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CMI Mediterranean Forum on Energy and Climate Change INSIGHTS #2 (June-July 2020)



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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.

Although the COVID-19 epidemic had dramatic consequences on the global economy, the health of the world population and the well-being and freedom of individuals, it had some unexpected beneficial effects. For instance, it is likely to trigger in 2020 the largest ever annual fall in CO₂ emissions, according to the International Energy Agency (IEA). Moreover, the IEA has formulated a Sustainable Recovery Plan that would make 2019 the definitive peak in CO₂ emissions, making it possible to achieve the long-term climate goals enshrined into the Paris Agreement.

The COVID-19 crisis has triggered some structural and behavioral trends that are favorable to decarbonization and may outlive the epidemic. For instance, it is possible that the forced “confinement” might lead to a paradigm shift in telecommuting that significantly limits reliance on automobiles for getting to and from work. The question now is how to structurally decouple economic growth from emissions, so that the economy can rebound without inducing an equivalent rebound in CO₂ emissions.

After an initial period of focus on saving lives and controlling the virus spread, attention is now turning to longer term recovery plans that seek to repair the economic damage caused by Covid-19, minimize job losses and help to create new jobs. Decisions made now will inevitably shape infrastructure and industries for decades. 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.

The massive stimulus packages that are announced around the world offer a unique opportunity to put the energy sector on a more sustainable path. The estimated \$10 trillion or more packages should be directed at low-carbon activities that will steer the economies onto a sustainable development path, rather than resurrecting carbon-intensive activities that have dwindled as a result of the COVID crisis, such as the coal sector.

The European Commission has proposed a Recovery Strategy that recognizes the need for flexibility within the EU and for supporting Neighborhood countries

The European Union is at the forefront of the green-recovery efforts, and a benchmark for many other countries, with the announcement on 27 May of a [“Repair and Prepare” initiative](#) endowed with a budget of €1.85 trillion to kick-start the economic recovery and increase resilience. The EU recovery effort is centered around the EU Green Deal, thereby enshrining the green transition as the main driver of economic recovery and as key to Europe’s future growth and prosperity. The European Commission proposal includes a new recovery instrument, Next Generation EU, with a budget of € 750 billion, to support, among other things, investment and reforms in Member States (MS) in particular as it relates to the green and digital transitions and the resilience of the national economies and a reinforced Multiannual Financial Framework of € 1.1 trillion. Next Generation EU includes a Recovery and Resilience Facility providing MS with loans and grants to support reforms. These reforms must be in line with the European Semester recommendations, as well as the National Energy and Climate Plans (NECP) and the Just Transition Plans, to make sure the reforms contribute to the green transition. The InvestEU sustainable infrastructure window and the ReactEU instrument support interconnections, renewable energy, energy efficiency and new green technologies.

In the post-COVID recovery package proposed by the Commission on 27 May 2020, the NECPs and European Semester act as eligibility criteria for national recovery plans to qualify for EU funding. This will ensure to boost the green transition and ensure a sustainable recovery. The objective is to align the short-term cash injection into the economy foreseen by this plan with the EU’s long-term climate objectives.

Part of the budget will be devoted to external action, including humanitarian aid and close cooperation with the EU's immediate neighbors, so they can benefit from the EU green and digital transition and learn from the EU experience. The Neighborhood, Development and International Cooperation Instrument (NDICI), the main instrument for EU cooperation and development with partner countries, will be increased to € 87 billion to support, via the External Action Guarantee and the European Fund for Sustainable Development, the Mediterranean partners among others (the Western Balkans and the South Neighborhood) in their efforts to recover from the impact of the COVID pandemic.

The European Council and the European Parliament will debate the EC proposal, with a view to obtaining European Council unanimity and European Parliament consent by the end of the summer. Adoption of the revised MFF and a decision to allow the European Commission to borrow by the end of 2020 requires European Council unanimity and ratification by Parliaments in each MS.

