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CMI Mediterranean Forum on Energy and Climate Change INSIGHTS



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The purpose of this article 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. It focuses on 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. This article also includes a section on the implications of the COVID-19 crisis on energy markets and one on the development of hydrogen in the Mediterranean.

The unprecedented COVID-19 crisis has hit us with no warning and is having severe effects on the global economy, our societies and healthcare systems. The interlinkages between COVID-19, energy and climate are complex and somewhat unpredictable. However, in a world where there are no borders to climate change or virus outbreak, it is clear that eventually the virus will be controlled, like all pandemics of the past, while climate change threats may outlive the pandemic, unless the stimulus packages that are being designed to boost economic recovery firmly incorporate sustainability objectives.

Oil markets have been thrown in disarray, with the price of the West Texas Intermediate (WTI) benchmark crude oil even becoming negative, something never seen. However, despite those very low oil prices, renewables seem to continue their inexorable progression. As the economic recession is triggering a dramatic fall in energy demand, due to the sanitary lock-in, the fossil fuels are those that are hit the most, especially in the power sector, because of their higher variable costs. As a result, the share of renewables in power systems is reaching levels never seen before. The beneficial effect of these trends is a steep decline in CO₂ emissions, making the Paris Agreement objectives seemingly easier to reach. However, it is important to notice that the greenhouse gas emissions are falling for the wrong reasons, the economic recession, and only marginally because of behavioral and structural changes in energy consumption. The key question is whether a rebound in CO₂ emissions can be avoided when the economies recover by taking advantage of the crisis to move further along the transition path towards renewables while stimulating the economy.

The COVID-19 crisis may present a unique opportunity to make energy systems better fit for the objective of carbon neutrality that has been adopted by many countries around the world. Indeed, a clear majority of voices across Europe is calling out for an accelerated energy transition. Different initiatives are asking European leaders to put the recently proposed EU Green Deal at the heart of Europe's economic response to the pandemic. Implementing the EU Green Deal, with the twin objective of boosting the economies while making the recovery compatible with the sustainable growth path required to reach carbon neutrality, will require a full review, and possibly revisions, of all existing legislation, including the EU "Clean Energy for All Europeans" (CE4ALL) Package.

The COVID-19 epidemic could be a risk to renewables, but an opportunity for subsidy reform

The effects of the COVID-19 epidemic on the energy sector are multiple and complex, and these effects will be felt in the Mediterranean as well:

- i. the economic slow-down triggered by the sanitary lock-in is reducing energy demand, and CO₂ emissions proportionately more, given that fossil energy use is reduced first. One key question is whether CO₂ emissions can be kept at that lower level when economies recover, and what could be done to facilitate the energy transition.
- ii. oil prices have collapsed under the combined effect of lower demand and over-supply due to lack of an agreement between OPEC and the other major oil producers. These low oil prices are both a risk and an opportunity. Low oil prices are a competitive threat to renewable energies, as they may stop the rapid penetration of renewables. At the same time low oil prices will help oil importing countries by facilitating the economic recovery. This period of low energy prices is an excellent time to launch fossil fuel subsidy reforms and carbon pricing programs.
- iii. although energy demand is overall generally falling, a period of confinement where many activities are conducted remotely and workers are relying on teleworking shows how

important a reliable and secure electricity supply is. This is likely to accentuate the process of electrification that has been under way for a few years with the rapid growth of renewable energy.

Further information on energy markets can be found on the World Bank [Commodity Markets Outlook Website](#). Their latest outlook expects oil prices to average \$35 per barrel in 2020, a 43 percent drop from the 2019 average of \$61 per barrel. Further details can be found [here](#).

Countries in the MENA region face a dual shock from the collapse in oil prices and the COVID-19 pandemic. To deal with these two shocks, the World Bank recommends a sequenced and tailored response, focusing first on responding to the health emergency and the associated risk of economic depression and postponing fiscal consolidation until the recovery from the pandemic is well underway (see [here](#)).

Information and analysis on the effects of the coronavirus crisis on energy markets can also be found on the [International Energy Agency](#) website, where governments and industry can moreover find recommendations on how to ensure affordable, secure and sustainable future energy systems.

The EU Green Deal will play a central role for a resilient and sustainable recovery from the COVID-19 crisis

Since the Briefing Paper “The CE4ALL Package: Implications and Opportunities for the Mediterranean” was published, the European Parliament has declared climate emergency and the European Council has endorsed the objective of achieving carbon neutrality by 2050. The European Commission (EC) has issued the European Green Deal Communication, to establish a roadmap to achieve this objective, while promoting economic growth, enhancing EU competitiveness and leaving no one behind (i.e. ensuring a just transition), and has presented a proposal for a Climate Law to enshrine in legislation the EU political commitment to be climate neutral by 2050 and new GHG reduction targets for 2030, based on a comprehensive impact assessment.

