

FEMIP:

Financing in Algeria, Egypt, Gaza/West Bank, Israel, Jordan, Lebanon, Morocco, Syria, Tunisia and Turkey

Facility for Euro-Mediterranean Investment and Partnership • Facility for Euro-Mediterranean Investment and Partnership



How to face the energy challenge in the Mediterranean

At a time when global energy demand is becoming more and more pressing and fossil fuel prices appear to be rising relentlessly, the southern and eastern Mediterranean countries are experiencing a considerable energy squeeze, which is set to intensify over the coming years.

In 2025, the rate of energy demand growth in these countries will be four times as high as in the European States¹. This increase is the result of many factors, including economic development and the needs of a rapidly growing population (16 million of those living in the Mediterranean region still have no access to electricity).

In line with the broad policy of the European Union (EU), FEMIP assists the Mediterranean partner countries² in their efforts to meet the energy challenges facing the region by focusing on three main areas of activity.

¹ See "A Sustainable Future for the Mediterranean, the Blue Plan's Environment and Development Outlook", edited by Guillaume Benoit and Aline Comeau, Earthscan/James & James, November 2005.

² Algeria, Egypt, Gaza/West Bank, Israel, Jordan, Lebanon, Morocco, Syria, Tunisia and Turkey.

A pivotal role for energy

Since the launch of the Barcelona Process in 1995, "the pivotal role of the energy sector in the economic Euro-Mediterranean partnership" has been acknowledged, together with the need to "strengthen cooperation and intensify dialogue in the field of energy policies" and to "create the appropriate framework conditions for investments and the activities of energy companies, cooperating in creating the conditions enabling such companies to extend energy networks and promote link-ups".

In this context, the Euro-Mediterranean Partnership has set itself the objective of ensuring secure electricity supplies, a competitive energy industry and improved energy efficiency, while maintaining environmentally sound conditions. This policy is therefore aimed at striking a balance between sustainable development, competitiveness and security of supply, as recommended by the EU's Green Paper on Energy, published in March 2006, which attaches increased importance to the external dimension of the Union's energy policy.

The three focal points of FEMIP activity:

• **1. Ensuring access to energy sources for inhabitants of the partner countries at affordable prices**

Only by establishing open and competitive energy markets can prices be lowered, the security of supply improved and competitiveness increased. It is therefore essential to:

- 1 press ahead with reforms in the partner countries aimed at liberalising the electricity and gas sectors and splitting up the energy companies;
- 2 introduce a tariff structure based on cost recovery in order to be able to guarantee the financial viability of energy companies;
- 3 ensure that capital projects in the energy sector are bankable – a prerequisite for their success.

Action by FEMIP

- > FEMIP finances the construction and upgrading of national and regional energy infrastructure. It also provides support in the form of technical assistance for the preparation, management and monitoring of projects.
- > Within that framework, FEMIP is anxious to encourage the participation of the private sector. Almost 40% of energy projects signed between 2002 and 2005 were based on private sector participation.



• **2. Supporting the creation of a pan-European Energy Community**

The establishment of a “common regulatory area” in Europe is based on the gradual formulation of common trade, transit and environmental rules as well as market harmonisation and integration. In this way, it is possible to create a predictable and transparent market that is attractive to investors and will encourage security of supply for the EU and the partner countries. It is therefore necessary to:

- 1 develop new routes for transporting energy;
- 2 improve integration of the Euro-Mediterranean energy markets, which implies integrating the Mediterranean internal market and connecting it to the European markets;
- 3 strengthen regional cooperation between companies, regulatory bodies, public authorities and financial institutions. Useful lessons could probably be learned from the establishment of the South-East Europe Energy Community in October 2005.

Action by FEMIP

- > FEMIP makes a significant contribution by promoting regional energy networks both through long-term financing and feasibility studies, and also by means of its technical assistance component.
- > In addition, FEMIP contributes to the Euro-Mediterranean dialogue on energy via its Ministerial Committee and Committee of Experts.

• 3. Encouraging the use of renewable energy and energy efficiency

While energy growth is rapidly expanding in the southern and eastern Mediterranean countries, there is a great temptation to consider the issue of sustainable development as less urgent than other matters. However, on the contrary, the important thing is to look ahead, the aim being to learn from how European countries have developed and to avoid unnecessary costs for the Mediterranean partner countries. There are three ways of promoting more sustainable energy development:

- 1 by stimulating investment in projects based on renewable forms of energy or that reduce emissions of greenhouse gases, particularly those that come under the Clean Development Mechanism (CDM) as defined by the Kyoto Protocol³;
- 2 by encouraging energy efficiency and thus more economical and rational use of energy;
- 3 by slowing down energy demand growth in the partner countries.

³ The Clean Development Mechanism is based on the implementation of projects that enable public or private sector entities in industrialised countries to invest in greenhouse gas-mitigating activities in developing countries and earn abatement credits in return.

