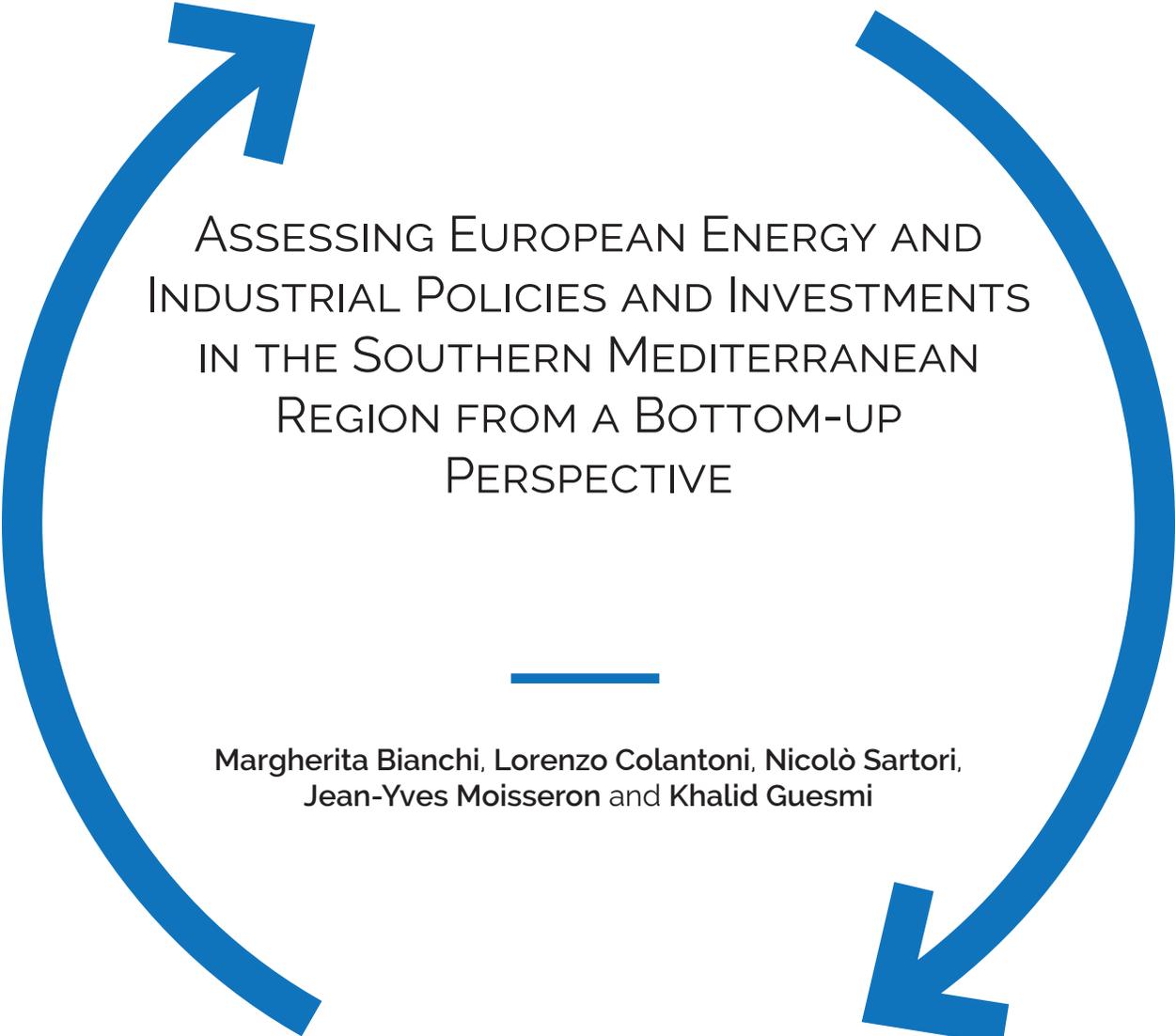




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ASSESSING EUROPEAN ENERGY AND
INDUSTRIAL POLICIES AND INVESTMENTS
IN THE SOUTHERN MEDITERRANEAN
REGION FROM A BOTTOM-UP
PERSPECTIVE

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ABSTRACT

This report is aimed at presenting the views of European stakeholders on EU policies relating to industry and energy in the SEM region. It is organized in two parts. The first provides an overview of activities and mechanisms of cooperation of the main European actors involved in the energy and industry sectors of the Mediterranean region and in particular within the countries of interest for the MEDRESET project, namely Egypt, Morocco, Lebanon and Tunisia. The second part reports the major findings regarding the perceptions of European stakeholders on EU policies related to the energy and industry sectors in the Southern Mediterranean, drawing on interviews carried out between the end of 2017 and early 2018 as well as on the documents of their respective organizations.

1. METHODOLOGY

Energy ties between the two shores of the Mediterranean have been and remain fundamental. What is now better envisaged than a few years ago is the complementarity of relations between the two and the need to converge on complementary interests. Energy demand in North Africa in the medium and longer terms is a key factor, as new capacity will be needed to supply the population. Gas, solar and wind are expected to grow significantly but in particular these latter two need massive investments in the medium and longer terms, a feature where European actors can make a difference. Energy security and dependence is another element to be considered as a key driver of both European and Southern Mediterranean countries' actions in the energy domain.

As far as industry is concerned, one of the main objectives of the Barcelona Process was to implement a free trade zone between Europe and the South Mediterranean countries. The first series of free trade agreements (FTAs) concerned mainly industrial products. Free trade but also the expected increase of foreign direct investment (FDI) were supposed to have a significant impact on industry and on growth. The "*mise à niveau*" policies aimed at compensating for liberalization shock and helping the industrial sectors to adapt to the new

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price structure and the new competition. But in the last decade, the EU policies have shifted from this industrial concern to a more global approach to deepen the economic integration and to open the freedom of trade to services and agriculture.

Interviews in the energy sector involved a total of 13 different European stakeholders, a minor fraction of these working directly in the field in Morocco and Egypt. Interviews were conducted via Skype. The study involved the following categories of actors: (i) European national institutions and authorities (9); (ii) private energy companies operating in the countries considered (1); (iii) scholars and research centres (1); (iv) international organizations and non-governmental organizations working in the area (1); and (v) energy associations and platforms (1). This carefully selected sample, chosen for the relevance of the role, activities and results achieved, has therefore allowed a fairly good representation of the sector from a variety of points of view. Interviews in the energy sector were conducted in two different rounds. Four interviews with relevant stakeholders at the European level were held during the first round, from October to December 2017, while the second round (March–April 2018) included nine interviews.

