Pan-Arab Regional Energy Trade Platform

A collaboration platform for implementing the building blocks to scale up economic energy trade in the MENA Region

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MENA countries are imbalanced when it comes to availability of gas and power and trade within the region is low.

- 41% of world gas reserves
- 20% of world gas production
- Only 10% of MENA exported gas is traded in the region
- ~10% utilization of existing regional interconnections capacity
- 42% utilization of generation assets
- Only 2% of produced electricity was traded in the region in 2010

Source: gas trade in bcm, BP, 2014

(all figures 2014, unless indicated)
The benefits from improved regional energy trade are multiple and significant

- The monetary benefits from investment savings possible by integrating power generation capacity is in the range of $17 to 25 billion.
- The higher range is possible by maximizing the operation of most the efficient technology with higher efficiencies and phasing out of more costly fuels.
- Trade among countries supports stability as economic and political ties become stronger.
- It helps secure supply of gas to meet growing demand in the region.
- Enable the economic diversification effort through gas-based industries in the region.
- It contributes to a greener energy mix and meeting COP21 commitments.
- And it increases flexible generation technologies needed to enable larger renewable energy projects with economies of scale to support a sustainable energy future.
The obstacles to electricity and gas trade vary across the region

- The benefits case of regional cooperation is not always fully known and informed when setting national and domestic economic and energy priorities.

- Fuel price subsidies in domestic markets cause price distortions, inflate domestic demand and hampers investments in trading opportunities.

- The physical infrastructure at the national and regional level needs to be robust.

- Institutional arrangements in the form of regional institutions with the necessary responsibility, authority, incentive and resources are needed to support trade.

- Regulatory challenges exist including the absence of a regional grid code and commercial code covering technical and commercial aspects of regional trade, as well as agreements on acceptable pricing frameworks for energy trade.
A new Regional Energy Trading Platform is proposed to advance regional integration

- A Pan-Arab Regional Energy Trading Platform project to address the political, regulatory, governance and pricing challenges affecting regional cooperation in the energy sector is being proposed.

- The Gas Trade component of this Proposal includes:
  - Enable regional trade: Make the case to enhance regional gas trade by developing a shared vision. Identify political, policy and commercial solutions. Define an action plan.
  - Develop a regional governance structure: Establish a regional gas market leadership team. Develop regulatory framework.
  - Invest in infrastructure: Facilitate and support (along with regional and international partners) the infrastructure investments needed to enable regional trade.

An IEF-World Bank partnership is proposed to catalyze collaboration and political buy-in at the outset of launching the gas component’s tasks
The partnership builds on comparative advantages to catalyze regional trading

**IEF’s partnering & convening power**
- An international energy body that brings together producers and consumers to cooperate on energy issues and enhance common interests
- A neutral facilitator of energy dialogue to ensure energy security
- A partner that can bring together policy makers to broker solutions for the common interest of the region

**World Bank’s comparative advantage**
- A convening power that can catalyze and build momentum
- A development bank that can effectively leverage its project design and structuring skills, and provide financial solutions and credit enhancement
- An institution that can engage regional and international development partners to mobilize greater public and private sector engagement and financing and overcome regional trade barriers

**Cooperating to catalyze regional trading**
- IEF Members from the MENA Region constitute the Champions for the regional gas trade vision. They can:
  - Create political commitment to facilitate trade
  - Lead dialogue on the regional pricing mechanism
  - Establish synergies between national and regional objectives
The proposal comprises two tracks for implementation and relies on enablers to accelerate trade.

**TRACK-1**

**Building Regional Institutions and legal and regulatory frameworks**
- Engage with gas sector stakeholders to identify the champions and vision
- Establishing the PAGM leadership team
- Devise the governance structure and required bylaws then facilitate consultation and approval of PAGM structure (regional TSO, Regulatory, Secretariat)

**TRACK-2**

**Preparing investment initiatives (regional and country) to advance trade**
- Review and update the Pan-Arab master plan (3 strategic feasible regional gas projects were identified)
- Investment plan for gas projects in 2017-2030
- Leverage public and private capital including required credit enhancement instruments

**ENABLERS**

**Enabling Energy Trade (national and regional enablers)**
- Political commitment to facilitate trade
  - Regional pricing mechanism
  - Synergies between national and regional objectives
  - Designated national entity for trade
  - Transmission tariffs and cross-border transmission-capacity auction process
  - Regional market database and plans

The Project has flexible components allowing each country to proceed at its own pace, with interim deliverables between 2016-2018.
Next steps towards a Regional Gas Trade Platform

- IEF members from the MENA Region are invited to participate as **Champions** of the Gas Trade Platform Initiative.

- The World Bank and the IEF proposes to host a **seminar** for decision-makers from the region in December 2016, aiming to:
  - Define the case for change moving towards an integrated gas market
  - Share international experience with regional gas trade
  - Further define the barriers to trade in MENA
  - Prioritize and sequence the resolution of barriers
  - Brainstorm political, policy and commercial solutions
  - Identify the scope for institutional and regulatory cooperation and quick infrastructure wins
  - Draft a shared vision for regional gas trade and
  - Define an action plan.

- The World Bank will share preliminary findings of ongoing **analytical work** on regional gas pricing models, potential solutions to challenges and international experience on regional integration at the seminar.

- **Milestone:** **Champions endorse** Vision, formulate a Pan-Arab Gas Market Leadership team and Action Plan at a conference in Q1, 2017 and **launch the implementation**
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