

# Transitions in North Africa in Times of Scarcity

FINANCE,  
EMPLOYMENT,  
ENERGY &  
FOOD

The Mediterranean  
in a multipolar  
World up to 2030



COLECCIÓN MONOGRAFÍAS

in partnership with



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**Finance, Employment, Energy & Food**

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## FOREWORD

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In view of the challenges which confront the Western Mediterranean world in the years ahead, the Barcelona Centre for International Affairs is committed to building scenarios that highlight its potential as an area of growth and innovation and fosters a better future for the people who inhabit its northern and southern shores. With that purpose in mind, and under the general title of “The Mediterranean in a multipolar world up to 2030”, CIDOB is working on a three year research program (2010-2012) whose aim is to analyse how countries in the area might overcome their differences and imagine a common future.

The research program, carried out in partnership with OCP Foundation in Rabat, brings together internationally recognised experts. It has opened three lines of research devoted to analysing and making proposals on issues critical to the future of the region. The focus of our research in 2011 has been the idea of the Western Mediterranean as a laboratory where the future of the Euro-African space could be mapped out. Under the title “Transitions in North Africa in Times of Scarcity: Finance, employment, energy & food”, a seminar to discuss the different outcomes of this year’s research was carried out in November in Barcelona. We will then focus in 2012, on the economic governance of Western Mediterranean countries, and how this might impact on the region’s future.

With the final purpose of building a comprehensive understanding of the region’s future, CIDOB’s Western Mediterranean research project has adopted a prospective methodology offering a platform for analysis, information exchange, and the sharing of views – in other words, a laboratory of ideas- that could offer insights and practical tools for decision makers, be it at a political, economic or private level. The program is also building a network of experts drawn from the region and beyond.

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# TRANSITIONS IN NORTH AFRICA: JOBS ARE SCARCE - FINANCE, FOOD AND ENERGY, MISMANAGED

*Francis Ghilès*

**Francis Ghilès**

*Seminar Convenor*

The least one can say about the Western Mediterranean over the past eighteen months ago is that the region has in no way reinvented itself. Algeria and Morocco have drawn closer but the pace of change is very slow considering the unprecedented financial and political turmoil which is putting the very future of Europe in doubt and the revolts in the Arab lands which are reshaping the very nature of politics and economics across North Africa and the Middle East. The change of regime in Tunisia and Libya have changed two key actors whose policies in the region are as yet unknown. In Tunisia the outcome holds promise, in Libya the future is uncertain at best.

The single most important other factor is a certain warming in Algerian - Moroccan relations, symbolised by the agreement reached last summer between Algeria's state oil and gas company, Sonatrach and the Morocco's Office National de l'Electricité to sell 0.64 Bcm of gas to Morocco for ten years over and above the transit fees ( 7% of the throughput which Morocco takes in gas) for the 7 Bcm worth Algerian gas transiting through the Maghreb Europe gas pipeline for clients in the Iberian peninsula.

After years of Algerian reluctance to sell more gas to its neighbours and Morocco's often expressed doubts about the reliability of gas supplies from Algeria, the agreement was welcome. Indeed demand for gas is increasing by 5% every year in Morocco and proposals to build a Liquefied Natural Gas terminal in Morocco were, in economic terms, very expensive. It is not yet clear whether new contract is the sign of a mutual desire to broaden economic cooperation between the two neighbours.

Recent turmoil in Arab lands suggests that countries which are unable to increase their GDP faster and offer more jobs to their ever more rebellious youth will pay a price, politically, for their lack of capacity to improve the lot of their unemployed youth. Greater cooperation between Algeria and Morocco but also more broadly across the region could create hundreds of thousands of new jobs and attract much needed investment – energy remains one of the key areas where such cooperation could be beneficial. What is new in recent months is that



the need for re-establishing legitimacy in southern Mediterranean countries is no longer a taboo subject:

transition affects takes on different forms: the first political, towards greater democracy; the second demographic as Europe's population ages, Russia's declines and the Maghreb is faced with plentiful labour before the EU syndrome of aging population kicks in - Tunisia will be the first southern country to experiment it; the third relates to the steady power shift from the North Atlantic to Asia and Brazil. This transition offers ample opportunities for recasting existing policies in the Maghreb: to date no country has offered a new vision, no country has proved to be up to the challenge presented by events.

