



First Pan-Arab Energy Trade Conference

Towards an effective regional cooperation in
electricity and gas trade among the Arab countries

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November 6–7, 2019

Good morning. Let me start by thanking his Excellency Mr. Abdlatif Al-Hamad, Chairman and Director General of the Arab Fund for Economic and Social Development, and Dr. Kamal Hassan Ali, Assistant Secretary General of the League of Arab States. I am very honored to be here and deliver my opening remarks alongside these distinguished gentlemen.

Excellencies, ladies, and gentlemen

It is an honor to be here at this first Pan-Arab Energy Trade Ministerial Conference to discuss the strategic importance of energy cooperation in the Pan-Arab region. In my capacity as Director of Strategy and Operations for the Middle East and North Africa (MENA) Region at the World Bank, I am keenly aware of the challenges and opportunities facing the countries of the region.

Indeed, it is great to be back in Egypt to discuss the developments in the energy sector, after having worked for nearly two decades on this topic.

I would like to start by congratulating you for reaching this point in advancing on the tremendous opportunities that the region holds for closer cooperation in the energy sector. It's thanks to all of you and your leadership that we are here today. As many of you know, the MENA Region is the least economically integrated region of the world. Just as a comparison, in the EU, intra-regional trade accounts for around 63 % vs less than 10 % in the MENA Region.

We in the World Bank believe that operationalizing energy trade in the Region can make a real difference to this number. Greater integration and trade of energy can bring real economic benefits to the region. It can also help in securing a more peaceful region through establishing prominent presence and more stakeholding.

Benefits of energy cooperation

The MENA region currently holds nearly 300 GW of installed electricity generation capacity. However, the available cross-border transmission interconnection capacity is only about 16 GW, and only a fraction of that is used commercially. This means that, on the one hand, unlike other regions of the world that are pursuing a common energy market, there is substantial room for boosting the utilization of capacity already installed. This provides the region with the position in which it can really leapfrog. Many countries in other regions do not have the infrastructure in place to be considering a market for electricity.

Furthermore, additional positive prerequisites are present. Many countries have already started the elimination of subsidies, which distort the market and weaken the business case for energy trading. Transmission networks, including many existing interconnection points, are available. And endowments in natural resources, like the sun and the wind, can be used to generate electricity, including achieving some of the lowest prices globally.

Recently we have seen really impressive prices, which have been achieved through recent biddings that make renewable energy very competitive. On the other hand, the region still needs to put in place some key elements for market trading, such as pricing mechanisms, regulations, institutional arrangements, and third-party access to transmission lines.

The benefits of regional cooperation in MENA are substantial and wide-ranging. We at the World Bank estimate that the integration of the electricity systems can bring cost savings of between \$100 billion and \$180 billion [by year 2035], creating much-needed fiscal space and allowing for investments in human capital and new technologies, which are building blocks of the next economy.

This is important, because growth in the region remains stubbornly low. The World Bank last month revised downward the growth forecasts for the region. We now expect MENA to grow at an average of only 0.6 percent in 2019, nearly a full percent lower than our previous estimate of 1.4 percent.

While our downward revision of our growth estimates is partly a result of contraction in some countries, and we do have decent growth rates in some other countries, the longer-term trend is troubling. A low-growth syndrome has been

evident since at least the beginning of the 21st Century. Since 2000, the region's average GDP-per-capita growth rate has been both low in absolute terms (0.9% per year) and relative to the median economy from around the world.

If MENA region had grown at the median GDP-per-capita growth rate, it would have been a 20% richer region than it is today.

So what does this have to do with the regional energy trade? It has a lot to do with it. Regional trade can help the region better utilize the surplus some countries have in their generation capacity and have countries with insufficient supply avoid large capital investments. This is particularly important when the energy sector is also closely linked to managing fiscal deficits. Indeed, in the region, countries with the largest fiscal deficits are also those with the highest levels of energy subsidies – especially in the electricity sector.

Regional trade gives an opportunity to shift the energy mix towards renewable energy and natural gas which MENA countries have in abundance. It also helps the countries transition their energies, reducing GHG emissions, and reducing environmental pollution that burdens the human capital and national health systems.

New and cleaner energy technologies can positively impact employment. We have collected data that shows that, on average, solar PV projects create twice as many jobs per unit of electricity generated than the conventional projects.

Furthermore, renewable energy projects can take advantage of local content. I recently read that the Kuraymat Concentrated Solar Power plant – here in Egypt – was produced with 40% local content.

So what's next?

Partnerships and next steps

While achieving a fully integrated energy market will take some time, many steps can be taken in parallel, and countries can interconnect, even if they are at different stages of advancement towards market integration. We have seen from more mature regional markets that a multi-level approach to regulation can be taken, where minimum standards are set at the regional level with different degree of implementation at the national level.

We now turn to a phased approach that has been adopted by all of you.

I am happy to say that much progress has been made under the foundational stage, so we can move to the first transitional stage. Going forward, I am pleased to recognize the consideration of all member states to utilize the existing sub-regional institutional capacity before approving the market agreements. Arab countries have an unprecedented opportunity to seize the momentum, building on their achievements, along with the League of Arab States as a regional champion to accelerate the approval of the market agreements as set by the Arab Ministerial Council for Electricity.

We understand that the establishment of the Pan-Arab Electricity Market (PAEM) is under Arab countries' attention. Such approval will be a tremendous achievement which will legally create the market, send a signal to the world about

the region's readiness to advance its energy transition, and set the stage for further technical cooperation to support regional investment projects.

The World Bank is committed to join forces with the regional development institutions to provide the technical and financial support to advance the operations under the transitional stage of the PAEM. These efforts include:

- Implementing the initial market design for the first Transitional Stage [2019–2024].
- Launching the pilot pricing mechanism for cross-border electricity trade, with the aim to overcome the deterring effect of domestic fuel subsidies on commercial electricity trade.
- Setting up the regional institutions for the Pan-Arab Electricity Market, and
- Advancing the preparation of specific investment projects critical for expanding regional trade, along with the de-risking measures to ensure their bankability.

We at the World Bank will continue to prioritize regional energy trade as part of our MENA strategy. But this is not an agenda we can deliver on our own. Partnership has been and will continue to be essential to our efforts.

Thankfully, we have a strong track record of partnership on energy trade, dating back to 2013 and the successful conclusion of the World Bank's cooperation program with the League of Arab States, laying the foundation of the PAEM.

In short, we have made significant progress together. We must now build on this momentum through the critical upcoming stages of market development, which

requires both technical and political solutions. We at the World Bank are committed to continuing to support you on the technical side and through our convening power.

We very much look forward to expanding our collaboration with the Arab Fund for Economic and Social Development, an institution that is vital to the viability of future investments given its resources and ability to mobilize funding from Arab Coordination Group institutions.

In closing, excellencies, we at the World Bank believe that our cooperation on the emerging Pan-Arab Electricity Market signals the onset of a new type of partnerships between the regional and global development institutions, one in which we actively cross the institutional boundaries to promote regional integration and trade among our client countries. Our gathering today is an important milestone on the road to greater regional energy cooperation.

Thank you and the best of luck in the days to come.