The European Commission has proposed a hydrogen strategy and has launched the European Clean Hydrogen Alliance

On 8 July, the European Commission issued a Communication to propose a [hydrogen strategy](#) for a climate-neutral Europe. Carbon neutrality cannot be achieved by relying on renewable energy alone. Hydrogen can support the decarbonisation of sectors which are difficult to electrify, such as transport, steel or chemicals. It can also provide storage to balance variable renewable energy flows. Developing a new hydrogen economy in Europe is seen as an engine of growth to help overcome the economic damage caused by the COVID-19 crisis and resources of the recovery instrument "Next Generation EU" will be used to finance some of the required investment in electrolyzers, fuel cells and storage technologies, to reach the objective of 40 GW capacity for renewable hydrogen in the EU by 2030. The priority is to develop green hydrogen, produced using mainly wind and solar energy. However, in the short- and medium-term, other forms of low-carbon hydrogen are needed to rapidly reduce emissions and support the development of a viable market. The difficulty is to choose the right strategy in the transition period to 2030 to avoid a lock-in effect into carbon emitting hydrogen technologies.

To deliver on this strategy, a coordinated action between the public and private sector is required at EU level, so the Commission also launched on the same day the [European Clean Hydrogen Alliance](#) with industry leaders, civil society, national and regional ministers and the European Investment Bank. The Alliance will build up an investment pipeline for scaled-up production and will support demand for clean hydrogen in the EU.

The objective is to develop a green hydrogen market at scale, and this cannot be done solely based on the European renewable energy resources. That is why the strategy gives particular attention to cooperation with the EU neighborhood. By working with partners to the East and to the South, the industry ambition is to add an additional 40 GW of electrolyzers by 2030, resulting in 2x40 GW by 2030. In line with the external dimension of the Green Deal, the EU has a strategic interest in giving hydrogen a high priority on its external energy policy agenda. Besides developing a source of clean hydrogen for Europe, promoting cooperation opportunities with neighbors would contribute to their clean energy transition and foster sustainable growth and job creation in the neighborhood. As discussed in Insight #1 and evidenced by the German partnership with Morocco (see below), the MENA region, and in particular North Africa, has already been identified as one of the most promising partners. This will be a key topic of the Forum in months and years to come, and the CMI is already working with its partners to identify the requirements for establishing a Mediterranean hydrogen market. The strategy alludes to a comprehensive terminology and European-wide criteria for the certification of renewable and low-carbon hydrogen. Such a system, once developed in Europe, may have to be extended to the Mediterranean region to facilitate the trade of green hydrogen between Europe and MENA, and this

is an area that could be developed by the Forum Phase 2 work program. Moreover, one of CMI partners, the *Observatoire Méditerranéen de l'Énergie* (OME), is already identified as a key partner in the EC hydrogen Communication.

The European Commission has proposed a strategy for smart energy sector integration

On the same day, the European Commission adopted, after a 2 months period of consultation ending 8 June, the [EU Strategy for Energy System Integration](#) to achieve decarbonization at the lowest possible cost by using the complementarities and relative strengths of the different energy carriers.

Energy system integration refers to the planning and operating of the energy system “as a whole” across multiple energy carriers, infrastructures, and consumption sectors. It creates stronger links between them with the objective of delivering low-carbon, reliable and resource-efficient energy services, at the least possible cost for society. Energy system integration is the pathway towards an effective, affordable and deep decarbonization of the European economy. The strategy has three pillars: (1) a more efficient and circular energy system, (2) scale-up renewable energy use through direct electrification and (3) clean gases and fuels – like hydrogen, biofuels and biogas – where direct electrification is not possible.

The strategy will be a building block of the economic recovery in the aftermath of the COVID-19 crisis. The transition to a more integrated energy system is central to “Next Generation EU” recovery plan, to ensure that the recovery is not just good for the economy, but that it is also sustainable and job creating.

