects in the CDM.
- Simplifying and facilitating the processes: reducing bureaucracy, timing, etc.
- Reaching the commitment of all the parties involved to guarantee security of investment and post 2012 continuity of the system.
- Increasing sectorial approaches and programmatic CDM which can play a significant role.
- Raising the participation of other countries, in particular least developed ones. China has already been the main beneficiary of CDM revenues so far.

We should not forget that the Durban summit may consider the creation of new market instruments. In this sense, it was suggested that CO<sub>2</sub> taxes could help reducing emissions while guaranteeing the competitiveness of the industry.

Within this context, the start-up of the projects promoted by the Union for the Mediterranean and in particular the Mediterranean Solar Plan (MSP), will contribute greatly to climate change mitigation and adaptation and to achieving environmental and sustainable development objectives. The CDM and other instruments defined within the framework of the United Nations (NAMAs for instance) may be the boost required for the development of the MSP and UfM projects. In that sense, infrastructures and cooperation among Northern-Southern Europe and Northern Africa will play a significant role. However, as there is no real internal European energy market, more efforts are required in both sides of the Mediterranean in order to strengthen this cooperation as well as to increase the share of renewable in the energy mix of the region.

The global crisis, the increase in food and energy prices and the institutional evolution, especially in some Mediterranean and Middle East countries, have created a new context for international politics. The involvement and commitment of all countries and all players is therefore increasingly necessary, more so in the Mediterranean region, even in the absence of an international binding agreement, reaching greater consensus and seeking effective tools and agreements in order to move towards a low-carbon, sustainable economy, strengthening international environmental governance.



**Working Group 3 –  
Interconnection Infrastructures: South-South and South-North**

**INTRODUCTION**

Undoubtedly, the integrated energy and climate policy of the European Union and its commitments for the year 2020 have a significant influence throughout the Mediterranean region. This influence is particularly relevant in relation to energy interconnection infrastructures.

Southern and Eastern Mediterranean countries offer enormous potential for the production of electricity from renewable energy sources, mainly solar (thermal and photovoltaic) and wind power. This renewable production should contribute to satisfy the anticipated increase in electricity demand in these countries over the coming years.

Renewable energies are also expected to boost economies and improve the living standards in the most disadvantaged Mediterranean countries. Foreign investment in renewable technologies, local industrial development, and the transfer of related technology and knowledge will certainly have a favourable impact on employment, education, and, in the short term, on the living standards of these countries. Furthermore, the possible export of this energy to Europe would not only accentuate these effects, but would also have a cohesive impact and reinforce the bonds among Mediterranean countries.

In this context, there are several initiatives which aim to create the conditions for developing the renewable energy potential of Southeast Europe and to make the export of this energy a reality. Because of the political backing that it enjoys and its institutional nature, one of the most important of these initiatives is the Mediterranean Solar Plan, a priority project of the Union for the Mediterranean (UfM). There are another two industrial platforms with similar objectives: Dii (Desertec Industrial Initiative) and Medgrid.

The success of these initiatives will hinge on two essential issues: facing the most important, and still pending, technological challenges; and developing a solid and efficient regulatory framework that promotes the necessary investments in new plants and in grid infrastructures always guaranteeing the quality of supply.

**THE TECHNOLOGICAL CHALLENGES**

In respect of technological challenges, it is necessary to analyse the level of maturity of the technologies for producing electricity from renewable energies. This involves two objectives: these technologies should be competitive without consumers having to bear excessive surplus costs;



and also enhancing the capabilities for managing these technologies, even to the extent of being able to participate in the ancillary services of the electricity system.

Moreover, it is necessary to consider the necessity of installing traditional thermal technologies since renewable generation, due to its variability and unpredictability, requires the use of flexible power generation and fast start up technologies in order to guarantee security of supply. The latest developments regarding gas storage increases the flexibility of the system. This feature can complement the variability of renewable energy sources.

