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CMI Mediterranean Forum on Energy and Climate Change Insights # 3



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The purpose of this bulletin is to inform members of the CMI Forum on Energy and Climate Change on the energy and climate policy developments in the region and on their implications for the creation of an integrated Euro-Mediterranean energy market. In particular, it reviews EU policy developments, and related legislative changes, that are relevant to Southern and Eastern Mediterranean Countries (SEMC). The cooperation mechanisms that are part of the CE4ALL Package are likely to change and become even more important to help the EU achieve carbon neutrality and the SEMC achieve their energy transition objectives.

While some countries are still in the second wave of the COVID-19 pandemic, there is light at the end of the tunnel and the attention is now turning on how to accelerate the recovery while “doing no

harm". Although it had dramatic effects on the health and well-being of populations, the COVID pandemic may be a source of opportunities, as many countries are adopting green stimulus packages. Recovery plans need to be aligned with energy and sustainable development objectives, and it is essential that they focus on clean energy transitions if a rebound in CO2 emissions is to be avoided. Collaboration in designing green recovery plans may be an opportunity to rethink relationships across the Mediterranean, fostering stability and prosperity all over the region.

The European Council reaches an agreement with Parliament on Recovery Package and the European Commission provides guidance on implementation

Following the Commission proposal in May for a COVID recovery package, including the Next Generation EU fund, the Council reached an agreement, on 11 November 2020, with Parliament for a budget of €1.82 trillion. The Package now needs to be endorsed by parliaments in each Member State (MS) and by the members of the European Parliament.

In September, the Commission had set out strategic guidance for the implementation of the Recovery and Resilience Facility (RFF), which is the key recovery instrument of the € 750 billion Next Generation EU. In order to benefit from the RFF, MS should submit recovery and resilience plans outlining how they plan to use the funds to enhance economic growth, job creation and social resilience, while meeting the green and digital transition objectives. Every MS must ensure that at least 37% of the national recovery plan is devoted to the green transition, while the remainder should do "no significant harm" to the green transition. The National Energy and Climate Plans (NECP) act as eligibility criteria to qualify for RFF funding. The national recovery plans have to be submitted, using a template provided by the EC, by 30 April 2021, but MS were encouraged to submit preliminary drafts by 15 October 2020.

The European Council endorses a tightening of the 2030 greenhouse gas emission target

As part of the State of the Union 2020, issued in September, the Commission has proposed an amendment to the Climate Law to include the target of 55% reduction in GHG emissions compared to 1990, as a stepping stone toward climate neutrality in 2050. The Impact Assessment issued with the 2030 Climate Target Plan indicates that coal use is projected to decline by 70% in 2030 compared to 2015 and that renewable would then make-up 60% of power generation. Increased efforts to phase out fossil fuel subsidies are essential to reach the climate target.

After a night of marathon talks, the European Council endorsed, on 11 December 2020, a binding EU target of 55% in GHG emissions in 2030 compared to 1990. EU leaders also stressed the importance of mobilizing public finance and private capital, and recalled the target of at least 30% of expenditure from the Multiannual Financial Framework (MFF) and Next Generation EU (NGEU) being directed to climate action. The European Council invited the Commission to put forward a legislative proposal for an EU green bond standard by June 2021.

The European Council conclusions also emphasize the need for enhanced regional cooperation and cross-border projects to deliver collectively on this GHG EU target in the most cost-effective manner possible. Such cooperation can be achieved by different forms of voluntary cross-border opening of national renewable energy support schemes, for example joint tenders and joint support schemes. Cross-border projects can be facilitated by the new Union Renewable Energy Financing Mechanism in line with the provisions of the Governance Regulation.

As part of the State of the Energy Union, the Commission has published an assessment of each of the NECP

On 14 October, the Commission has issued the 2020 State of the Energy Union Report, together with seven accompanying documents: Annex on Energy Subsidies, Annex on the Internal Energy Market, Progress Reports on Renewable Energy Sources, Progress Report on Energy Efficiency, Progress Report on Clean Energy Competitiveness, Report on Energy Prices and Costs and Assessment of individual NECPs.

The analysis of the NECPS indicates that the EU is on track for reaching its renewable energy target for 2020 and that, under current plans, the current 32% target for 2030 would be exceeded. Three MS have however been identified at risk of not meeting their 2020 targets: Belgium, France and Poland. As indicated above, the NECPs form the basis for the climate and energy aspects of the Recovery and Resilience Plans. The Commission provides country-specific guidance on how to strengthen the NECPs to reflect the new priorities of the EU Green Deal and recommendations on potential use of the RRF funds.