The Strategy sets out 38 actions to implement the necessary reforms. These include the revision of existing energy legislation, financial support or research and deployment of new technologies and digital tools, guidance to Member States on fiscal measures and phasing out of fossil fuel subsidies, market governance reform, holistic infrastructure planning and improved information to consumers. This will require a review of the CE4ALL Package, in particular the energy efficiency and renewable directives, which is part of the EC work program for 2020. In 2021, new gas market rules will be proposed to reform the gas market, to ensure that the legislative framework promotes the use of green gases as fast as possible. Those revisions will have implications for the SEMC.

The EU is consulting on the TEN-E regulation

On 18 May, the European Commission launched a public consultation on the review of the EU rules on trans-European energy infrastructure, including Regulation (EU) No 347/2013 on guidelines for trans-European energy infrastructure (the “TEN-E Regulation”), to ensure consistency with the 2050 climate neutrality objective. The TEN-E Regulation lays down rules for the timely development and interoperability of cross-border energy infrastructure networks to achieve the EU’s energy policy objectives. Its key objective is the timely implementation of the projects of common interest (known as “PCIs”) which interconnect the energy markets. Interconnected energy markets allow for better integration of renewable energy sources, better security of supply and higher competition. The TEN-E Regulation sets out criteria for establishing the PCIs necessary to implement priority corridors and areas in the categories of electricity, gas, oil, smart grids and carbon dioxide networks.

The European Green Deal, as well as the EU Strategy for Energy System Integration, foresee a revision of the TEN-E Regulation to ensure that the energy infrastructure is appropriate for the carbon neutrality objective, the system integration strategy and the development of hydrogen at scale. The aim of the consultation, which can be accessed [here](#) is to gather the views of EU citizens and

stakeholders on the TEN-E Regulation, which feeds into the evaluation and [impact assessment](#) process.

The EU prepares legislation on Border Carbon Adjustments and plans to revise the energy taxation Directive

The European Commission's communication published on 27 May 2020 as part of the "Next Generation EU" Recovery plan includes an upcoming proposal for a Border Carbon Adjustment (BCA) Mechanism by 2021. The measure will, according to the terms of the communication, "be a new own resource for the EU budget and help repay funds raised for Next Generation EU in the future". The EU Green Deal and the Industrial Strategy Communications also refer to BCA, as a means of addressing the risk of carbon leakage and protecting the competitiveness of European industry. Preparation by the Commission services is ongoing with an [Inception Impact Assessment](#) and consultation of the stakeholders.

Ambitious EU climate objectives require not only a tightening of CO₂ pricing, but also a reform of the EU Energy Tax Directive (2003/96/EC). In its current form, the directive provides excessively heterogeneous or inefficient price signals and has hardly any steering effect, for example towards more climate-friendly means of transportation. The main objectives of revising the Tax Directive are to align taxation of energy products with EU energy and climate policies and to preserve the EU single market by updating the scope and the structure of tax rates and rationalizing the use of optional tax exemptions and reductions. A new directive will be proposed in the second quarter of 2021, based on the results of the consultation and the [inception impact assessment](#).

Germany has now submitted its National Energy and Climate Plan and has adopted a national hydrogen strategy

Only days before taking over the EU Presidency, Germany submitted its NECP to the European Commission. The German NECP calls for greenhouse gas emission reductions of 55% by 2030, compared to 1990. The other specific quantitative targets for 2030 are for a share of renewable energy of 30% and a reduction of energy consumption of 30% compared to 2008.

The same day, the German government adopted the National Hydrogen Strategy, which calls for a production capacity of 5 GW by 2030 and 10 GW by 2040. The hydrogen strategy aims to make Germany the global leader on hydrogen technology and is accompanied by an action plan containing 38 measures to reduce the cost of developing and using hydrogen, to support investment all along the value chain and to create better conditions to expand renewable energy in order to produce green hydrogen. However, Germany cannot achieve its green hydrogen objectives based solely on national production. Out of the € 9 billion funding, € 2 billion will be used for international partnerships, notably with North Africa, to develop access to sources of supply outside Germany. On the same day, Morocco signed an agreement to become Germany's first partner to develop the production of green hydrogen and to set-up research and investment projects. Two projects were already announced: one with Masen for the production of green hydrogen and the creation of a research platform, and the second one with IRESEN for the transfer of knowledge and capacity building.