### **Are we talking of scarcity or mismanagement?**

The 2011 seminar's title "Transitions in North Africa in times of scarcity" speaks of 'scarcity' of finance, jobs, food and energy: the papers, presented in the working sessions held with the authors in Barcelona in November, suggested that whereas jobs are well and truly scarce and will be difficult to increase on the scale required whatever mix of policies is pursued, this was not true of finance, food and energy. What were needed here were bold policies to tackle the many obstacles which prevent a more rational allocation of existing natural resources; information of much higher quality and available to a much broader public which would allow a debate on the real issues confronting the region. Some participants insisted that certain interests, like those of smaller farmers were not represented in the debate and that, irrespective of how transparent or not elections might be, it was difficult to hold a serious debate and dream up solutions if key economic and social actors went without political representation. Young people, who suffered disproportionately from the lack of jobs, were, until this year, absent from political and economic decision making. Hence their irruption on the scene in Tunisia and Egypt, where they played a key role in bringing down regimes, but also elsewhere in the Arab world, but also in Europe was a factor which had to be taken into account in regional political and economic debates henceforth.

### **Youth unemployment and educational waste**

The debate of youth employment threw up many arguments: overall, the most worrying aspect of the situation is the pessimistic reading of the future of young people, which results from the education they receive: Tunisia here is symbolic of the southern Mediterranean countries but also, to a lesser degree of what is happening in some European countries. Tunisia was doing all the right things, or so it seemed reading World Bank reports which as late as October 2010 were gushing with enthusiasm for the country's economic performance.

The country spent 7.3% of GDP on education, a higher proportion than the US or Finland, 2% of higher education alone. About 30% of secondary school graduates go onto university although 60% of them fail exams: the trouble is their diplomas are largely worthless. Like many developing countries and its Arab peers, Tunisia teems with diploma mills that issue worthless degrees to half trained graduates.

Across the region the gap in the quality of education between Arabs and other people at a similar level of development is frightening and this explains why the region suffers from unusually high rates of youth unemployment. In such highly valued studies of education systems as *Trends in International Mathematics and Science Study*, that come out every four years, out of 48 countries tested, all 12 participating Arab countries fell below the average. Less than 1% of students aged 12-13 in ten Arab countries reached an advanced benchmark in science compared with 32% in Singapore and 10% in the US: other comparative measures are equally alarming: the listing of the world's top 500 universities compiled annually by Shanghai Jiao Tong University does not include a single Arab one. *The World Economic Forum* ranks Egypt a modest 70<sup>th</sup> out of 133 countries in competitiveness, Libya a more dismal 128<sup>th</sup> despite its very high income per head.

Even in India and China, the majority of engineering graduates do not meet international standards although elite universities produce a huge number of first-rate engineers. No Arab country produces graduates who can compete with their Asian or European counterparts. The only southern Mediterranean country whose graduates meet world standards is Turkey. In North Africa furthermore, graduates when they are good are handicapped by a social system which favours 'insiders' versus 'outsiders'. In Tunisia, outsourcing added maybe 2000 jobs in 2010, one for every 180 university students. Although Tunisian engineers work for a fifth of the cost of their European counterparts, there are not enough good engineers and not enough jobs even for the good ones. Many highly qualified university graduates seek greener pastures elsewhere.

If this diagnosis is correct – that the bulge of new Tunisian and Moroccan university graduates is a day late and a dollar short for the global world economy, we are facing a problem which has no solution in the long term. A higher growth rate could be achieved across the region if the constraints of bureaucracy and bribery were lifted but will they? If frontiers were opened across the region that would help encourage new start ups and create more jobs but is that likely to happen? The conclusions are not optimistic, but then neither are they about youth employment in Europe today, not least in Spain. The question then is how will this lost generation revolt and what will its revolt lead to?