At the same time, the EC is launching a public consultation on the future European Climate Pact. The European Climate Pact aims to engage citizens and communities in action for the climate and the environment. All interested parties can [submit input here](#) by 27 May 2020.

The EC will support these policy goals with appropriate funding and financing instruments, including the European Green Deal Investment Plan, the Sustainable Finance Strategy and the Just Transition Fund.

At the request of EU Head of States, the European Council and the European Commission Presidents presented on 21 April a “Roadmap for Recovery- Towards a more resilient, sustainable and fair Europe” which states that “the Green transition and the Digital transformation will play a central and priority role in relaunching and modernizing our economy” and calls for the Green Deal to be the main vehicle to articulate that strategy. The European Council Roadmap for Recovery states that particular attention should be devoted to the EU's immediate neighborhood (which includes North Africa and the Balkans—both Mediterranean regions).

Several other initiatives under the EU Green Deal will also help achieve the objectives of a climate neutral and competitive Europe. One of them is the New Industrial Strategy, for which a Communication was issued in early March. The main goal is to foster a competitive industry to help Europe become the first climate-neutral continent by 2050 and a global leader in renewable energy. As part of this strategy, the EC will make proposals for carbon border adjustments. Another proposal is for the launching of a new European Clean Hydrogen Alliance, modelled on what was done for the European Battery Alliance. North Africa has already been identified as one of the best locations to produce green hydrogen for EU markets.

To reflect all these new policy objectives, including the roadmap for recovery, the EC has been tasked to review and, where necessary, revise all relevant policy instruments and legislation by June 2021. This is likely to entail changes to the CE4ALL legislative package.

European Commission launches study “EU Global Leadership in Renewables”

The European Union has set itself the objective to become a global leader in renewables. The aim of this study by the Consortium CEPS/COWI/Prognos¹ is to support the identification and ranking of the key countries, key markets, and key activities in the global renewable energy supply chain that have the highest value added, that support the competitiveness of the European renewables industry, and that will deliver the highest benefit to Europe's socio-economic development.

EU countries and the European Union have a number of policy options that can be used to support the competitiveness and the added value provided by the European renewable energy industry, ranging from EU regulations and directives to national renewables support schemes and to bilateral/multilateral agreements with third countries. Moreover, to accelerate clean energy innovation, the EC is establishing a "Clean Energy Industrial Forum" to support the competitiveness of the European renewable energy industry and strengthen EU's development co-operation policies, including the facilitation of trade and investment in renewable energy in its bilateral trade agreements.

The Connecting Europe Facility (CEF) allocates Euro 980 million for clean energy infrastructure under the 2014-2020 program, while the new CEF in preparation has a budget of Euro 8.7 billion

The CEF was one of the three instruments for cooperation between EU countries and SEMC identified in the CE4ALL Briefing Paper, the other two being the EU Renewable Energy Financing Mechanism and possibly the Enabling Framework. A CEF Call for Proposal was launched on 13 March (closing on 27 May) for Projects of Common Interest (PCI) with priority given to projects that contribute to the objective of carbon neutrality under the Green Deal. Under the new CEF, a budget of Euro 8.7 billion is allocated for the period 2021-2027 for renewable cross-border projects.

The Background Paper to the EU Energy Ministers meeting of 28 April also sees the Trans-European Network Energy regulation (TEN-E), under revision, as essential to provide guidance for projects aiming at increasing renewable energy production and the infrastructure needed to integrate a growing share of renewables in the energy systems, including cross-border energy infrastructure. The Background Paper, as well as the Industrial Strategy Communication, encourages cooperation in research and innovation on low emission technologies, such as for example green hydrogen technologies. The Communication refers to the Important Projects of Common European Interest (IPCEI) as a powerful tool to pool financial resources and fund large-scale innovation projects across borders. Hydrogen could qualify to receive the status of IPCEI, and North Africa (especially Morocco) has already been identified as a key location to produce green hydrogen to meet part of Europe's needs (for more details see [here](#)).

The EU is consulting on the new Renewable Energy Financing Mechanism

The other cooperation instrument identified in the CE4ALL Briefing Paper is the EU Renewable Energy Financing Mechanism. The mechanism should allocate the support through competitive calls for proposals to new renewable energy projects, including joint projects with third countries, joint support

¹ For further details see https://www.ceps.eu/ceps-events/kick-off-workshop-eus-global-leadership-in-renewables/?mc_cid=559bee6133&mc_eid=c1f81010bd

schemes, innovative technology projects or other projects that contribute to the enabling framework of the Renewable Directive 2018/2001. The mechanism can obtain resources from payments by Member States, European Union funds or private sector contributions.