In this sense, combined cycle plants are being outlined as the technology which best can contribute to the integration of renewable energy because of its maturity, installed base and cost. This last component, the cost, one of the most important factors in the current economic context, situates combined cycle plants as the main solution over more expensive ones that require a biggest investment and development for its implementation.

It will also be necessary to come up with solutions for addressing the shortage of water in many North African regions since certain types of plants, such as thermosolar, require water in order to function.

Undoubtedly, long-distance electricity transmission will be the field where the implementation of these initiatives will be essential. Energy transmission will have to be made with acceptable losses. It should be borne in mind that these initiatives contemplate energy transmission not only to a peripheral point in the European Union, but also to major EU consumer hubs. For the 2020-2050 period, the plans are having a group of Electricity Highways or Supergrids that will make it possible to put these initiatives into practice. These large electric corridors will enable the coordinated integration of Mediterranean basin renewable energy surplus, storage facilities in Nordic and Central European countries, wind power from the North Sea, major demand centres and current grids. This trans-continental scheme will make it possible to take advantage of the energy complementarities of the different regions in such a way that all will benefit. Moreover, using high-voltage direct current (HVDC) and flexible transmission systems (FACTS) will enhance the reliability of these Supergrids and should provide greater flexibility of the interconnected systems and more secure supplies for all users.

## **THE FINANCIAL ASPECTS**

A stable retribution framework which would allow the recovering of the investment cost will be most suitable for the development of the aforementioned infrastructures. It will be necessary to set the appropriate tariffs and to create a common investment facility funded by the infrastructure beneficiaries that would facilitate the recovery of the investment cost during its lifetime.

---

Additionally, the EU and international finance institutions (EIB, WB, etc.) could bolster their financing. In this sense, new financial instruments could be designed, providing that a proper legal framework is established.

## **REGULATORY IMPLICATIONS**

It can be asserted that, to a large extent, the success of the regulatory framework will depend on the coordinated development of the corresponding regulatory mechanisms. All the countries involved must harmonise essential criteria. In addition, and given the greater technological resources and knowledge of the Northern bank of the basin, it would be desirable for the European Union to adopt a leadership role in this process.

Community legislation already contemplates certain instruments that, when developed, will contribute to making the Euro-Mediterranean energy initiatives a reality. In fact, Section 9 of Directive 2009/28/EC on the promotion of Electricity from Renewable Energy Sources allows Member States to account energy generated in joint projects with third countries in their renewable energy commitments. In the future, the development of this and other mechanisms to incentivise agents to make investments in new renewable generation capacity (preferred access rights, mandatory purchase of energy, premiums, purchase prices, aids for investment, etc.) will be key. The use of mechanisms for promoting cooperation within the framework of relations between the European Union and Southern Mediterranean Countries could be another tool worth considering.

As to transmission infrastructures, from the regulatory standpoint, the Mediterranean energy integration process should contemplate at least the following issues:

*- Incentives for the efficient development of transmission infrastructures*

It is necessary to implement measures to incentivise the efficient development of the transmission infrastructures required for integrating renewable energies in the Southern and Eastern Mediterranean regions, ensuring the security of the system at all times, is essential. In this context, electricity interconnections will be essential for this integration. Also, the development of gas interconnections along with the development of new underground storage are another very important elements, since they contribute to guarantying the European objectives of security of supply and competitiveness, promoting also a unique market.

Interconnections between South Mediterranean countries (South-South interconnections), currently very weak, are necessary to offset, safely and efficiently, the variability of their renewable resources. In addition, the interconnections between both banks of the Mediterranean (North-South interconnections) are essential for exporting part of this energy to Europe. Lastly, electricity and gas interconnections between European countries (North-North



interconnections) are also necessary since, as mentioned previously, energy from South Mediterranean cannot remain at the European borders, but must contribute to satisfying energy demand in the major consumption hubs of the old continent. Regarding this subject, the development of a new gas high capacity interconnection between Spain and France (Midcat) would help diversify the European supply sources with gas coming from Africa, and increasing security of supply.