Regarding the industry sector, we conducted interviews with four types of organization: EU public institutions (2 interviews), NGOs (2 interviews), lobbyists (3 interviews) and think-tanks (3 interviews). It was important to include some lobbyists in the sample, as they may be very active in the field of norms, certification and industrial property rights. Most of the interviews were conducted face-to-face in Brussels in March 2018 (8 out of 10), one in Paris and finally one by phone.

Engaging European stakeholders was particularly difficult. Regarding energy, this was because of their reluctance or, in some cases, the lack of knowledge or involvement of the institution in the country's energy sector (as in the case of the European Parliament and the European Council, which did not participate in the RMSCs – recursive multi-stakeholder consultations). At least two thirds of the contacted stakeholders did not take part in the RMSCs. Moreover, the stakeholders did not clearly identify Industry as a specific target in the EU policies.

Gender-related issues in both sectors were difficult to analyse. Questions about the gender dimension of the EU policies were raised, but the answers were vague and normative such as "Gender is important" (Interviewee 5i) or "We should focus more on gender" (Interviewee 6i). Because of the sector gender bias in both industry and energy, we were not able to better balance the gender representation of the sample (eight males and only two females for industry; ten males and only three females for energy). The nexus of gender, EU policies, and industry or energy therefore needs to be further documented.

Details of the interviewees are available in Annex 1, to which the RMSC quotes also refer. Annex 2 reports a sample of the questions posed to the interviewees. Interviews in the energy sector are indicated throughout the text with an "e" (e.g., Interviewees 2e, 3e), and those in the industry sector with an "i" (e.g., Interviewee 1i).

The first part of the report will provide an overview of activities and mechanisms of cooperation of the main European actors involved in the energy and industry sectors of the Mediterranean region and in particular within the countries of interest for the MEDRESET project, namely Egypt, Morocco, Lebanon and Tunisia. The second part will present the views of European

stakeholders on EU policies relating to industry and energy in the Southern and Eastern Mediterranean (SEM) based on the interview consultation and the analysis of documents by the interviewed stakeholders.

2. OVERVIEW OF EUROPEAN STAKEHOLDERS' ENGAGEMENT

2.1 EMERGING ISSUES IN ENERGY AND INDUSTRY

Regarding energy, over the last decade a number of major changes occurred in the framework of the Mediterranean region, due to the rather "young" efforts undertaken on decarbonisation, the new perspectives provided by a stronger penetration of renewable technologies and energy, and several changes in the regional energy domain as a consequence of political uprisings, which overturned the traditional export-driven position of some countries. These three factors partly reframed the priorities in the area and the established patterns of European engagement. The previous and failing business-oriented Desertec² attitude now appears to be left aside in favour of a bi-directional and 'win-win' approach that has emerged.

Mutual cooperation has found new impetus at the EU institutional, public and private levels, with several prospects for a deeper engagement in the area. The financial and technical investments needed in the region to exploit its massive energy potential are among the strongest areas of support. European institutions and companies are indeed providing a solid added value in the spreading and promotion of important projects across the region – even though these are frequently labelled as "megaprojects" taking a negative "one-size-fits-all" approach with little attention towards delocalized projects. Communicating the European engagement in an effective manner is indeed one critical issue emphasized at several levels. Furthermore, European stakeholders' efforts include the improvement of both regional and Euro-Mediterranean interconnection systems and the promotion of business models to support countries in setting up open, rule-based and integrated energy systems. Results in these domains are particularly slow, yet in some cases encouraging.

In general terms, despite the attempt to build a coherent and consistent EU's external energy dimension towards the area over the last decade, action is still fragmented and bilateral ties prevail, with some European countries leading the way – with especially Germany, France and Italy enjoying privileged energy relations.

Regarding industry, one of the think-tank members interviewed correctly illustrated the challenges related to industry in the EU policies (Interviewee gi), confirming the findings of the MEDRESET country reports for industry. Industry-related EU policies are not denominated or conceptualized as such by the European stakeholders. Industry was at the core of the Association Agreements (AAs) signed by the EU with the Med-countries because the primary purpose of these agreements was to dismantle the tariffs on industrial products. The first approved AAs (Morocco and Tunisia in 1995), included large industrial programmes in order to

² Desertec refers to a megaproject aiming to produce power from renewables, in particular exploiting the solar potential of the African desert. The project failed to deliver and the European engagement towards the region has been widely criticized for its somewhat unbalanced approach and its one-size-fits-all perspective. See for example Tagliapietra and Zachmann (2016: 4).

accompany and support industry in the South Mediterranean countries. Considering that the AAs would have exposed the endogenous sectors to stronger competition with the dominant European sectors, the concern was to implement industrial upgrade projects. A transition phase for industry was explicitly taken into account by both the EU and the South-Med countries. Some of the inefficient and protected sectors had to be abandoned or modernized and restructured. Some new sectors opened by the AA opportunities (trade and FDI) had to be supported. To implement the strategy, Morocco and Tunisia adopted so-called "upgrading programmes" ("*programmes de mise à niveau*") at the beginning of the process. The Tunisian Programme was embodied by dedicated new institutions, funded by the Tunisian State as well as the EU or other donors. The "*Bureau de mise à niveau*" drew up a strategy and set selection criteria for enterprise candidates and monitoring instruments.

This clear vision on industry challenges became blurred and shifted ten years after the Barcelona conference (1995) to a more neoliberal approach (Interviewees 5i, 9i). The central preoccupation of the EU was no longer to help the Mediterranean countries to buffer the competitive pressures by supporting the upgrade of programmes, but to help them to implement the administrative capacities and the regulatory framework to achieve a deeper trade integration (Interviewee 9i). This shift is in phase with the Neighbourhood policy in 2004 which modified the objective to build a region of prosperity to a more differentiated bilateral logic with each of the countries. This new orientation counts much more on market forces to reach prosperity than on political agreements encompassing the whole region. It is also in phase with the second step of the trade agreement retraced in the DFTCA projects. In such a context, industry almost disappeared (the term is very scarce in post-2007 documents) and was replaced by aid-for-trade strategies and programmes, as we have noticed in the MEDRESET country reports on industry, especially for Egypt (Moisseron et al. 2018).