Regional cooperation and energy market integration can help "build back better" in SEMC

While many developed countries have announced with great fanfare green recovery packages, developing countries have so far received limited attention in the global debate on the post-COVID green recovery. However, the IEA prediction of a peak in CO₂ emissions in 2019 won't materialize if all countries around the world do not join the green recovery movement. So far, among SEMC, only

Morocco and Tunisia have taken active steps to kick-start a green recovery, with Morocco having set-up a National Hydrogen Commission and Tunisia experiencing some of the lowest solar prices in the world, while in countries further East there has been no public reporting of green recovery dialogues.

Although the globalization trends are being questioned as a result of the pandemic, the COVID-19 crisis represents an opportunity to strengthen regional normative frameworks addressing transboundary risks and strengthening climate/environmental resilience and to implement reforms that are auspicious for climate change mitigation, such as fossil fuel subsidy removal. As is done in Europe through the Just Transition Fund that helps, among other things, coal regions recover without resurrecting their coal industry, regional solidarity is necessary to address the difference in COVID impact across countries and avoid the emergence of additional tensions. Existing institutional arrangements for cooperation need to be strengthened, made more effective and flexible and reformed to become more responsive. A regional emergency financing mechanism could provide a concrete expression for regional solidarity in the event of a common shock with a differentiated impact. For instance, in the Arab region, the United Nations Economic and Social Commission for West Asia (ESCWA) is advocating the establishment of an Arab Social Solidarity Fund to support vulnerable countries. The potential of regional collaboration should be fully leveraged to build back better. And “building back better” is a huge opportunity for regional cooperation and energy market integration, despite protectionist reactions to the COVID crisis, as it is clear that some of the objectives of the green stimulus packages cannot be reached otherwise¹.

As discussed above, Europe is a natural partner for the Mediterranean region, and in particular North Africa. Many of the EU Recovery Plan documents mention assistance to the Neighborhood South and East to fight the pandemic and design recovery programs, but also the need to develop technology solutions jointly, such as for hydrogen. Other institutions are also offering assistance or recommendations to developing countries in general, or to the Mediterranean region specifically. The NDC partnership has set-up an [Economic Advisory Support](#) service to assist countries in aligning their COVID recovery programs with their NDCs and LTS, which is essential to ensure that the recovery packages contribute to the clean energy transition. IRENA provides practical recommendations for governments in the preparation of COVID recovery programs in a recently published report [The post-COVID recovery: An agenda for resilience, development and equality](#). As mentioned above, the IEA has released a [Sustainable Recovery Plan](#) which identifies 30 actionable policy measures that would both boost economic growth and avoid greenhouse gas emission rebound.

Across the World Bank Group, efforts are underway to help governments respond to the crisis triggered by COVID-19. In partnership with Innovate4Climate, the Bank has set-up the program “Kickstarting the Sustainable Recovery”, a series of virtual discussions, stories and new research focused on how sustainable finance can be part of the COVID-19 recovery and help countries build back better and stronger. Finally, MEDREG, the Association of Mediterranean energy regulators, has issued a report outlining regulatory measures necessary to address the impact of the COVID crisis and ensure continuity of service.

In summary, the countries around the Mediterranean are likely to be more successful at implementing stimulus packages that will be good both for the economy and the climate, if they cooperate. This is a unique opportunity to build an integrated Mediterranean energy market. The CMI Forum continues to work with all the SEMC to develop an action plan for a green recovery that will support the clean energy transition through Mediterranean energy market integration. Among the tasks at hand are:

¹ For a discussion on how the COVID crisis can be an opportunity for Mediterranean energy market integration see <https://www.cmimarseille.org/blog/covid-19-catalyst-decarbonization-and-integration-mediterranean-energy-market>

developing the necessary infrastructure, gradually harmonizing regulatory frameworks and developing some region-wide certification scheme for green forms of energy.

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.

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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