### **Food security is a complex issue**

Debates about food security are fraught with danger: the word 'security' covers such a multitude of sins. The papers devoted to food security explained only too well how trade liberalisation following the Uruguay Round had induced far greater volatility in food prices than ever before - as developed countries switched from a system of support for basic foodstuffs to income support to farmers, a lower level of production and hence of food stocks pushed prices up worldwide. Furthermore any large shock such as the quick rise in energy prices has a very quick multiplier effect and the result is that strategies to ensure greater food 'security' are attempted by different actors, notably state actors. World food production is running at two and a half times consumption but solutions are complex. Both Gulf and Maghreb countries are net food importers and have neither the land nor the water to increase production of basic staples very much. Gulf States are currently attempting to buy or rent large tracks of land in Africa, where

such land is available. Whether in the long run such strategies work remains to be seen as buying land in Africa and displacing populations let alone capturing water resources poses its own set of challenges. In Africa people starve because they are too poor to buy food, not because there is *stricto sensu* a scarcity of food. So the challenge is to find three way solutions Gulf States/ North Africa/ Africa which are mutually beneficial.

The dramatic rise in prices of basic foodstuffs and staples a few years ago hit North Africa and Egypt very badly: food subsidies had to be increased, thus increasing budget deficit since the average person could not afford any increase in price. The revolts in the Arab lands are the result of lack of jobs but also of food price increases of recent years.

In the context of the Western Mediterranean a mutual dependence exists between what imports the south usually needs (cereals, sugar, meat, oils) and what it can export (though Spain here is a major factor being inside the EU). The southern Mediterranean countries depend on imports from Europe when their crops are insufficient, the European countries need markets when their production is abundant. This cross dependence needs to be managed and calls for a bold recasting of policies but short term interests and incentives hamper such agreements.

Building agreements of mutual dependence will not be easy but deserves to be explored if the EU wishes to contribute to the stability of the Western Mediterranean. Reforms are slowed by powerful lobbies of existing interests, not least in the Maghreb, lobbies which are all the more powerful as they operate within national boundaries:

each and every North African country have launched policies in a national context which are strikingly similar but were they to join forces, the power of existing national lobbies would stand a better chance of being reduced. Were frontiers open and new operators given a voice in the decision making process, a more rational debate could be engaged. Here again, we come up against political and economic structures which do not allow the emergence of new economic actors – so long as these are not represented, there can be no serious debate. In North Africa, the high level of price subsidies and their weight on budget expenditure - on many products simply does not allow for a serious debate and hence reform of existing practises. We are, in the words of Omar Aloui, confronted with the “classic dilemma of necessary reforms without immediate political support.” Hence the region remains at the mercy of fast rises of commodity prices because its political leaders live in a time warp.

### **Gulf investment in North Africa: a persistent mismatch**

The question of cooperation between cash rich Gulf countries and North Africa raises a number of interesting questions – the paper submitted here suggested that Gulf nitrogen fertilisers and capital together with Moroccan phosphate reserves could provide help increase productivity in African agriculture overall. There was however a caveat that such cooperation should not be used on an exclusive bilateral level, Gulf countries are attempting in Africa, endeavours which are meeting with stiff resistance. The goal should be to raise global production levels, not gain privileged bilateral access to food production. The latter would be illusory in times of crisis anyway. Gulf

and Maghreb countries are both net food importers but investments from the first region into the second do not have a very happy history as a very lucid analyses present by Mahieddine Raoui made amply clear.

He argued that Gulf investments in the Maghreb were a priority for neither region and tended to be concentrated in capital intensive sectors such as telecommunications, banking and real estate/ tourism, all of which required support at a senior political level. More often than not such investments were rent seeking rather than of a kind which developed local skills and promoted innovation. Both in Tunisia and Morocco examples of such behaviour over 30 years abounds (although western companies can also be rent seekers) while in Algeria the behaviour of the Egyptian telephone company Orascom was likened by two participants to highway robbery – albeit with complicity high up in the Algerian system. Other factors explain why Gulf investments have not been successful:

labour in North Africa cannot compete with Asia in terms of wages (higher in the Maghreb) nor in terms of skills compared with Eastern Europe (much lower). In other words, the Maghreb's comparative advantage has eroded overall over the past 20 years. All of which does not rule out future interest from Gulf investors but suggests caution as to the volume and impact such investments may have.