Given the importance of phasing out fossil fuel subsidies, as clearly stated in the EU Green Deal, the Commission has prepared a comprehensive report on energy subsidies. Although support for clean energy make-up the dominant part of the total subsidy amount of € 159 billion, fossil fuel subsidies have started to increase again in 2015, after declining between 2012 and 2015. In France, Belgium, Poland, Greece, Ireland and Finland, the highest shares of energy subsidies to GDP were primarily destined to fossil fuels. Many countries continue to fail to report on energy subsidies in their NECPs as required in the Governance Directive. Only a few presented comprehensive plans on phasing out subsidies. Some countries are even considering new subsidies to support coal regions in transition.

The Commission has issued the rules for the new EU Renewable Energy Finance Mechanism and started work on revising the Clean Energy Package legislation

After a period of public consultation, the European Commission has published the rules of the EU Renewable Energy Financing Mechanism¹, which was foreseen as part of the “Clean Energy for All Europeans” (CE4ALL) Package (Article 33 of the EU Governance Regulation). The main objective of the mechanism is to facilitate cooperation between Member States to achieve cost-effectively national and EU-wide targets. It enables those countries with limited capacity to produce renewable energy to contribute to the development of projects in those countries with abundant renewable energy sources. The host country gains the local investment benefits of developing projects on its territory and the funding country benefits from counting its contributions towards its own renewable energy targets. The new mechanism enables EU Member States to pay voluntary financial contributions into a central scheme for application towards the development of renewable energy projects in other EU Member States or eligible third countries (in line with the requirements of Article 11 of the Renewable Directive 2018/2001). The pooled financial contributions are allocated to projects under a system of competitive tenders managed by the European Commission.

The EU Green Deal communication has identified a series of climate and energy legislation that needs to be revised in order to achieve the more ambitious GHG reduction targets for 2030. The Energy Efficiency and the Renewable Energy Directives (both part of the CE4ALL Package) are due for revision by June 2021. The process has started with publication of roadmaps and inception impact assessments, which have been open to public consultation. When revising the CE4ALL Package, the Commission will also take into consideration feedback received on the 2030 Climate Target Plan, the Hydrogen Strategy and the Energy System Integration.

¹ COMMISSION IMPLEMENTING REGULATION (EU) 2020/1294 of 15 September 2020 on the Union renewable energy financing mechanism <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32020R1294&from=EN>

The European Commission has proposed revisions to the TEN-E regulation

After a period of consultation (see Insights Issue # 2), the European Commission has adopted, on 15 December, a proposal to revise the rules on Trans-European Networks for Energy (the TEN-E Regulation) to better support the modernization of Europe's cross-border energy infrastructure and achieve the objectives of the EU Green Deal. The new TEN-E Regulation will contribute to the EU emissions reduction objectives by promoting integration of renewables and new clean energy technologies into the energy system. It will help to connect regions currently isolated from European energy markets, strengthen existing cross-border interconnections and promote cooperation with partner countries.

In particular, it contains new provisions on support **for projects connecting the EU with third countries** (Projects of Mutual Interest or PMIs) that demonstrate their mutual benefit and contribution to the Union's overall energy and climate objectives in terms of security of supply and decarbonization. The proposal also includes a revision of the infrastructure categories eligible for support through the TEN-E policy, with oil and natural gas infrastructure no longer being supported. Meanwhile, new focus is put on offshore electricity grids as well as hydrogen infrastructure.

Spain has adopted a national hydrogen strategy

Spain is the latest EU country to have approved a national hydrogen strategy and joins Morocco and France as Mediterranean countries that believe in hydrogen as a key solution to decarbonization. Spain's assets to be a key player include its vast renewable energy potential and its well-developed gas storage and transport infrastructure. Plans are to replace grey hydrogen in the domestic market and to also serve export markets. By 2030, Spain targets installing 4 gigawatts-worth of electrolyzers needed to split water into hydrogen and oxygen, which is one tenth of the EU's target.

Guarantees of origin are an essential instrument to guarantee that the hydrogen traded is "green". The EU legislative package in preparation to implement the new objectives under the Green deal will have to include a certification scheme for hydrogen².

New cooperation initiatives in the Mediterranean provide an impetus for a COVID green recovery

The COVID 19 pandemic, despite all its adversity, offers a window of opportunity for "building back better"³. Green fiscal stimulus packages can provide an immediate boost to the economy while building the foundation for a long-term sustainable growth. Mediterranean countries can orient economic stimulus packages to make clean energy transitions part of the architecture of their economic recovery plans. The region's vast untapped renewables potential represents a major lever to ensure that the post-Covid-19 recovery unlocks the sustainable socio-economic benefits of a clean energy transition. A recent IEA report⁴ reviews opportunities in North African countries and offers recommendations on how countries can take advantage of the momentum from the crisis to build up a resilient, secure and clean energy sector that will help deliver a transformative economic recovery in a post-Covid-19 world.