As we have seen, this *industry to aid-for-trade* shift raised several problems in the MEDRESET questioning on industry. Firstly, trade is naturally related to industry, but what should be the limits of industry-related EU policies? When an EU programme focuses on trade, what does this mean for industry? Secondly, South-Med countries can hardly be described as industrial countries (Interviewees 2i, 3i). Contrary to the Asian emerging countries, they have not developed significant industrial sectors and rely on agriculture and services. They have benefited from commodities like oil or phosphate and also from tourism (Interviewee 7i). Industry sectors were traditionally primarily dominated and produced by state-owned companies. Thirdly, they represent small and fragmented markets for European industrial products (Interviewees 3i, 6i). This has consequences for all the industrial lobbyists working in Brussels: most of them have little interest in the region as a potential market (Interviewees 2i, 3i, 6i). It was not possible to investigate this issue in detail because of the large number of lobbyists, who are segmented in their respective industrial sectors, but a visit to their websites does suggest this result (see Annex 3).

In light of the above, we encountered difficulties in the stakeholder interviews. Industry sounded, most of the time, quite strange to interviewees except on environmental issues (Interviewee 5i) where industry is seen as a polluting sector. The question of fairness of the EU free trade agreements often falls into an ideological debate pro and contra neoliberalism, which was not very informative (Interviewee 4i). That is why we tried to complete the interviews by analysis of the websites of three categories of European stakeholders: European public organizations, NGOs and lobbyists.

The context of industrial cooperation slightly changed in 2017 during the discussion on the 2018–2020 work programme on industrial cooperation (Interviewee 1i) by taking into account the diversity of the situation and the necessity of a more tailor-made policy. The draft of the 2018–2020 work programme on industrial cooperation was presented during the final technical meeting on 26–27 October 2017.

2.2 MAPPING EUROPEAN TOOLS AND STAKEHOLDERS

2.2.1 EUROPEAN INSTITUTIONS AND DELEGATIONS

Regarding energy, the overall vision of the Union towards the region is developed within the European Union Global Strategy (EUGS), which prescribes practical cooperation on energy issues in the Mediterranean. In addition, through the European Neighbourhood Policy (ENP) – revised in November 2015 – the EU works with its Southern Neighbours, through a series of bilateral policies between the EU and single partner countries. This is complemented by another initiative, the Union for the Mediterranean (UfM), formerly known as the Barcelona Process. The UfM is a key forum for regional exchanges on energy, and several projects are managed by its General Secretariat, such as the Mediterranean Solar Plan. The EU has association agreements with countries in the area, identifying problems and prospects for cooperation. In general terms, it works extensively to promote reforms of the electricity market, liberalization and unbundling, partly using the Single European Market as a model for the Middle East and North Africa (MENA) energy market. Furthermore, the Juncker Commission considers energy security as a political priority within the Energy Union Package, thus being mainly interested in MENA partners: the latest MoU signed with Egypt in April 2018, for example, reflects its efforts in diversifying gas suppliers (EU and Egypt 2018).

For industry-related policy, the general framework is given by the association agreements with each country and also the action plans negotiated within the ENP. The EU association agreements scheduled the trade tariff dismantling, which is almost achieved for industrial trade. The action plans indicated the different aspects of cooperation concerning industry and trade and served as an essential document or roadmap to define and justify the industry-related programmes. The EU and the Mediterranean countries adopted in 2004 a joint multi-annual work programme on industry during a Ministerial meeting. The “2014–2017” work programme aims at: (i) improving the business climate, promoting entrepreneurship, innovation and SMEs; (ii) encouraging SMEs to innovate, export and become international; (iii) establishing a large pan-Europe-Mediterranean market for industrial products; and (iv) dialogues on textiles and clothing, and creative industries. The four countries covered by MEDRESET are involved in the programme (European Commission 2018). The rationale to boost growth and employment relies on the creation of business and entrepreneurship: “SMEs are the main source of new jobs” (European Commission 2018: 2). The second rationale is to facilitate industrial trade between the EU and the Med countries by implementing agreements on conformity assessment and acceptance of industrial products (ACAAs). The objective is “to finalise alignment with the EU model of horizontal and sectoral legislation, including the adoption of standards for priority sectors, and upgrade the enforcement infrastructure in the fields of accreditation, standardisation, conformity assessment, metrology and market monitoring” (European Commission 2018: 14). We may mention a substantial limitation of the involvement of the EU in that respect. The document underlines that: “This work programme does not constitute a

financing decision by the European Commission” (European Commission 2018: 3). This remark is a sign of the contradiction between the insistence on industry in the AAs and the Action Plans, and the posterior shift to inclusive growth.

One of the principal flagships of the Commission – and constituting the bulk of both its European and external priorities – foresees the boosting of investments, and in particular the removal of barriers and the mitigation of risks for a wider and easier leverage of the private sector into the energy domain. Allowing an expansion of economic sources is indeed at the core of the External Investment Plan and the included European Fund for Sustainable Development guarantee. Within the Commission’s organizational chart, DG Energy (through its Directorate on Energy Policy and the Unit on International Relations and Enlargement) and DG Near (with Directorate B in charge of the Southern Neighbourhood) deal with these matters. MENA countries are represented within specific geographical units within the European External Action Service (EEAS) in Brussels, and EU representations in loco all have personnel dealing with economic reforms, investment opportunities and energy projects. Concerning industry and trade, the strategy is decided by the central direction of the Commission (EEAS: unit Mid-Mena, DG trade Unit E3 South Mediterranean and the Middle East) but with the active participation of the EU delegations and also the Parliament. The DEVCO DG is also involved in issues such as ensuring sustainable, economic, social and environmental development and even in the Energy Union which is its 4th specific objective (Interviewee 1). The UfM secretariat was appointed in 2017 for the organization of the technical meetings on industry.

Within the European Parliament, the main legislative and non-legislative energy proposals are primarily addressed by the Industry, Energy and Research (ITRE) Committee, while two targeted forums of dialogue on the area are represented by the EU-Maghreb and the EU-Mashreq Delegations.

The Council of the EU includes a Directorate General dealing with energy (E) and one with Foreign Affairs (C). The Competitiveness Council recently adopted conclusions on the EU industrial policy strategy (Council of the EU 2018) related to the “new industrial age” cited in a communication of the European Commission (2017).

The European Investment Bank (EIB) is the strongest multilateral climate financier: in the 2000–2018 timeframe, the bank has invested approximately 8.5 billion euro in energy-related projects in the region.³ Its lending operations are part of the External Investment Plan, and its engagement in the region is based on a mandate from the EU. Thanks to Commission grants, the cost of investment is much less burdensome than in the market, through so-called “blending”. As for industry, the EIB supports it through facilities to cement and steel works, chemical and metallurgical plants, the automotive sector and agro-industry.

