First Pan-Arab Energy Trade Conference
Towards an effective regional cooperation in electricity and gas trade among the Arab countries

THE NILE RITZ-CARLTON • CAIRO
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The Pan-Arab Regional Energy Trade Platform (PA-RETP) Initiative
Strategic Support and Building Alliances to Facilitate Trade

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Regional cooperation is one of the fundamentals of MENA Strategy to achieve the WBG twin goals

Twin Goals

End Extreme Poverty
- Promote Sustainable and Inclusive Growth

Boost Shared Prosperity
- Build Human Capital
- Strengthen Resilience

Themes

Creating inclusive growth and quality jobs
- Human Capital Development
- Digital Transformation
- Maximize Finance for Development

3 Enablers

Renewing the Social Contract

4 Fundamentals

Resilience to Refugee/IDP, Climate Shocks

Regional Cooperation

Recovery and Reconstruction
Advancing regional electricity and gas trade in the Pan-Arab region require careful and well-designed approaches

• Regional electricity and gas integration can:
  • range in depth and scope, depending on the objectives and willingness for integration.
  • address cross-border externalities and can be structured to promote domestic policy reform and global integration.
  • can help dampen political differences through stronger economic and political ties.

• Owing to the complexity and diversity of the Pan-Arab region:
  • there is a need not only for country-level engagement, but a stronger drive towards finding regional solutions to common and deep seated challenges.
  • gas and electricity trade require construction of cross-border infrastructure facilities which in turn require well-structured regional integration schemes.
The PA-RETP Initiative was introduced in 2016 to build on previous efforts to advance electricity and gas trade in Pan-Arab.

**WHAT IS THE PA-RETP INITIATIVE?**

A collaboration platform launched by the World Bank for cooperation with, strategic partners such as Arab Fund for Economic and Social development (representing Arab Coordination Group) and regional champions (e.g. League of Arab States) to implement the building blocks to institutionalize electricity and gas trade among the Arab countries. It has the following areas of focus:

1. Enabling tools for regional electricity and gas trade
2. Developing regional governance structures and institutions
3. Innovative financing solutions for regional investments
PA-RETP key deliverables focus on creating the Pan-Arab Electricity Market and essential institutional capacity

1. Enabling tools for regional electricity and gas trade
   - Regional Pricing Mechanism
   - Pan-Arab Electricity Trade Model
   - Economic and financial feasibility studies template and guidebook
   - Institutional capacity building programs
   - Bylaws of the market committees

2. Developing regional governance structures and institutions
   - General Agreement
   - Market Agreement+ Market design guide
   - Draft Grid Code handed over to AFESD
   - Regional institutions

3. Innovative financing solutions for regional investments
   - Value of Trade and Regional Investment Plan
   - Financing Modalities (private, public, PPP)
   - Financing Options and potential funding plans
The regional pricing mechanism aim to incentivize “commercial trade” but still phasing out subsidies across supply chain is needed

• The regional pricing mechanism (RPM) aim at addressing subsidies on generation fuels to eliminate the unintended export of subsidies to the importing country.

HOWEVER, addressing the problem of subsidies though this “fix” is incomplete because

• Subsidies on electricity tariffs in importing countries stress the financial condition of the importing country's electric utility, increasing off-take and payment risks

• Subsidies on electricity tariffs in the exporting country results in over-consumption, reducing the amount of electricity that could be traded at international prices.

* Note: Energy subsidies are one of the barriers of trade in the PAEM, other barriers addressed by the PA-RETP are not included this slide
Approach of performing the tasks of PA-RETP

**CORPORATE & PARTNERSHIPS**

- PA-RETP Initiative launched

**OPERATIONAL**

1. Enabling tools for regional electricity and gas trade
   - Focus on three focus areas of PA-RETP

2. Developing regional governance structures and institutions

3. Innovative financing solutions for regional investments

- LAS-WB cooperation MOU
- ACG-WB cooperation MOU supporting the PA-RETP Initiative
- AFESD co-funding for Electricity Trade Tasks
- WB, Arab Fund, & LAS to hold the first Pan-Arab Regional Energy Trade Conference November 2019
Investment case: Interconnecting Iraq, Saudi Arabia, and Jordan with existing Egypt links could be the nucleus for a new electricity hub

• The triangle of connections between Iraq, Jordan and KSA (GCC) is key to accelerating the development of a viable Pan-Arab electricity trading hub as it would interconnect the region’s largest economies

• The projected power generation surplus in Egypt, Jordan and KSA paired with deficits in Iraq creates opportunities for new Win-Win bilateral trade agreements

• If the three interconnections are treated as one project, the capex could be further reduced
  • For example, a $800 million investment in a three-terminal 1000 MW HVDC system has net lifetime economic benefits of $1,940 million.
  • Such an entity could be formed by the three Governments, and structured to run on commercial lines and in a form that maximises the possibility of attracting private sector and commercial financing
Leveraging comparative of development institutions and regional champions is the nucleus for successful support to member states

Regional Champion
(League of Arab States as political dialogue platform for electricity trade)

Arab Fund and members of the Arab Coordination Group
(regional knowledge, financing, expertise)

World Bank
(innovative financing solutions, Global knowledge networks, and projects design)
Establishing the Pan-Arab Electricity Market is a priority

- Getting the PAEM agreements approval is now critical to operationalize the market
- Focus on trade opportunities and key projects to unlock trade potential in short to medium-term
- Ensure a successful pricing mechanism pilot for commercial trade
- Leverage development institutions comparative advantages as well as private sector

Potential Pan-Arab Gas Market/Union is relevant and timely

- Building regional champions (e.g. OAPEC)
- Engaging national champions to scale up buy-in and ownership
- Gradually move up a trading staircase to address gas trade barriers (e.g. governance, pricing, etc.)
- Gradually engage sub-regional first movers to build a foundational platform for gas union/market at the Pan-Arab level
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Thank You!