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Building Trust can take the form of Investment

Energy & Regional Integration in the Western Mediterranean

SEMINAR CONCLUSIONS AND RECOMMENDATIONS

The driving idea of this seminar, from its very inception, was to look at what role North African countries might play in a world where the balance of economic and political power has, over the past decade, shifted in a manner which few in the west had envisaged and many still refuse to acknowledge. Because this shift is forcing Europe and North America to take account of the views of countries which simply did not matter, economically speaking a generation ago, the process is a painful one. Some in Europe have chosen to bury their heads in the sand and continue to put forward arguments which make little sense in 2010, other are fearful of the loss as they see it of three centuries of supremacy of western economic interests.

The seminar on *Energy and Regional Integration in the Western Mediterranean* brought together 30 senior managers, bankers and academics, many of whom have held senior positions in state and private companies on both sides of the Mediterranean and sometimes in international organisations. They well understand how the worlds of *realpolitik* but also of *real ökonomie* function and are convinced that if Western Mediterranean countries on both shores took an unsentimental new industries and many new jobs could be created which would add value to production in North Africa while European technology could be seriously transferred to North Africa. Such changes would in turn build competitiveness into the region's industry and insert the Maghreb into the new added value chain emerging across the globe, which is tilting so decisively towards Asia.

Most participants agreed that the Process of Barcelona, launched in 1995, had run its course and were far from convinced that the Union for the Mediterranean, launched in 2008, would deliver on its ambitious projects. One of North Africa's most senior industrial managers argued that the Barcelona Process had always lacked the critical mass of investment needed to allow any serious economic take off and that the much vaunted corporate upgrading (*mise a niveau*) never really materialised except in a limited way in Tunisia. No interest was expressed in the European Union's Neighbourhood Policy which one participant described as a "*cache misère politique*" Most countries have continued to favour their traditional bilateral relations with European countries at the expense of their horizontal North African ones: in other words everybody has been indulging in multilateral bilateralism.

The broader regional context has of course not helped: to a deepening crisis in the Middle East and unresolved questions of frontiers in the Maghreb must be added the growing reluctance of the European Union (EU) towards eventual Turkish accession as enlargement fatigue shows vis a vis all of the EU's neighbours. Even before that fatigue set in one senior European manager conceded that Europe had not, with the exception of the Enrico Mattei and Maghreb Europe (GME) pipelines showed any particular interest in encouraging greater flows of energy exchange in North Africa. That said, everybody agreed it was up to North African political leaders to act as they had done in the mid 1980s when the GME project was initiated by the Algerian head of state, Chadli Bendjedid and King Hassan II of Morocco. Most participants agreed that investment projects beyond gas pipelines, in certain energy and mineral sectors, notably phosphates and renewable energy - particularly solar power, offer *win win* opportunities for all involved: North African and European companies but also American, Australian, and Chinese firms, both private and state run.

Natural gas and phosphate rock in particular offer rich opportunities: if combined they could boost the production of fertiliser, a commodity whose potential world market is huge. North Africa – which boasts phosphate rock, gas, ammonia and sulphur in abundance, offers a very cost effective base to manufacture fertiliser. Demand for fertiliser is expected to grow exponentially for decades to come as food requirements across the world and standards of living in China and other fast rising countries increase dramatically. The Chinese factor is key here as much of China's arable land is poor. The run-up in the price of fertilise, which reached a peak along with most agricultural commodities in 2008, gave a taste of the money to be made by feeding the world. The recent flurry of takeovers in the fertiliser industry worldwide points to strong growth in this sector in the years to come.

Manufacturing certain types of plastics, an increasingly versatile input for the packaging, building and the transport industries also offers many opportunities. With a fast growing and young population, both the housing and the food processing sectors offer many opportunities in North Africa. In both instances – fertiliser and plastics, medium and smaller private entrepreneurs could work downstream from major state and private companies, thus helping to enlarge the pool of skilled labour, know how and inter sector trade between countries. These factors strongly suggest that the idea of a *Chemical Maghreb*, well beyond fertilisers and plastics, is worth pursuing – modelled on the way Germany developed an Eastern Europe hinterland for its car industry after 1989.

Looking to 2030, the prospect of gas pipelines which would feed Nigerian gas into the Algerian depleting gas fields of Hassi R'Mel or/and Iraqi gas to Europe via Egypt and Libya may sound bold, even fanciful today but who is to say that such long term scenarios are not worth looking at? The European Commission has expressed interest in the idea of a Trans Saharan pipeline from Nigeria but the flexibility and ever lower costs incurred in moving gas in the form of Liquefied Natural Gas (LNG) suggests shipping gas from Nigeria could well remain an attractive option. What will not change is the fact that planning energy supplies will continue to require long term thinking. The history of the 20th century, notably in the Middle East bears ample witness to that.