Additionally, reinforcing national transmission grids must not be overlooked. It would be meaningless to reinforce international interconnections if bottlenecks exist in the national grids of interconnected countries. This applies to Northern, Southern and Eastern Mediterranean.

*- Free access to the grid*

Agents' unrestricted access to the grid, in conditions of transparency, objectivity, and non-discrimination, to promote competition and efficiency among the interested agents, is essential for the successful culmination of this process.

*- Efficient allocation of transmission infrastructure costs*

Costs related to prior mechanisms and policies, including infrastructure costs, must be allocated efficiently in order to ensure the least possible distortions in the performance of energy sector agents. The efficiency of this cost allocation should be based on the basic principle that these costs should be borne by those who actually benefit from these infrastructure, regardless of the infrastructure's location. Users from transit countries should bear the costs of the infrastructure only to the extent that they actually use it.

*- Harmonisation of technical requisites*

The interconnection of a large number of countries and, accordingly, the larger size of the interconnected system, makes it advisable to harmonise the technical requisites for ensuring the security of the system. Increased interconnection also implies greater interdependency and, as such, the possibility of mutual collaboration in emergency situations. This cooperation also requires regulatory adjustments and harmonising the criteria of the different Mediterranean countries.



## Working Group 4 – Main INDUSTRIAL INITIATIVES IN THE MEDITERRANEAN

### THE NEED TO EXTEND THE BENEFITS TO BOTH SHORES

- The objective of this Working Group has been to discuss the existing initiatives for building an integrated Euro-Mediterranean energy system between both rims and based on renewable energy sources.
- To achieve this, all players involved (the EU, Member States, the Mediterranean Partnership Countries and, of course, the energy industry) must overcome several complex barriers, though not insurmountable if all agents aim in the same direction.
- The major industrial and institutional projects to be undertaken must be of great benefit for both shores of the Mediterranean.
- The severe effects of the European economic situation, institutional changes, and changing scenarios affecting several Southern Mediterranean countries should not overshadow the importance of initiatives such as the Mediterranean Solar Plan, Desertec and, in general, projects for implementing renewable energies in the Southern shore. The extension of transmission lines and interconnections in the Northern shore should not be overly affected.

### THE FOUNDATIONS REMAIN UNCHANGED

- Environmental issues have continued to be determinant factors in EU policies, and this impact has become more pronounced since the climate change phenomenon was confirmed and after the approval of the Kyoto Protocol in 1997. This fact, in addition to the increase of the energy consumption and the depletion of domestic sources of oil and gas supplies from the North Sea, explains the European Union's interest in developing renewable energies.
- In 1997 the Commission published the White Paper on "Energy for the Future", setting the goal of doubling the share of renewable energy in the EU from 6% in 1997 to 12% by 2010. The targets for renewables were bolstered in 2001 and 2003 by the 2001/77/EC directive for promoting the generation of electric power based on renewables and 2003/30/EC directive on biofuels, defining the 20-20-20 commitment in 2008 as detailed in the *European Energy and Climate Package*.
- The 2009/28/EC Directive marks yet another step for the promotion of renewable energies. Not only it demands from each country a quantified breakdown of energy consumption and transmission objectives but also the specific plans and measures for their achievement. One of the most significant innovations in this Directive is that it allows the import of energy from renewable sources generated in third countries. This Directive will



enable the design of a new energy supply system for the EU where renewable energies could play a greater role in the energy mix, using the vast potential of renewable energies from North Africa and the Middle East.