The European Bank for Reconstruction and Development (EBRD) fosters regular dialogue between the public and private sectors through the SEMED Platform, combined with a strong focus on private investments in renewable energy. In several countries the bank promotes the private-to-private scheme, allowing renewable energy producers to sell directly to customers.

3 See EIB website: *Financed Projects* (filter active: energy loans from 2010 to 2018 in Mediterranean countries), <http://www.eib.org/projects/loan/list/?from=2000®ion=5§or=1000&to=2018>.

The EBRD supports private sector competitiveness in Lebanon and Tunisia but also agro-industry in Egypt.

MedTSO and MedReg are two important Euro-Mediterranean cooperation platforms. The first includes 21 gas and electricity transmission system operators from 19 Mediterranean countries, and works as a facilitator for infrastructure development and systems integration in the Euro-MENA area. Its Mediterranean Project initiative (2015–2018) – funded by a 3-year DG NEAR grant – managed to identify and assess 14 potential interconnection infrastructures (around 18 GW of new interconnection capacity) (MedTSO 2018). On the other side, MedReg brings together 25 national regulatory authorities from 21 countries, supporting them to move towards solid regulation models by promoting a common, integrated and independent regulatory culture, through know-how exchange and detailed reports. Several variables are taken into account when assessing the Mediterranean regulators: level of independence, competences, organization, enforcement, transparency and accountability (MedReg 2018).

Cooperation on industry is less institutionalized than for energy, but the EU and Mediterranean industry ministers meet at regular intervals. The Working Party on Euro-Mediterranean industrial cooperation met on 23 February 2016 and on 8 March 2017.⁴ These two meetings focused on the following issues: business climate, innovation and internationalization; ACAAs; and Creative Industrial Clusters. The meeting in March 2017 added a chapter on job creation and social economy (UfM 2017a). The first UfM Expert Technical meeting (previously called Working Party on Euro-Mediterranean industrial cooperation) was organized in October 2017 by the DG Grow and the Union for the Mediterranean (UfM) secretariat. (UfM 2017b: 1). The UfM has become the privileged structure for regional relations on specific fields (energy, water, employment, urban development, industry and SMEs).

The Euro-Mediterranean Dialogue on the textile and clothing industry was launched in 2004. The Dialogue provides a platform for an exchange of experiences and initiatives to boost the competitiveness of the sector. Two conferences – which gathered EU representatives, companies and professional organizations – were organized, one in 2014 celebrating the tenth anniversary of the Dialogue and one in April 2015.

2.2.2 GOVERNMENTAL INSTITUTIONS

Bilateral ties are strong in the region. Through its cooperation agency Gesellschaft für Internationale Zusammenarbeit (GIZ),⁵ the German government stands as a key actor in several countries, mainly Morocco, Egypt and Tunisia, directing particular attention to energy efficiency projects and devoted to the social aspects and gender inclusion in the green transition – although these largely remain unanswered matters. French cooperation is strongly engaged in the gas and renewable sectors of several countries through the French Development Agency (*Agence Française du Développement*, AFD). As an example, in Egypt the AFD is extending the natural gas network connection to 1.5 million households, and has allocated a 40 million euro sovereign loan to finance the construction of the first photovoltaic power plant connected

⁴ See UfM website: *Working party on Euro-Mediterranean Industrial Cooperation*, <https://ufmsecretariat.org/working-party-on-euro-mediterranean-industrial-cooperation>.

⁵ GIZ is a German development agency, working closely with the German Federal Ministry for Economic Cooperation and Development which is GIZ's main commissioning party.

to Egypt's grid.⁶ For industry, AFD used to participate in and finance modernization plans, especially in Morocco and Tunisia, but this is no longer the case. Bilateral actions now focus on trade enhancement.

2.2.3 PRIVATE COMPANIES

Several European energy companies are strengthening their presence in the area. Mediterranean gas and oil prospects are attracting a number of European actors. For example, ENI has widely diversified its gas exploration portfolio: other than the exploration activities around the Zohr gas field offshore Egypt, it has signed a petroleum agreement with the Moroccan State Company ONHYM (on 20 December 2017) and two exploration and production agreements in offshore Lebanon (in February 2018). Likewise, Total is part of the Lebanon exploration race, as well as in the Nile Basin – and BP began production from another gas field offshore Egypt, Atoll, in February 2018.

Several companies are involved in the different stages of renewable deployment. As an example, Enel and Siemens together with Nareva develop, finance, build and maintain several wind projects in Morocco (for a total installed capacity of 850 MW) (Enel Green Power 2016). The EDF Group is present in Egypt (Aswan solar park).

European companies are highly involved in industrial sectors in the Mediterranean countries and play an essential role. In the traditional textile sector, European companies subcontract a significant part of the production. But new areas are emerging notably in the automobile and aeronautical sectors. For example, Renault took advantage of the opportunity opened by the Moroccan industrial plans to boost the car industry.

2.2.4 CIVIL SOCIETY AND SECTORIAL ASSOCIATIONS

Ultimately, several civil society platforms and associations are involved in promoting renewable energy in the Mediterranean, exploring ways to liberalize electricity markets and calling out policy-makers over potential social impacts of energy reforms in countries. Several European-based associations and NGOs frequently urge higher ambitions on the part of the European Commission and the European Parliament when they are proposing or discussing energy-related dossiers, through position papers and campaigns. In its campaigns on the Arab region, Greenpeace has also been recalling the potential economic benefits such exploitation could bring in terms of green jobs and environmentally sound tourism. Another topic frequently used in the discourse is the impact that clean energies could have on the economic balance of several states (Greenpeace 2016).

Associations of renewable industries and sectorial organizations seem particularly active. The association WindEurope, following the EU–Egypt MoU signed in April 2018, launched a strong call to quickly reform Egypt's national legislation in order to unlock the country's wind potential and make products bankable in that sector (WindEurope 2018). SolarPower Europe has launched an "Emerging Markets Task Force" to reduce barriers to solar deployment in the

6 See AFD website: *Map of Projects*, <https://www.afd.fr/en/recherche>.

Mediterranean region.⁷

European NGOs are also active concerning the relation between the EU and South Mediterranean partners even if they rarely focus specifically on industry. We can mention here the leading role of EuroMed Rights (see below), whose reports are known to the civil society organizations we interviewed. Let us note that the NGOs criticize the neoliberal approach of the EU but have difficulty proposing an alternative.