The Governance Regulation empowers the Commission to adopt implementing acts to set out the necessary provisions for the establishment and functioning of the financing mechanism. The European Commission has opened a four-week [public consultation](#) on the draft regulation to establish the new EU Renewable Financing Mechanism. The new financing mechanism should be in place by the start of 2021. Ultimately, the mechanism will feed into the European Green Deal ambition of achieving EU carbon-neutrality by 2050

MENA Hydrogen Alliance was launched to accelerate the introduction of green hydrogen in the Mediterranean, Morocco set to take a lead role

As discussed above, the EU sees the development of hydrogen as key to reach the objective of carbon neutrality, but recognizes that not all the required volumes can be generated within Europe without CO₂ emissions. North Africa, as well as the rest of the MENA region, have been identified as favorable locations to supply Europe with green hydrogen. Those hydrogen production projects might be eligible to the cooperation mechanisms under development under the CE4ALL Package, or from the IPCEI status discussed above.

In early April, Hydrogen Europe issued a paper « *Green Hydrogen for a European Green Deal A 2x40 GW Initiative* » to present concrete steps for a massive introduction of hydrogen in Europe. The significance of the split into 2 times 40 is that half of them should be deployed inside the EU and half in the Ukraine and Northern Africa, both good locations for renewable energy. The green hydrogen produced there would then be imported into the EU. The paper was already presented to the Executive Vice-President of the European Commission in charge of the EU Green Deal, Frans Timmermans, and Kadri Simson, European Commissioner for Energy, in presence of the Moroccan Minister of Energy Aziz Rabah and 14 CEOs of companies already present in hydrogen or planning to enter that market.

The MENA Hydrogen Alliance is the counterpart of the Hydrogen Europe Alliance and seeks to promote the development of hydrogen in the MENA region. Bringing together the private-public sector and academia, it is a platform to launch pilot projects. The EU-GCC Clean Energy Technology Network organizes a webinar on 20 May to discuss the market, timelines, pathways, technology, finance and roadmaps; registration can be made [here](#).

Morocco has many key assets for becoming a key player in the emerging hydrogen market, among which: its proximity to Europe, a very large local market for using hydrogen for ammonia production for the fertilizer industry, ample electricity and natural gas infrastructure, including for exports, which is largely underutilized, plentiful renewable energy resources to produce the electricity for the electrolyzers, etc.. The country has set-up the National Commission on Green Hydrogen to steer an ambitious green hydrogen development and export program. Various studies have been conducted and a roadmap is in preparation. Pilot projects for the production of green ammonia have been set-up. For more information, see [here](#).

Spain and France have now submitted their National Energy and Climate Plans

Only half of European Union countries had submitted their final national energy and climate plans (NECPs) to the EC by the 1 January 2020 deadline. By the time the COVID-19 crisis erupted, only seven were missing (including the UK). France and Spain have now submitted their NECPs, and those two have been deemed as the best two in terms of quality by analysts at the European Climate Foundation.

The Spanish NECP is the only one to call on strengthened cross-border power interconnections as a way to mitigate climate change, thanks to growing penetration of renewables.

The Governance Regulation also required Member States to submit their first national long-term strategies (LTS) to the Commission by 1 January 2020, but less than half the EU countries had done so by the deadline. The LTS indicate how countries plan to achieve the greenhouse gas emission reductions needed to meet their commitments under the Paris Agreement and the EU objective of climate neutrality. The LTS should be consistent with NECPs for the period 2021-30. The Commission assesses whether the national LTS are sufficient for the EU to reach its objective of carbon neutrality and makes recommendations on how to close any remaining gap.

The NECPs will become a key tool to monitor countries' progress towards climate neutrality by 2050. The Climate Law sets one clear objective towards which every policy and piece of legislation works. The NECPs will have to be carefully reviewed and possibly revised with the 2050 target of climate neutrality in mind. The EC will identify any deviation or underachievement and provide corrective recommendations to the Member States. The NECPs have the potential of turning the EU Green Deal into tangible actions, acting as capital raising instruments and involving citizens and civil society in key issues of the climate transition. The higher 2030 target under preparation under the Climate Law means that the NECP will have to be updated earlier than foreseen under the Governance Regulation.

The European Commission submits only one NDC for the whole of the EU, based on the NECP for individual Member States. A revised EU NDC, reflecting the new objective of carbon neutrality by 2050 and whatever target is selected for 2030, will be submitted by the end of 2020.

Even though the COP26 has been postponed by one year, the upgraded NDCs are due by the end of the year, although delays are likely given the difficulty in assessing the long-term impact of the current crisis. NDCs, like NECPs, need to reflect green stimulus packages that may be put in place. In turn, they can be the vehicles for turning those packages into concrete implementation plans. The World Bank has prepared a [sustainability checklist](#) on key criteria that governments may need to consider as part of the recovery package. Building the bridge between NDCs and a sustainable recovery requires significant coordination, both between the ministries of each government and externally, including with international institutions. More [here](#).

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. The project is implemented by European Commission (EC), Center for Mediterranean Integration (CMI), World Bank.

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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