- Since the launch of the Barcelona process in 1995, the European Union has been paying special attention to Euro-Mediterranean relations, although those involving energy have been mainly at a bilateral level. In 2008, the relaunching of Euro-Mediterranean relations thanks to the Union for the Mediterranean brought about a fundamental change in this trend. One of the six “specific structuring” projects chosen for implementation was the promotion of a renewable energies plan that would make it possible to supply clean energy to both shores of the Mediterranean: the Mediterranean Solar Plan. The Desertec initiative coincides with many of the goals envisaged in the Plan.

- For the South shore, renewable energies would contribute to diversify their energy mix, highly dependent on oil and gas and subject to market volatility, by improving the security of energy supply. At the same time, the promotion of renewable energies would make a significant contribution to the improvement and preservation of the environment in these countries where deforestation caused by the use of firewood is one of the main problems. Renewable energies also have the potential for addressing the shortage of energy in rural areas of developing countries. The use of these clean energy sources would become a driving force for industrial development, boosting growth and the technological development of this region.

#### **WIN-WIN: DOUBLE DIVIDEND**

- Although everyone has for some time agreed on the complementary elements that exist between Mediterranean countries and the need for cooperation between these, this cooperation is not working as it should. Significant political initiatives such as the Barcelona Process and the Union for the Mediterranean have given rise to extensive debate but have had few tangible results in the form of projects.

- Perhaps the reason for the differences between the good intentions and effective action is the lack of real involvement of the energy industry in the first stages of these initiatives. The policy makers have a clear responsibility to construct the playing field: international agreements to guarantee the security of people and the flow of goods and capital, as well as to achieve the transparency and stability of the regulatory frameworks. But once the scenario is secure and clear, it is the turn of the industry and companies to seek or take advantage of business opportunities, carrying out profitable investments and establishing collaboration agreements that lead to lasting cooperation.

- Successful initiatives are not those “imposed” by one of the parties but rather those created jointly, totally shared and which respond to common expectations. To achieve this,

---

it is necessary to define the distribution of profit and costs between the North and South rims of the Mediterranean since the support from the South shore for initiatives of this type and importance would depend on the profits expected and perceived.

- The Barcelona Process and then the Union for the Mediterranean have striven to create a “common peace and prosperity zone in the Mediterranean”. Cooperation in renewable energies and, particularly, in the Mediterranean Solar Plan launched by the Union for the Mediterranean, represents a unique opportunity for reinforcing Euro-Mediterranean bonds through a tangible and major initiative.
- Therefore, it is essential to develop a win-win strategy that benefits both shores.
  - In Europe, investment in renewables in the Southern rim will allow Europe to bolster its global leadership positioning in renewable energies that make a decisive contribution to two of three pillars of European energy policy: sustainability and energy security.
  - For the South and East shores of the Mediterranean, renewable energies should also become a vector for regional growth, which would ensure the support of the countries in this region.
  - In any case, we can understand the industrial initiatives only as instruments of cooperation. Companies need profitability in their investments while recipient countries need specific economic benefits, besides the social and environmental ones.

## **DETERMINANT FACTORS FOR INDUSTRIAL INITIATIVES**

- It is necessary to make progress on the physical interconnection of European energy systems with those of the South and East Mediterranean. The only electrical power connection currently in operation between both shores is the Spanish-Morocco connection. The insufficiency of the Spain-France interconnection, however, creates an insurmountable bottleneck for bringing electricity to major European consumption hubs. Therefore, it is necessary not only to have a vertical interconnection (North-South) but also to reinforce horizontal interconnections (North-North and South-South) to eliminate bottlenecks. Additionally, it would be necessary to strengthen and improve national electricity grids in South and East Mediterranean countries.
- Physical interconnection requires the construction of long and costly transmission infrastructures, as well as those for renewable energy production, mainly solar and wind power. Accordingly, funding requirements are very high. Considering the financial restrictions resulting from the economic crisis and sovereign debt, it would be necessary to implement multilateral finance arrangements with the participation of private companies and public entities, including the EU, Member states, the Mediterranean Partnership Countries, as well as multilateral finance organizations such as the World Bank or the European Investment Bank.