3. ASSESSING EU POLICIES ON INDUSTRY AND ENERGY IN THE SOUTHERN MEDITERRANEAN FROM THE PERSPECTIVE OF EUROPEAN STAKEHOLDERS

3.1 ENERGY

3.1.1 LITTLE KNOWLEDGE OF EU ACTION AND ITS IMPACT

Overall, knowledge of European action in the energy sector on the part of the stakeholders interviewed was very low. Only a small part of the respondents knew about the action of other institutions or stakeholders, and then simply because they were working with them. Some respondents even lacked a general view on the European approach, missing the current transition from a Desertec kind of vision, marked by a one-directional, supplier-consumer relation, to a more win-win collaboration between the countries of the two shores of the Mediterranean, witnessed by the steps made in supporting sustainable energy in Southern Mediterranean countries and improving their economic stability while guaranteeing the EU's security of supply. One respondent, despite involvement in the Moroccan energy sector, did not even know about the existence and the characteristics of the Desertec project (Interviewee 12e).

European stakeholders' knowledge of the countries' energy sector appeared varied. While a global understanding of the main issues appeared to be well-rooted in almost all respondents (Interviewees 2e, 3e), they were often unaware of some key issues that, despite affecting the energy sector as a whole, were outside the respondent's field of action. This appeared to be true both for institutional actors (Interviewee 1e), and for NGOs (Interviewee 6e) and the private sector (Interviewee 4e). In the case of Morocco, for instance, while all respondents indicated the country's energy dependence as the most relevant problem for the energy sector (Interviewee 10e), only the stakeholders directly involved with Moroccan institutions considered governance an issue to be addressed (Interviewee 11e). In this sense many respondents, particularly from the side of European Union institutions (Interviewees 3e, 2e), appeared to be less aware of or less keen to address questions related to institutional reforms or the political debate – and their implications on the energy sector. One respondent, from the European institutional side, highlighted that, in the case of Egypt, they were less willing to touch critical issues of the country's energy sector (governance, promotion of renewables, subsidies), to focus on positive cooperation and gain leverage to deal with more critical topics in other areas such as

7 See SolarPower Europe website: *Emerging Markets*, <http://www.solarpowereurope.org/?p=825>.

human rights (Interviewee 1e).

As far as the impact of EU action in the SEM countries is considered, respondents provided very limited or no answers. However, they widely discussed the issue of visibility of the EU in the energy field (Interviewees 1e, 2e, 3e, 7e, 13e). In general, EU stakeholders appeared to divide this into two different kinds of perception: on the part of the local institutions and policy-makers, and of the countries' national publics. Almost all respondents acknowledged that the latter was completely missing (Interviewees 3e, 5e). Some of the respondents however believed this to be either too expensive or unnecessary to perform (Interviewees 2e, 3e), because their work was mostly done on the policy-maker level. However, a few proposed an increased focus in the communication dimension of their projects, to give visibility both to EU institutions and to the Union as a whole, among the general public of the countries they work in (Interviewee 7e).

Regarding the policy-maker level, many respondents from EU institutions believed that they had adequate visibility, and that the added value brought by European cooperation was indeed recognized (Interviewees 1e, 9e). Nevertheless, two of them highlighted the risk of national governments taking the credit for European projects – an issue they said they directly witnessed in their work (Interviewees 2e, 3e). Globally speaking, a slight overestimation of the visibility of the EU's work was evident in the answers provided by respondents from European institutions and from NGOs.

3.1.2 THE WAY FORWARD: REFORMING THE EUROPEAN APPROACH

The majority of European stakeholders did not have a well-defined idea of how cooperation between the two shores of the Mediterranean should be reformed (Interviewees 1e, 8e). Only a few reported the need for a more structured approach, connecting the different components of European action (Interviewees 2e, 3e, 9e), and almost none proposed a radical shift. Many suggested to continue and expand a project-based approach, in particular in those countries where the EU presence in the local energy sector is limited (Morocco in particular) (Interviewees 11e, 8e). Only a few suggested a more policy-focused kind of cooperation (Interviewees 2e, 3e). This was proposed in particular for Egypt, also because of the positive collaboration developed in the past years on gas and energy market laws. Almost all respondents, including the private sector and NGOs, suggested strengthening capacity building and know-how exchange (Interviewees 9e, 11e).

One of the most interesting and outspoken suggestions came from an institutional respondent (Interviewee 7e), who suggested a relaxing of the current EU approach on project financing, which appears to be too focused on promoting best practices that are hardly applicable to partner countries in the area – and that are often discarded once the project is finished. The respondent thus suggested to allow a few exceptions, such as including some local content in the development of projects, or a less bureaucratic and strict process to access funding. In general, many respondents suggested easing current procedures, in order to widen the potential participants in current projects and initiatives.

3.2 INDUSTRY

INDUSTRY DILUTED IN THE AID-FOR-TRADE POLICY

As far as knowledge of EU action in industry on the part of the interviewed stakeholders is concerned, the situation is even worse than for energy. As noticed before, questions on industry led to a certain perplexity because of the shift from industry to aid-for-trade. The EU Direction acknowledged that except for specific programmes, none of them directly target industry (Interviewee 1i). Nevertheless, almost all respondents were aware of the growing importance of the private sectors and of private-public partnerships (which are the core of programmes such as the External Investment Plan), and they were thus aligned to the current policy perspective of many European institutions, in particular the European Commission.

LIBERALIZATION VERSUS INCLUSIVE GROWTH AND ECONOMIC AND SOCIAL RIGHTS

The NGOs differentiated between the objectives of EU policy aiming at achieving an inclusive growth and the main tool to reach it: trade liberalization (Interviewees 4i, 5i). One of the NGOs pointed out the gap between the social impact of liberalization, which is constantly underestimated, and the scarcity of funds to buffer these effects (Interviewee 5i). This argument is present in the activist literature: the volume of aid is “scarcely more than a drop in the proverbial bucket” (Zorob 2016: 18). NGOs such as EuroMed Rights are more critical, generally speaking, on the EU-Mediterranean agreements. Their main argument is the underestimation of the social transition costs: “Sufficient financial cushioning of the costs of adjustment produced by trade liberalisation with the EU has neither been planned nor would it have been feasible in the framework of the funds made available by the EU and its member countries” (Zorob 2016: 18). Trade liberalization does not lead to inclusive growth and alternative policies are needed to address the challenges of employment especially for young people and for women (Interviewee 4i). The neoliberal approach of EU policy may be counterproductive in the long term if the needs of the population are not fulfilled (Interviewee 4i). One of the NGOs stated that the social impacts of the AA are not really a subject of concern despite the EU narrative on inclusive growth, employment and gender issues. The priority remains assistance with reforms and especially those related to the *acquis communautaire*, instead of cushioning adverse effects and adjustment costs of trade liberalization. (Interviewee 5i).