Another tantalising prospect is that of concentrating solar power both to generate electricity and desalinate water in a region where water stress is growing fast and the broader environment is under considerable threat. Yet it boasts in the Sahara huge resources of renewable energy sources. Furthermore, by using their renewable energy sources to generate electricity, North African countries would not only meet their growing needs in electricity and at the same time but make more oil and gas available for exports. In the opinion of one senior European specialist from the private sector, the links between conventional energy projects, most notably natural gas, could be reinforced because "the long track record mentioned with regard to the delivery of natural gas bodes well for any future electricity links supporting solar power projects in the Sahara; joint shareholdings by European and North African partners in such solar export projects also make perfect sense." However, unless the policy framework for renewable energy is not skewed towards helping the development of renewable energy (price subsidies etc) both in Europe and the Maghreb, it is not obvious that Maghreb producers would gain more export income which could contribute to overall economic output. An adequate legal framework – in the case of solar exports these are needed on both sides of the Mediterranean, could be used to drive a "dynamic *quid pro quo* of institutional adaptation *ie* the Europeans could open their markets and support pioneer solar projects in return for adequate investment frameworks for such projects." German and British participants turned out to be far more optimistic about future possibilities in the Maghreb than some other European speakers whose views they felt might be to weighed down by history.

Today of course, the imbalances in the region are what most strike the observer – in the age pyramid of the populations on both shores, in the level of consumption of energy, in the production of oil and gas. These are described in detail in one of the papers discussed at the seminar and, if leveraged within the framework of a medium term plan could improve the region's economic standing in the world, encourage the building of new industries and help transfer technology - more jobs, more skills and more trade in the Maghreb would feed a greater sense of security, a diminishing sense of threat on both shores. Some of the European participants spoke of their fear of depending for their gas supplies on Algeria - for more than 40%, while conveniently ignoring the uncertainty the producing countries face in developing their resources when they do not know how much gas in particular Europe will need in 20 years time; some Europeans also quite fail to appreciate that countries which import much of their basic foodstuffs also feel at risk.

Others however pointed out that markets are by their very nature uncertain and North Africa, particularly Algeria had to become more nimble operators, as countries like China had proved to be. In a broader sense the fear of the "other" transpires from many comments, a fear reinforced by Europe's abdication of any independent policy towards the Middle East and the difficulties it has encountered in securing its gas supplies from Russia. These difficulties are projected by some Europeans onto Maghreb producers despite the fact that the complex relationship which exists between Russia and Ukraine and Belarus has no equivalent in the Maghreb and that Algeria's record as a reliable supplier has been without blemish for nearly half a century. North African participants expressed views of how Maghreb and European companies could promote joint ventures which were bold at times; Europeans were maybe more guarded, mindful of the many false starts and quarrels within North African which they find wearisome.

A key challenge in North Africa today is how to promote joint industrial ventures between Moroccan and Algerian state and private companies. In one paper, written by a participant who has held senior posts in both Europe and the Maghreb, in the private and public sectors suggests that *Sonatrach*, the Algerian state energy company and *Office Chérifien des Phosphates*, the kingdom's state phosphate company should buy into each other's capital; that two leading Moroccan and Algerian banks should do the same. Both Moroccans and Algerians are at one on this interesting idea. However, bearing in mind the difficult political relations between the two countries, triangulation offers an avenue worth exploring as a way of soothing fears felt on both sides of the Algerian-Moroccan border. In other words encourage leading Tunisian, Spanish, French, Italian, German and British companies to take a stake in some new joint Maghreb ventures. After all the *Enrico Mattei* and, a decade later the Duran Farell pipelines were successfully completed by this very means: not only were European funds involved but Italy and Spain/Portugal joined in the respective projects as key stakeholders. Two projects were suggested both by Algerian and Moroccan participants: an ammonia and a plastics plant. Both make a lot of sense if one were to develop the Maghreb: the first would help to enlarge on existing Moroccan fertiliser plants and offer the most competitive cost base in the world for producing certain types of fertilisers; the second would help boost a sector which manufactures key inputs for a broad range of industrial sector at very competitive prices. Both would encourage private investment downstream and offer qualified jobs in the region.

Such projects could well call upon investment from leading Spanish and other European fertiliser groups and from Tunisian companies. Such cross shareholding would help calm the fears of "energy security" or whatever other form of security which seems to haunt a number of people on both shores. Building trust can take the form of investment. Likewise leading North African companies should be allowed – encouraged, to buy into the capital of pipelines and plants in Europe. One participant pointed to the situation BP is confronted with today: why could Algeria through a sovereign fund not express an interest in injecting capital into a major oil and gas company which already had a stake in Algeria ? That would meet the need of BP for more capital in a difficult moment and encourage the transfer of technology. In such a case Algeria would state that he does not wish to influence BP's policy. Securitising Europe cannot simply take the form of tight visa policies and cooperation on counter terrorism. It has to come in the form of greater industrial cooperation. Such a policy ties in well with another key point made by many participants: the Maghreb as a “reservoir de croissance” for Europe – indeed a faster growing and very young population offer ample opportunity for faster growth compared with Europe. The flying geese theory – in which a more developed country or group of countries encourages its industries to climb up the value chain and encourages neighbouring states to do the same from a more modest start, initiated after 1945 by Japan was mentioned yet many Europeans are still very reluctant to consider Maghreb countries as partners: fear seems to stalk their vision or maybe it is simply a deep reluctance to look upon people who were not so very long ago “colonial subjects” as equals.