- Securing major long-term and profitable investments would be possible only in a favourable economic and institutional scenario. At present, and because of the sovereign debt crisis, the country-risk analysis has intensified when making investments and securing funding. Political stability, legal security, and institutional quality are country risk components that must be taken into account.
  - When making long-term investments, it is necessary to have political consensus on their necessity and viability, otherwise political changes can lead to a standstill in infrastructures in progress or before the amortization periods have expired, and this would lead to either the loss of costs already incurred or would make it impossible to recover investments already made.
  - Complying with agreements and the terms and conditions contemplated therein is necessary so that companies can plan ahead and make investments in an efficient manner. Changing the rules of the game provokes distortions in companies' planning and reduces the yield on investment to such a degree that it could lead to negative returns and to the investment being cancelled. One of the outcomes of failing to comply with this principle is the loss of credibility of the Government and the country lacking legal security.
  - Regulations and a predictable institutional framework are as important as technical aspects. One of the possible options would be for South shore countries to adopt the community acquis on energy, although some adaptations may be required in order to take into account the specific issues affecting these countries in comparison with the EU. In any case, this is not a question of imposing one or another option, but rather for all parties to cooperate and negotiate within the context of a fair institutional framework.
  - It is not necessary to create additional instruments for cooperation but rather to support the existing instruments which, for a long time, have contributed to mutual understanding in the region integrating, on an equal level, representatives of all Mediterranean countries. However, it is necessary to support particularly the institutions which can act as intermediaries between the political institutions and the business world and other equally important institutions representing more specific interests. A clear understanding of the various roles of the authorities, the intermediation institutions and businesses and entrepreneurs would, without doubt, further this cooperation.
  - The implementation of a tariff policy and subsidies for renewable energies are among the critical aspects of the regulatory framework of this initiative. The Commission considers the Feed-in Tariffs systems as the most efficient and it would seem logical that it would resort to these.
  - Nevertheless, subsidies for the use of conventional energy sources is an obstacle for the development of renewables in the South shore of the Mediterranean and, accordingly, it would
-

be desirable to establish a timetable for discussing this issue based on the recommendations of the International Energy Agency and other international forums.

## **INDUSTRIAL INITIATIVES AS GROWTH DRIVERS IN THE SOUTH**

- Collaboration requires specific “levers” and “engines”. Just as coal and steel were the initial engine of growth for the European domestic market, today energy can be the detonator for the Mediterranean domestic market. Energy lies at the heart of economic growth, and it offers an abundance of complementary elements and many possibilities for an effective South-North partnership, as well as South-South.
- The current difficult situation, the great financial crisis on the North shore of the Mediterranean and the socio-political discontent of the South shore show that energy must continue to flow, regardless of the situation in each country, the energy industry must remain operative and connected.
- Also, renewable energies provide us with additional reasons to work together, exchanging information and creating employment by providing socially profitable financial investments.
- In order to achieve that the integration of the energy systems of both shores significantly becomes a regional growth driver, it needs to contribute to at least, the following five main aspects:
  1. Generate part of the energy required for the economic growth of Mediterranean Partnership Countries.
  2. Provide the modern energy services required for economic development.
  3. Fight against energy scarcity.
  4. Pursue comparative advantages in the region in terms of its own resources, solar and wind, to create new economic activities that generate jobs and income.
  5. Make a significant effort in training, technical cooperation, and technological cooperation.
- To achieve this, it is necessary to adopt permanent measures so that part of the added value of the renewable energy industry is relocated in the Southern region, creating qualified jobs in all implementation phases and subsequent exploitation of the project.

This also requires the transfer of technology and cooperation in education as necessary requisites so that the Mediterranean Solar Plan and other initiatives can become a real Euro-Mediterranean Partnership.

- It is time for realities. We have to materialize industrial investment into generation and transportation infrastructures, with the security that these actions will become growth and welfare levers.