NEED FOR MORE ACADEMIC STUDIES ON THE LINK BETWEEN ECONOMIC AND SOCIAL RIGHTS AND TRADE LIBERALIZATION

For the two NGOs, studies on FTA effects focus mainly on macro-economic aspects but few are done to understand the impacts on social aspects, poverty and inequality (Interviewee 4i). One of the NGOs referred to EuroMed Rights reports stating that almost no studies try to assess the impacts of AAs on income and employment for rural women and that “the impact of liberalisation on working conditions, job quality and social protection has remained – apart from some exceptions – a rather blind spot in economic research” (Zorob 2016: 30).

Similarly, the Spanish organization Fundación Paz y Solidaridad Serafín Aliaga expressed its concern about the lack of dedicated studies on social impacts of AAs on the Mediterranean countries and also the fact that “the existing economic studies are contaminated by ideology” (Aita 2008: 153). Moreover, according to the same report,

the Mediterranean countries are marked by the weakness and lack of diversity of the local organizations that conduct economic studies; the most active ones are financed by certain international institutions (World Bank, EEC, and diverse NGOs), and are heavily influenced by the specifications and agendas set by these institutions. (Aita 2008: 153)

However, the assessment reports on the AA or the DFTCA undertaken by the EU are more cautious about the effects of the FTA than are the political discourses. The SIA-EMFTA project report underlines as potential impacts: (i) significant short-term rise in employment, which could continue in the long run, (ii) fall in wage rates associated with increased unemployment, (iii) significant loss in government revenues, (iv) greater vulnerability of poor households to fluctuations in world market prices for basic foods, and (iv) adverse effects on the status, living standards and health of rural women (Ahmad et al. 2007: viii).

NEED FOR ACADEMIC STUDIES ON INDUSTRY

Reviewing the think-tank literature, most think-tanks do not deal with the issue of EU policies in the industry sector in the SEM region (Interviewee 7i). The only consistent paper we have found, related to industry in a Mediterranean country, is provided by the German Development Institute. However, although Loewe (2013) exposes in detail the evolution of Egyptian industry between 2004 and 2011, he does not focus on EU policies in this sector. A member of the Brussels-based think-tank Centre for European Policy Studies (CEPS) insisted on the difficulties of the DCFTA negotiations (Van der Loo 2016) with a risk of a break in the process but with no reference to industry-related matters. In a critical assessment of the ENP, another member of CEPS considers that the EU failed in its objectives: "On a more fundamental level, the old ENP did not manage to tackle the root causes of the protracted conflicts in the region, again mainly in the south: poverty, lack of education, and unemployment" (Blockmans 2017: 137).

LIBERALIZATION MAY SUCCEED BUT UNDER CERTAIN CONDITIONS

The interviewed think-tanks and lobbyists are more optimistic about the effects of the liberalization but only if specific conditions are fulfilled (Interviewees 2i, 7i, 9i, 10i). The Parisian think-tank insisted on South-South trade whose level is much too low to entail significant effects for the south shore of the Mediterranean (Interviewee 9i). The argument is common in the literature and shared by a European think-tanks such as Bruegel, which underlines the importance of South-South trade:

Regional integration is still a sure way for economies in development to achieve economic growth on the global market. The south of the Mediterranean has still a low level of intra-regional trade integration, dominated by some overlapping trade agreements and political instability. The EU has the opportunity to play a decisive role, promoting and coordinating the process. (Biondi and Demertzis 2017)

For one of the think-tanks (Interviewee 10i), the DCFTA may have a bigger effect than the earlier FTAs because it addresses the reasons why the FTAs have had low effects. These reasons are condensed in a Bruegel report that justifies the low impact of the trade agreements:

Four reasons [explain why] the results of trade agreements have been so disappointing: First, prior to the current set of EU-Med trade agreements, the North African countries already had largely free access to European markets for manufactured goods – which account for the lion's share of their trade – and they also enjoyed a small margin of preference relative to most other large exporters under GSP (Generalised Scheme of Preferences) arrangements. Therefore, the impact of the agreements on exports to the EU was naturally small. Second, a variety of impediments – including subsidies, quotas, reference prices and seasonal barriers – continue to hobble exports in the sectors in which North Africa has a revealed comparative advantage, notably agriculture (a large source of value-added and even greater source of jobs in North Africa). Third, restrictive rules of origin and limited cumulation further restrict the North African countries' effective access to the EU market. Fourth, the aid flows associated with the EU trade agreements with North Africa are small compared to the needs. (Dadush et al. 2017: 7)

For one of the lobbyists the new DCFTA will significantly facilitate trade between the two shores of the Mediterranean, as it will reduce the possibility to "overuse" non-trade barriers. The common norms and certifications will reduce transit costs and delays (Interviewee 6i).

THE WAY FORWARD: FACILITATE A REAL INDUSTRIAL INTEGRATION AND BUILD A GENUINE INDUSTRIAL FABRIC

One of the think-tanks pointed out the quality of FDI and the nature of industrial links between the economies of the two shores of the Mediterranean (Interviewee 10i). One of the promises proffered by the AA was the positive effect it would have on FDI. However, theory may provide an opposite rationale, as the existence of tariffs was in fact one of the motivations for developing FDI – to bypass them. An international company limited by tariff barriers may find it attractive to locate a part of its activity in the country in order to sell its production directly and avoid tariffs altogether. Of course, the theories have also developed positive arguments in favour of trade liberalization. As a matter of fact, EU FDI has increased significantly in Mediterranean countries since the launch of the Barcelona Process, and one may consider that the Process promises were honoured. It would have had significant effects on economic transition if these investments had contributed to building an interlinked network of industrial companies, constituting a genuine industrial fabric as was the case for the Eastern countries. In the Mediterranean countries, however, FDI was related to privatization programmes where big European or Gulf investors bought some of the state-owned companies (bank, assurance, oil). Other sectors were mainly related to real estate and tourism. In these circumstances foreign direct investments have played a completely different role than in the Eastern countries: they are not really labour intensive, they don't entail spillovers and innovation, and they do not offer greater access to the EU market.

Another think-tank insisted on industrial integration and put FDI characteristics at the centre of its analysis with the concept of "co-production" (Interviewee 9j). EU-Mediterranean cooperation needs to link the two shores by a co-constructed strategy. Co-production is an industrial model based on new industrial relations, that searches for complementarity between countries in the region and redistributes value chains more equitably. It aims to break with the ongoing model, where Europe relocates the less innovative and low-added-value segments to the south in order to benefit from the comparative advantages regarding low labour costs and by using a

less qualified workforce. This model does not make it possible to generate a virtuous circle of value chain upgrading, acquiring skills and transferring technology. It traps Southern countries in a subordinate and weakly innovative role.