The idea of a development bank for the Mediterranean was discussed though the idea did not attract much support although the region is the only one in the world devoid of such an institution. The lack of interest stems partly from France's steadfast opposition to such an institution and the complete lack of any EU vision of an ambitious Mediterranean policy. The financial resources exists, the need to give much greater support to small and medium size companies is there for all to see as is the advantage an institution which was co-owned by both shores. The idea may resurface one day but the crisis Europe is going through added to the fast moving events in Arab lands has pushed the idea onto the back burner.

### **Energy cooperation within the Maghreb and with Europe progresses**

Energy remains and area where cooperation across the region holds much promise and is progressing but not at a pace which is very fast. Solar energy projects are moving forward while Algeria's very ambitious gas export targets are being revised downwards. The paper on oil and gas suggested that, irrespective of whether the change of regime in Libya might throw up new opportunities, the EU should reformulate its broader energy policy towards North Africa if its claim of wanting secure, sustainable and competitive energy remain a key tenets of its energy strategy: Two factors will force a reformulation of EU policy. EU's domestic energy production continues to decline hence the region relies increasingly on foreign suppliers; second, bilateral disputes between certain suppliers and transit countries have led to interruption of energy supplies to the EU. One might add that despite its professed fears of growing Russian influence on its supplies, that is exactly what is happening as France, Germany and Italy play their own interests ahead of EU ones and the UK pays the prices of pushing liberalisation policies in Brussels while ending up domestically with some of the highest prices swings (for gas) of any country in Europe.

The EU continues to attempt to extend its principles and rules to its neighbours but the lack of coherence and fragmented nature of this policy dooms it to failure. Nowhere does the EU spell out how their policies might bring them closer to southern countries.

If one looks at solar energy, why should southern Mediterranean countries cooperate with northern ones if the latter do not allow a certain amount of R & D and construction of solar panels to be handled in North Africa. The impression, here again, is that North Africa has for so long been viewed as a threat (terrorism, Islam, illegal immigrants) that European policy makers are incapable of seeing that the potential that might result from a broader and more serious strategic dialogue. The EU is so focused on its own existential crisis that it cannot see the wood for the trees.

Morocco's hopes of turning its deserts into a global renewable energy hub took a big step forward in November when the World Bank gave the green light to help pay for one of the world's biggest concentrated solar power plants. The Ouarzazate solar complex will have a capacity of 500 megawatts, enough to power 90,000 homes – the first phase, a 160MW plant, will cost about \$1bn and is to be built and operated by a private company – both the World Bank and development banks are helping to fund the project in a country which has \$9bn national solar plan to build five commercial scale solar plants by 2020 with a total capacity of 2,000MW. Morocco has also been chosen as the first location for a German-led project to build a vast solar network across North Africa and the Middle East. Its private backers hope it will hook into Europe's electricity supply.

These arguments have to be set against broader trends in energy investments. Middle East and North Africa energy capital investment is expected to total \$525bn during the five year period 2011-2016, which is a downward trend. Some countries such as Morocco have managed to bring back previously shelved projects and slate new ones for development. Other countries are below potential and the fall off has been more dramatic in Tunisia, Libya and Egypt because of turmoil in those countries. The same story prevails in Algeria where investment recovery is slow because repairing broken governance within Sonatrach has proved to be a very difficult task: if production continues not to be replaced in Algeria this could lead to a export crunch unless contractual and fiscal policies create a more investor friendly environment. A little more than two third of energy capital potential continues to be located in the same five countries, namely Saudi Arabia, UAE, Iran, Qatar and Algeria. It is also worth noting that the power water sector has remained a key, steady driver of investment in the region overall.