Action by FEMIP

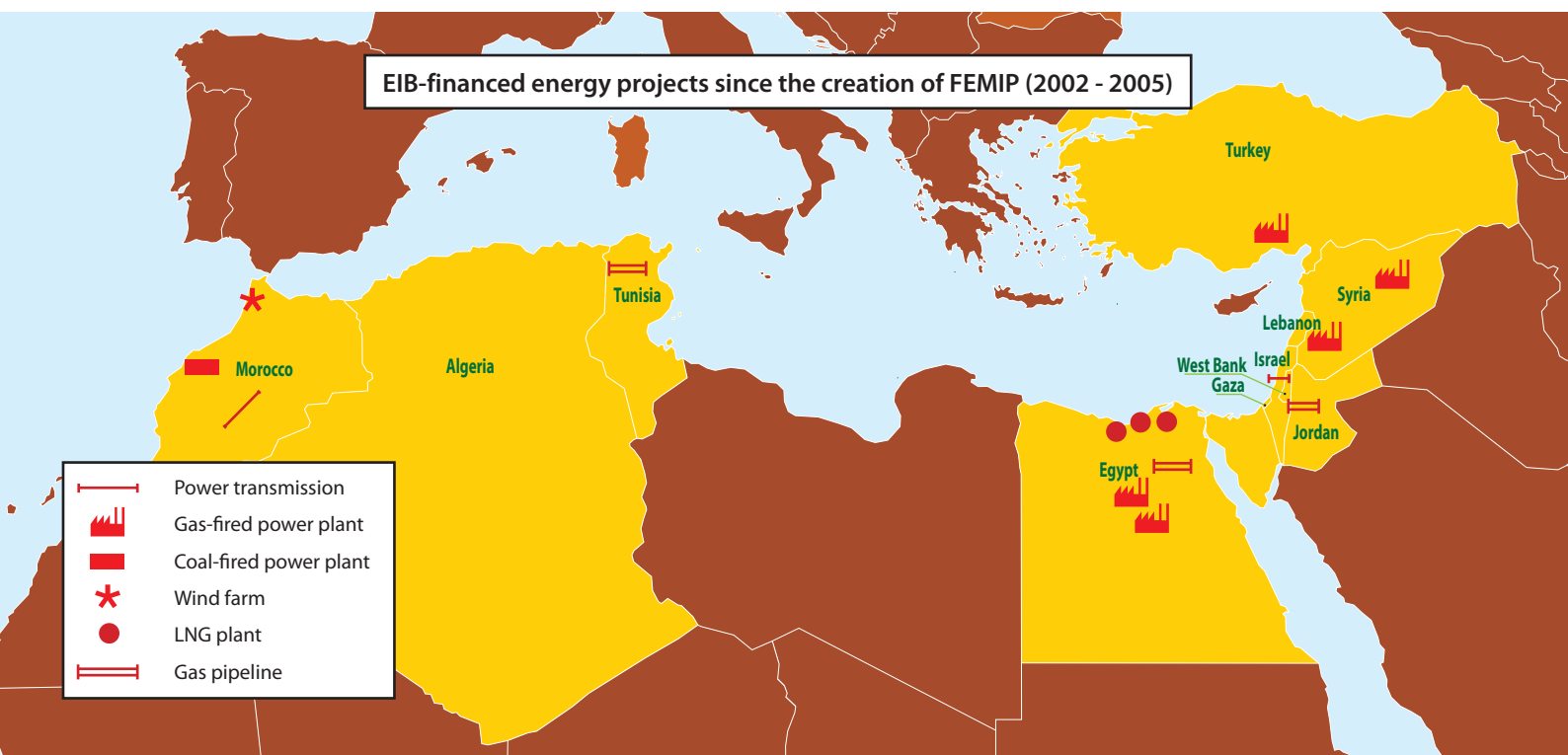
- > FEMIP is continuing to increase its support for renewable energy and Clean Development Mechanism projects by providing financial assistance and conducting studies to identify projects eligible for the CDM.

Energy – a priority area for FEMIP

The energy sector, which accounts for nearly 30% of FEMIP's lending, is, together with transport, a priority area for FEMIP in the field of infrastructure.

Since 2002, FEMIP has signed 15 loans for energy projects in the Mediterranean partner countries, totalling more than EUR 1.8 billion.

These projects, located mainly in the partner countries of the Near East and the Maghreb, concerned both electricity and natural gas (production, transport and distribution).



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Extending the Euro-Mediterranean dialogue on energy

On 20 and 21 March 2006 some 100 senior representatives of the EU Member States and the Mediterranean partner countries came together in Vienna at the fourth meeting of the FEMIP Committee of Experts. Issues on the agenda included the Mediterranean energy markets, renewable energy and energy efficiency.

The participants agreed on the need to press ahead with reform of the energy sector in the Mediterranean countries, in keeping with the most recent EU directives. The importance of liberalising the electricity and gas sectors in order to increase energy efficiency and ensure supplies at an affordable price was underlined by many specialists.

At the close of the discussions the participants asked the Bank to continue, through FEMIP, to promote energy projects in the fields of electricity and natural gas by supporting those relating to energy link-ups and strengthening the domestic energy infrastructure. They also requested FEMIP to step up its support for renewable energy and CDM projects.



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