However, transforming the energy system effectively and successfully requires collaboration and cooperation across the region. Facing the COVID shock may provide an opportunity to revitalize the Euro-Mediterranean dialogue around green recovery post-COVID. Several initiatives are being

² see for instance Florence School of Regulation, A proposal for a Regulatory Framework for Hydrogen Guarantees of Origin, by Andris Piebalgs and Christopher Jones

³ <https://blogs.worldbank.org/arabvoices/blueprint-green-recovery-covid-19-mena-countries>

⁴ Clean Energy Transitions in North Africa, International Energy Agency, September 2020

undertaken to strengthen the links that unite the Mediterranean. One of them is a resolution by the French Parliament to create a Mediterranean Renewable Energy Community (CEMER in French)⁵. The proposed CEMER, an initiative similar to the European Steel and Coal Community of the 1950s, is a partnership of West-Mediterranean countries to create the largest renewables energy research and production center in the world.

The forthcoming 6th African Union-European Union Summit, originally scheduled for October 2020, will also allow bringing together EU and African leaders to define the future direction for cooperation between the two continents post-covid, including on energy. The AU-EU partnership could be the opportunity to promote investments in renewable energy infrastructure, while issues related to the European Green Deal and how it may affect access to the European markets (carbon tax acting as a non-tariff barrier) will need to be discussed.

Other initiatives are bilateral, such as the recently-created Energy Partnership Committee between Spain and Morocco to promote cooperation on renewable energy, hydrogen, natural gas and electricity interconnections. Meanwhile, an MoU was signed on December 15th for the establishment of a Tunisian-German green hydrogen alliance, aiming to develop the green hydrogen market in Tunisia⁶. The agreement is expected to help Tunisia further reduce industrial greenhouse gas emissions, as well as to make a successful energy transition. The EU Green Deal and Recovery Plan refer to a tighter cooperation with the Mediterranean, to accelerate the development of resources necessary for decarbonization and ensure a just transition and recovery. A green agenda is at the heart of recent discussions with South-Eastern Europe.

Other initiatives target building a more inclusive and sustainable energy sector, including both governments, International Financial Institutions (IFI's) and the private sector. For instance, the European Bank for Reconstruction and Development (EBRD) recently provided Jordan's National Electric Power Company (NEPCO) with US\$ 100 million to help deal with working capital constraints. Additionally, with funding from the Swiss State Secretariat for Economic Affairs, the EBRD will support NEPCO in an apprenticeship program to promote career opportunities post-covid for women and the youth⁷.

The CMI Forum continues to monitor those initiatives and acts as a knowledge exchange platform to ensure coordination and avoid fragmentation of the Mediterranean energy dialogue. Moreover, the CMI launched a platform for the implementation of the Dialogue of the Two Shores process. The Dialogue of the two shores seeks to relaunch the dynamic of cooperation in the Mediterranean, by giving a central role to the projects of the civil society. The platform aims at nurturing links between project promoters (whose projects are in search of financing) and investors. Some of the projects under consideration as part of the Two Shore Dialogue are in the area of energy and sustainable development and will be monitored as part of the Forum.

The **CMI Mediterranean Forum on Energy and Climate Change** is a learning and discussion platform among countries, international organizations, regulators and electricity companies. Launched in 2015 by the Center for Mediterranean Integration, it aims to support the transition to a low-carbon economy in the Mediterranean by disseminating knowledge on how to successfully achieve low carbon growth in the Mediterranean and raising awareness on the benefits of Mediterranean energy market integration.

⁵ Assemblée National, Proposition de Résolution pour la création d'une communauté méditerranéenne des énergies renouvelables

⁶ <https://www.africanchallenges.com/tunisie-dialogue-tunisien-allemand-sur-le-power-to-x/>

⁷ <https://www.ebrd.com/news/2021/ebd-supports-secure-and-green-energy-in-jordan.html>

Program [page](#) // [Video](#) // [Briefing paper](#) on “Clean Energy for All Europeans” Package: Implications and Opportunities for the Mediterranean (English, French, Arabic)

The Center for Mediterranean Integration (CMI) is a multi-partner platform where development agencies, Governments, local authorities and civil society from around the Mediterranean convene in order to exchange knowledge, discuss public policies, and identify the solutions needed to address key challenges facing the Mediterranean region. Members of the CMI include Egypt, France, Greece, Italy, Jordan, Lebanon, Morocco, Palestinian Authority, Spain, Tunisia, Provence-Alpes-Côte d'Azur Region, City of Marseille, the European Investment Bank and the World Bank Group, and the European External Action Service (EEAS) as an observer.

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