All in all, the reflections brought about during the November sessions in Barcelona adopted a prospective methodology and offered thus a platform for analysis, information exchange, and the opportunity to share new views and concrete ideas that kept feeding the network of experts the current research project at CIDOB is building through the Western Mediterranean and beyond. It is difficult to predict what all these transitions will end up bringing to the region, but the agenda is moving and taking stock of the current state of play and exploring future scenarios is, more than ever, an effort that will pay off.

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# THE GULF, THE MAGHREB AND SUB-SAHARAN AFRICA: COOPERATION FOR FOOD SECURITY?

*Eckhart Woertz*



## THE GULF, THE MAGHREB AND SUB-SAHARAN AFRICA: COOPERATION FOR FOOD SECURITY?

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**G**ulf countries were shocked by the global food crisis of 2008. Expensive food was not the issue. With oil prices well beyond \$100 they could easily afford them. What frightened them were export restrictions that food exporters like Russia, Argentina or India implemented out of concern for their own food security. Gulf countries faced the specter that some day they might not be able to purchase enough food at any price, even if they had their pocket lined with petrodollars. Their reaction was threefold: a) They increased subsidies and implemented price controls, b) they increased strategic storage of food items and c) they announced a string of agro-investments abroad in order to gain privileged bilateral access to food production.

The countries where agro-investments have been announced are mostly food-net importers themselves like Sudan, Ethiopia, Tanzania or the Philippines. Some of them such as Pakistan or Kazakhstan have serious physical water shortages like the Gulf countries. Not surprisingly these investments are controversial. Classic food exporters like Australia, Ukraine or Brazil rank less prominently. Contrary to widespread media perception most of the projects have not gotten off the ground yet for various reasons: Political backlash, lack of financing in the wake of the global financial crisis, and difficult framework in target countries, just to mention a few.

Still, the question remains whether Gulf and Maghreb countries might cooperate to improve their food security while at the same time providing a development impetus to countries in Sub-Saharan Africa. Both are members of the Arab league and there are mutual economic interests. Gulf countries have invested in real estate and in the hospitality and energy sectors of Maghreb countries. Al Qudra Holding of Abu Dhabi has announced agricultural projects in Morocco and Algeria for dairy and olive farming. Morocco was even offered membership in the Gulf Cooperation Council (GCC) alongside Jordan. The immediate motivation for this offering was the turmoil of the Arab Spring and the fear that it might spill over to the relatively stable monarchies of the region. Many observers suspected that the Gulf countries were interested in the know-how and manpower that Morocco and Jordan have to offer in the fields of military and security.



In economic terms a GCC membership of Morocco is less obvious. The geographical distance is immense. Economic relations with industrialized countries in Europe and Asia are much closer in both cases than mutual south-south trade. The per capita incomes in the GCC are much higher than in Morocco and economic frameworks would not be easily harmonized. The example of Greece's ill fated membership in the European Union functions as a tale of caution: Economic realities can be trumped by political engineering for some time, but not for all the time.

So, Moroccan membership in the GCC is not likely. Still, the room for agricultural cooperation is there, with or without GCC membership. The Gulf region and the Maghreb sit in the same boat: Both are food net-importers, the food import dependence of both will still grow for some time due to population growth and both do not have the water and the arable land to reduce this dependence. True, the Gulf has more money to throw at the problem. Yet, the Maghreb has its own advantages in terms of skills and the fact that Morocco is regarded as the "Saudi Arabia of phosphate."<sup>1</sup>

Global agriculture has proven Malthus constantly wrong since World War II: Population grew tremendously, but so did supplies. The reason for this growth was mainly improved productivity, not expansion of cultivated land. Beside population growth these productivity gains were able to accommodate a steep increase in meat consumption, which is crossly inefficient as it requires multiples of land, water and fossil fuel inputs compared to a plant based diet.<sup>2</sup>