Co-production is, in fact, one of the explanations for the success of the industrialization of Asian countries. Japan has entered into strategic partnerships with these countries in parallel with its own development and has led the region as a whole in extensive and intensive industrial development. All countries have been dynamically linked to the improvement of the value chain. As a result, Japan's neighbouring countries were able to become a market for its products, as it became a market for the less refined products produced by its neighbours. The notion of co-production consists in operating the same type of relationship in the Mediterranean based on trust, strategic alliance and long-term shared vision (Weigert 2014). This co-production is actually at work in various sectors, particularly in the automotive sector in Morocco (Weigert 2014: 8).

POLICY RECOMMENDATIONS

ENERGY

Stronger knowledge and coordination are needed to achieve a faster implementation of several priorities for the area. European actors tend to focus on their own specific action range, sometimes disregarding other key tools that do not directly fall under their responsibility and that might, conversely, create added value towards a common objective.

An improved communication around the European engagement in the area might help fill the gap between the local and European perception of actions and projects.⁸ The perception that European stakeholders have of their visibility among the general public in the area varies, yet they generally all admit difficulties in communicating their engagement.

It is necessary to launch and promote an inclusive discussion on both a general reform of EU cooperation in the area and on the efficacy of individual projects and initiatives. A general debate over the reform of the approach of EU energy cooperation in the area is substantially missing.

Choices taken by institutions, companies and NGOs in the energy sector should better integrate gender and social aspects within their actions and tools. Likewise, policy-makers should take into account long-term evaluations of targets and benefits for the population, elaborating more farsighted regulatory and legislative frameworks. Gender issues and social vulnerabilities related to the energy sector are still insufficiently assessed in the debate and rarely addressed by concrete solutions.

The private sector and the private-public partnership should remain one major priority. Simplification and diversification of tools should be the driving principles to allow the

⁸ See MEDRESET WP6 country reports for local perceptions, frequently indicating European engagement in "mega-projects", thus suggesting a negative image of their action.

participation of more actors in the game and unleash the potential more quickly. Even though investments represent a major part of European support in the field, the development of clean energies and solutions suffers from a sub-optimal environment, especially for private investors.

INDUSTRY

The significant findings concerning industry are the following. As in the other MEDRESET country reports, industry is a blurred issue for the stakeholders and a category that was almost not used, including in the official documents. The primary target of the EU is trade facilitation, not industry. It was therefore sometimes tricky for the respondents to give sound information focusing on industry, and most of the interviewees directed the conversation towards the DCFTA. The NGOs criticize the neoliberal approach of the EU, distinguishing between the economic and social rights of the population and trade liberalization. The lobbyists are more enthusiastic as the DCFTA will avoid the use of non-tariff barriers. The think-tanks are also in favour of the DCFTA but pointed out conditions for success such as the quality of the industrial ties inside the Euro-Mediterranean region.

Clarify the EU policies concerning industry. The interviews showed a gap between the announced EU priorities for industry and the instruments that focus mainly on trade facilitation in the framework of the DCFTA. This gap explains the difficulties encountered by the stakeholders in understanding and identifying the scope of the EU policies.

Build a win-win long-term strategy taking into account the interests of the South Mediterranean countries. Even if the DCFTA may have a positive impact on the South Mediterranean countries, it is clear that it will also have negative effects and will mainly benefit the EU. A short-term vision based on trade advantages for the EU explains the reluctance of the South Mediterranean countries to sign the agreements. But it also affects their confidence in a long-term partnership with the EU. Trade-aid facilities rewarding internal trade reforms is still a Eurocentric policy and is not perceived as a win-win process. A new strategy should overcome antagonism.

Building a new industrial strategy based on the digital revolution and environmental challenges. The digital revolution and environmental constraints represent opportunities for a New Industrial Policy, one that would drive European FDIs to help the South Mediterranean shore build genuine industrial sectors. The southern shore of the Mediterranean may play a crucial role in such a matter. But, this means that the EU should go a step toward a trade-aid policy and develop much more long-term sectorial initiatives.

Co-construction of a New Industrial Policy based on a close cooperation with the different countries and a co-production strategy. The "laissez-faire" rationale of the EU policies focusing mainly on the business climate and competitiveness is not sufficient to define long-term industrial projects. The example of the new Moroccan automobile industry shows that building new industrial sectors is feasible and can reach ambitious objectives. The New Industrial Strategy should be co-constructed with the Mediterranean region using a co-production approach. Such a policy should help the South Mediterranean countries to build their own dynamic comparative advantages, drive the training programmes, implement national and sub-regional strategies articulated with national decentralization policies and explore the opportunities offered by the emerging Africa. The long-term interest of the EU is to help the South Mediterranean countries to move out of a position in the international value chain that

has trapped them in low-technological sectors.

Gender issues and social vulnerabilities related to industry need to be assessed in the debate and addressed by concrete solutions. This is a crucial dimension for South Mediterranean countries because of the very low female activity rate. Definition of decent jobs and working conditions, and building institutions that facilitate female employment and deal with family constraints are required for unlocking the low female access to jobs.

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ANNEX 1: LIST OF INTERVIEWEES

ENERGY

Interviewee 1e. European Union institution, female representative, 1 March 2018, Brussels, by Lorenzo Colantoni

Interviewee 2e. European Union institution, male representative, 1 March 2018, Brussels, by Lorenzo Colantoni

Interviewee 3e. European Union institution, male representative, 1 March 2018, Brussels, by Lorenzo Colantoni

Interviewee 4e. Energy company based in Italy, female representative, 2 March 2018, Brussels, by Lorenzo Colantoni

Interviewee 5e. Energy association and platform, male representative, 15 March 2018, phone, by Lorenzo Colantoni and Margherita Bianchi

Interviewee 6e. Environmental affairs NGO, male representative based in Lebanon, 20 March 2018, Skype, by Margherita Bianchi

Interviewee 7e. EU financial institution, female representative, 23 March 2018, Skype, by Lorenzo Colantoni and Margherita Bianchi

Interviewee 8e. European financial institution, male representative, 28 March 2018, Skype, by Margherita Bianchi

Interviewee 9e. European institution based in Cairo, male representative, 5 April 2018, phone, by Margherita Bianchi

