A Pan-Arab Regional Partnership for Gas Trade
Benefits | Barriers | Approaches

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

41% of world gas reserves

20% of world gas production

Only 10% of Arab exported gas is traded in the region

Source: BP
A Pan-Arab Gas Market Vision is relevant and timely

The benefits of gas trade are well understood

Gas trade should normally take place where surplus gas finds a market at mutually and economically acceptable prices
Status Quo of Gas Infrastructure in the Region

**Arab Gas Pipeline (AGP):** 1200 km, commissioned 2003; currently not utilized due to sabotage and re-directed supply from Egypt

**East Mediterranean Gas (EMG) pipeline:** 90 km; commissioned in 2008; currently not utilized due to sabotage and re-directed supply from Egypt; considered for reverse flow.

**Dolphin pipeline:** 370 km; commissioned 2007; operational despite diplomatic crisis

**TransMed pipeline:** 2475 km; commissioned in 1983; Tunisia receives 5.25-6.5 % of throughput in lieu of transit fees

**Maghreb Europe pipeline:** 1620 km; commissioned in 1996; Morocco receives 7 % of throughput in lieu of transit fees despite tensions

**LNG imports** in Jordan, Egypt (discontinued), UAE, Kuwait and Bahrein
Why is gas trade within the region so low *?

**Political factors**
Regional disputes, violent conflicts and political alliances have historically driven (lack of) choices for trade infrastructure.

**Economic factors**
Subsidized prices below cost of domestic supply or import. Efforts to phase out subsidies are scarce; subsidies are barriers to trade in most cases.

**Other factors**
Geographical; Technological; Resource policies; Flaring; Macro-economic priorities

* From: World Bank report “Analytical foundation for increased Pan-Arab Regional Gas Trade”, 2017
What is necessary to enhance gas trade?

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<th>Political will to cooperate in Regional Trade Agreements</th>
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<td>High level dialogue on “national control and regional cooperation” approach; Respect stakeholders’ concerns about security and sovereignty throughout. Leverage political alliances to catalyze sub-regional trade; Bi-lateral and multi-lateral trade agreements.</td>
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<th>Market-based gas prices across the region</th>
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<td>Removing price distortions at the wholesale level is key; Benchmark pricing is a near-term fix, moving towards effective price reform.</td>
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<th>Harmonized regulatory environment for trade &amp; supply</th>
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<td>Compatibility in regulatory frameworks is required for markets to function effectively. Regulatory and political institutions at the regional level help progressive alignment. Full domestic market opening is not a prerequisite.</td>
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<th>Investment framework for infrastructure</th>
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<td>Allocation of benefits and costs of trade among market participants; Creation of bankable projects; Mitigate risks to attract commercial and private financing</td>
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Major lessons from the European energy market development

- Market integration requires political will
- A top down vision and robust regulatory framework is needed
- Regional cooperation and governance are key in building regional institutions and markets
- The process takes time but requires persistence, agility, and adaptability
- But citizen benefits can be large and security of supply significantly enhanced
A parallel strategic approach is proposed, recognizing the specific contextual factors hampering trade in the Pan Arab region.

1. **BOTTOM-UP**
   - Countries (gradually, each at their own political pace introducing requirements for a gas market) form alliances to expand trade.

2. **TOP-DOWN**
   - Platform for high-level dialogue between all countries in the region to foster political willingness establishing a Pan-Arab gas market.
Outlook for gas trade

Emerging political cooperation
• Gas discoveries in the Eastern Mediterranean triggered cooperation of countries in the region in the East Mediterranean Gas Forum (EMGF) to coordinate energy policies, unlock the full gas resource potential in the region and set the stage for a regional trade hub.
• In the wake of the GCC crisis the UAE, Saudi Arabia and Oman agreed to establish a natural gas network, backed by regional gas discoveries, expanding production capacity by more than 50%. The network could later be extended to Kuwait and Bahrain, with links to Iraq, Jordan, and Egypt. This effort can form the nucleus for regional and Pan-Arab gas market visions. As the physical infrastructure becomes operational, the development of an emerging governance framework will be important.

Gas price reforms need an impetus
Gas price subsidies have gradually reduced in several countries to reduce the fiscal burden on government budgets. This trend seems currently stalled. Domestic gas prices below the international benchmark discourage investments in gas production and could pose a barrier for future gas trade.
Where should the Pan-Arab region go from here?

Building on the emerging outlook, it is important to address the immediate challenges of exploiting the potential in gas trade among the Arab countries in 2019-2022. The focus should be on making trade happen through:

- building consensus for a strategy towards a Pan-Arab Gas Market,
- addressing the impact of national gas price subsidies across the region,
- establishing harmonized market governance and
- supporting investments (regional and in country) to enable trade

**Bottom-Up**

In keeping with the bottom-up, national-interest focused approach, countries form trade alliances for strategic reasons. Recognizing the profound impact of gas on the region’s economic development and energy security, these countries cooperate to address the challenges to trade, being a model for broader economic cooperation. Bearing in mind national differences, a number of short-term actions can be taken nationally, based on international good practice, paving the way for regional trade.

**Top-Down**

It is envisaged that an Arab Gas Organization could be a platform for top-down dialogue between all countries in the region to foster political willingness and cooperation on gas trade.
First Pan-Arab
Energy Trade Conference
Towards an effective regional cooperation in electricity and gas trade among the Arab countries

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