This brings us back to the fall out of the Barcelona Process. Preaching democracy is all well and fine but the EU and the US have so often practised the contrary of what they preach that, in the Middle East and North Africa such exhortations fall on deaf ears. Yet this state of affairs in no way detracts from the urgent need for all North African countries to show greater respect for the rule of law, offer more transparent legal procedures and allow greater freedom of expression and information. Despite being run by a single ruling party, China is changing fast on these fronts: why can North African states not take a leaf out of the book of such a successful economy? Why are their elites blind to the advantages, in economic terms at the very least, of such an evolution? When combined with fear of terrorism, Islam and the “other” the consequence is that too many outsiders, not least among big international investors, have a vision of the Maghreb which is too bleak and detrimental to what are mutual economic interests. Contrary to what many think in Europe, the Maghreb is prospering in a number of ways – the Chinese would not be there in ever growing numbers if the region were of no interest, they would not be buying ports in southern Italy and companies in Piraeus - China has a strategy for the Mediterranean, of which the Maghreb is but one component. How will the Europeans and the North Africans react when they wake up to China’s fast growing influence in the region? As China becomes a key stakeholder in what Europeans like to think of as their backyard, the latter will discover the Asian giant works according to its very own interests. By then any role the Western Mediterranean might aspire to will have evaporated before it even took shape. One could do worse at this stage to quote the title of the brilliant book by the chief economist of one of the world’s largest banks, HSBC – Stephen King: “Losing control: The Emerging Threats to Western Prosperity.”

Old habits are difficult to eradicate. Old networks of complicity between political and security elites on both shores of the Western Mediterranean lead too many senior European politicians whose main concern is to ensure stability in North Africa to support the current rent seeking political elites which hold sway in the Maghreb. This support comes at a price however as these very same Europeans appear blind to the rise of a younger generation of state and private Maghreb entrepreneurs who are increasingly frustrated by the incompetence and lack of vision of their own political elites. These younger technocrats, often educated in Europe and America’s best universities perceive the European political elites as condescending and caught in an economic time warp. The past few years have damaged western economies but also destroyed western prestige. The political rulers of North Africa are still beholden to certain European rulers but the new technocratic elite well understands that never again will the west, will Europe, have the last word. The deep fault lines the crisis has revealed in the European economies suggests it is high time European political leaders took another look at how to manage their economic relations with their immediate neighbours to the south. A growing number of European economic elites understand this as the economic ground has already shifted decisively in favour of Asia – might not the Maghreb be next in line, as Turkey already is?

The new generation of North African economic managers argued, and a number of European participants in the seminar agreed that European political elites should concentrate on economic projects which make sense in today's fast changing world – in other words given the right legal framework set up projects which could attract private investment from all over the world – and would be of mutual benefit. After all the two pipelines which carry gas from Algeria to Europe have been both reliable and have reduced the risk of armed conflict in North Africa. Why not enlarge on such success stories? Lack of bold leadership is not just a North African characteristic today but a European one.

Europe spends a lot of time attempting, with limited success, to influence the internal politics of Latin American or Asian countries: would it not be better advised to be more active in a region which lies on its doorstep and which is so rich in mineral, qualified people and historical ties not all of which are negative? The disunity of North Africa is not only the result of local feuds, it is the result of the Cold War and of Europe's reluctance or maybe lack of interest, at least until recently, to countenance a less fractious Maghreb. Unlike Turkey, whose elites no longer do the bidding of the US or the EU when called upon to do so, North African leaders seem unable or unwilling to imagine a long term future for the Maghreb, let alone build one and promote those entrepreneurs whose way of thinking and appreciation of how the world is moving is way ahead of their political leaders, stuck in a narrow nationalist time warp which makes no sense in economic and industrial terms.

The seminar threw up some ideas which are worth exploring further and which offer ample opportunity for faster growth in the region – faster growth which would enhance mutual security. The four projects which the organisers of this seminar agreed were worth promoting include:

1) Cross shareholding between Sonatrach and Office Chérifien des Phosphates
2) Cross shareholding between two leading Moroccan and Algerian banks
3) A joint ammonia plant
4) A joint plastics plant

Such projects could – indeed should, involve international investors and companies from the Maghreb, Europe, North America and Asia. Such bold thinking would signal that the Western Mediterranean was no longer suffering from a "crisis of ideas, of analysis, of perception." There is no shortage of capital and if capital is fleeing the region it is precisely because the regional leaders – in the Maghreb but also in southern Europe, seem unable to think out of a box which still favours clichés about the other, about aid and democracy. Now is the time to practice a little economic *realtpolitik,* discuss some really new ideas, face up to the role energy and other minerals could play as facilitators or basis enablers in helping to anchor the Western Mediterranean firmly in the new world economic map.

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