Interviewee 10e. Regional platform and think-tank, male representative based in Paris, 4 December 2017, Skype, by Lorenzo Colantoni

Interviewee 11e. Institutional European actor based in Morocco, male representative, 25 October 2017, Rabat, by Lorenzo Colantoni

Interviewee 12e. EU institution based in Morocco, male representative, 24 October 2017, Rabat, by Lorenzo Colantoni

Interviewee 13e. EU financial institution based in the MENA region, male representative, 7 December 2017, phone, by Federico Mascolo

INDUSTRY (BY JEAN-YVES MOISSERON)

Interviewee 1i. EU institution, male representative, 29 March 2018, Brussels

Interviewee 2i. Lobbyist based in Brussels, male representative, 29 March 2018, Brussels

Interviewee 3i. Lobbyist based in Brussels, male representative, 29 March 2018, Brussels

Interviewee 4i. NGO based in Brussels, female representative, 29 March 2018, Brussels

Interviewee 5i. NGO based in Brussels, female representative, 29 March 2018, Brussels

Interviewee 6i. Lobbyist based in Brussels, male representative, 30 March 2018, Brussels

Interviewee 7i. Think-tank based in Brussels, male representative, 30 March 2018, Brussels

Interviewee 8i. EU institution, male representative, 30 March 2018, Brussels

Interviewee 9i. Think-tank based in Paris, male representative, 26 March 2018

Interviewee 10i. Think-tank based in Marseille, male representative, 26 March 2018, phone

ANNEX 2: QUESTIONNAIRE

GENERAL OVERVIEW OF THE SOUTHERN MEDITERRANEAN ENERGY/INDUSTRY SECTOR

- 1) What do you think are the major energy issues in the Southern Mediterranean region? Specifically:
- What sectors and stakeholders (such as domestic households, heavy industry and others) do these issues affect?
 - What do you think is the position of Morocco, Egypt, Lebanon and Tunisia inside the energy transition? Do you think that enough is done to promote renewables, both in terms of technological development, market and industrial integration?
 - What is the status of energy demand management policies? Are they effective, excessively expensive and which sectors and stakeholders do you think they impact the most?
 - How is the business environment in the energy and industrial sector? How does this impact on the energy and industry policy objectives? What are the positive and negative lessons learned by investors, and with what results?
 - What is your opinion on the functioning of the national energy markets, in terms of liberalization, for instance, and the role of the regulatory?

EUROPEAN ACTION, IMPACT EVALUATION AND THE WAY FORWARD

- 2) Do you think that the EU's energy and industrial policies in Southern Mediterranean are effective? Specifically:
- Who is benefiting and who has been negatively affected?
 - How do they deal with the major problems in terms of issues, instruments and stakeholders?
 - What do you think has been the impact of institutions such as MedReg and MedTSO? And the Euro-Mediterranean cooperation in industry?
 - What do you think is and will be the role of the two newly launched platforms for electricity and gas?
- e) Are the platforms/cooperation mechanisms exploited to their fullest?
f) What do you believe have been the major obstacles?
- 3) How is your action perceived, both on the local and the policymaker level? What degree of visibility has it obtained so far?
- 4) What should be the EU's priorities and policies in the Lebanese, Moroccan, Egyptian and Tunisian energy and industrial sectors in terms of issues, instruments and stakeholders?
- 5) How do the policies by other regional and external players impact the Southern Mediterranean national energy and industrial policies? This include countries such as the US, Algeria, Saudi Arabia, Iran, China and Russia, as well as international institutions such as the World Bank, the Gulf development funds and so on. Are these policies conflicting, competing or converging with the EU's?
- 6) What about the gender dimension in energy and industrial sectors? What could the EU do in order to take into account the impacts of its policies on gender?

ANNEX 3: POSITION OF THE EUROPEAN INDUSTRY ORGANIZATIONS ABOUT THE MEDITERRANEAN

Lobbyists	Sector or activity	Position or study
BDI–Bundesverband der Deutschen Industrie	Industry	No
BusinessEurope	Industry	Contribution to the public consultation on a renewed ENP (2015); Declaration on Social Dialogue (2016)
BusinessMed–Union of Mediterranean Confederations of Enterprises	Private sector in the Mediterranean basin	Very active in the region (see, for example, the EU-financed EBSOMED–Enhancing Business Support Organizations and Business Networks in the Southern Neighbourhood); Declaration on Social Dialogue (2016)
CBI–Confederation of British Industry	Industry	No
CEEMET–Council of European Employers of the Metal, Engineering and Technology-Based Industries	Metal, engineering and technology-based industry	No
CEEP–European Centre of Employers and Enterprises	Public services and services of general interest	Declaration on Social Dialogue (2016)
CEFIC–European Chemical Industry Council	Chemical industry	No
EHI–Association of the European Heating Industry	Heating industry	No
ETUC–European Trade Union Confederation		Declaration on Social Dialogue (2016)
EURATEX–European Apparel and Textile Confederation	Textile and clothing industry	Several papers on the Mediterranean
Eurochambres–Association of European Chambers of Commerce and Industry		Contribution to the public consultation on a renewed ENP (2015)
EuroCommerce	Retail and wholesale in Europe	No
FIGIEFA–Fédération Internationale des Grossistes, Importateurs & Exportateurs en Fournitures	Wholesale of automotive replacement parts and components	No
Gesamtmetall–Gesamtverband der Arbeitgeberverbände der Metall- und Elektro-Industrie	Metal and electrical industry	No
IFPI–International Federation of the Phonographic Industry	Recording industry	No

Investment Association	Investment managers	No
PGEU-Pharmaceutical Group of the European Union	Pharmacists	No
SMEunited (formerly UEAPME-Union Européenne de l'Artisanat et des Petites et Moyennes Entreprises)	Crafts, trades and SMEs	Contribution to the public consultation on a renewed ENP (2015); Declaration on Social Dialogue (2016)
VCI-Verband der Chemischen Industrie	Chemical industry	No

Notes: A keyword search was performed within the organizations' websites to check their interest in the Mediterranean region. "No" means no items found for keywords as "Mediterranean", "Tunisia", "Morocco", "Egypt" and "Lebanon". For position papers dated 2015 and 2016, see: *Contributions to the public consultation "Towards a new European Neighbourhood Policy"*, 2015, https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/neighbourhood/consultation/4_associations.zip; *Declaration on Social Dialogue*, third UfM Ministerial Conference on Employment and Labour, Jordan, 26-27 September 2016, <https://ec.europa.eu/social/BlobServlet?docId=16234>.

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