However, the tremendous productivity increases of the Green Revolution have petered out since the 1990s. This has contributed to rising prices and the global food crisis of 2008. A comparable productivity impetus from genetically modified seeds is unlikely.<sup>3</sup> Only in Sub-Saharan Africa and some countries in Latin America larger productivity gains can still be expected by a more widespread application of increased inputs of fertilizers, improved seeds and irrigation.<sup>4</sup> An article in *Foreign Affairs* in 2010 argued that Africa was "agriculture's final frontier" and that a belated Green Revolution there would be essential for global food security.<sup>5</sup> The Bill & Melissa Gates and the Rockefeller Foundations have tried to put this aspect into practice by launching the Alliance for a Green Revolution in Africa (AGRA) in 2006. In contrast to Latin America and Asia, where the Green Revolution relied on the adoption of standard packages and large scale farming, AGRA claims to gear its work towards small holder farmers and rain-fed agriculture while preserving biodiversity and traditional cropping systems.<sup>6</sup> Malawi is an example of an African country that has been able to increase its agricultural output dramatically by subsidized inputs of fertilizer. The Gulf and the Maghreb are major producers of fertilizers.

The three primary macronutrients nitrogen, potash and phosphate are of particular importance when it comes to fertilizers as they are produced in an inorganic fashion. The secondary macronutrients calcium, magnesium and sulfur are required in roughly similar quantities for plant growth, but their availability is largely managed as part of liming and manuring practices rather than by applying fertilizers. Thus, their supply is generated locally and not so much by industrial production and international trade. Beside these six macronutrients plants require micronutrients or trace

1. "Phosphate: Morocco's White Gold," *Bloomberg Business Week*, November 4, 2010
2. David and Marcia Pimentel, "Sustainability of Meat-Based and Plant-Based Diets and the Environment," *American Journal of Clinical Nutrition* 78, no. 3 (September 2003). Available at: <http://www.ajcn.org/cgi/content/full/78/3/660S#T1>. Jeremy Rifkin, *Beyond Beef: The Rise and Fall of the Cattle Culture* (New York, N.Y., U.S.A.: Dutton, 1992).
3. Lester Russell Brown and Earth Policy Institute., *Plan B 4.0: Mobilizing to Save Civilization* (New York: W. W. Norton, 2009); Foresight, "The Future of Food and Farming: Challenges and Choices for Global Sustainability," *Final Project Report* (London: The Government Office for Science, 2011); Science and Technology for Development (IAASTD) International Assessment of Agricultural Knowledge, "Agriculture at a Crossroads. Global Report," (Washington D. C., 2009).
4. World Bank, *World Development Report 2008: Agriculture for Development* (Washington, D.C., London: World Bank, 2007), 51-53; Foresight. "The Future of Food and Farming: Challenges and Choices for Global Sustainability."
5. Roger Thurow, "The Fertile Continent: Africa, Agriculture's Final Frontier," *Foreign Affairs* 89, no. 6 (2010).
6. See <http://www.agra-alliance.org/section/about>, accessed February 28, 2011.

minerals as iron (Fe), manganese (Mn), boron (B), copper (Cu), molybdenum (Mo), nickel (Ni), chlorine (Cl), and zinc (Zn). As they are required in much smaller quantities they shall not concern us here.

The primary macronutrients have become the issue of trade policies. International trade flows are considerable. The Americas have an adequate local supply of phosphate and potash but import needs in nitrogen nutrients. Asia is the most fertilizer deficient region, mainly in potash and phosphate. Europe has a surplus in all three categories, but needs to import large quantities of phosphate rock, which it uses for phosphate fertilizer production.<sup>7</sup> Trust in open markets has been shaken as a result to volatility and reduced supply security. A preference for privileged bilateral access by foreign direct investment is discernible. When fertilizer prices increased up to five fold in the wake of the global food crisis in 2008 China enacted a 135 percent export tariffs on phosphate fertilizers.

The three macronutrients are often applied as combined NPK fertilizer. Here, nitrogen has a share of 59 percent, phosphate of 24 percent and potash of 17 percent. While nitrogen fertilizer is mainly produced from natural gas, phosphate and potash are gained from mining phosphorus and potassium rocks. Supply concerns about natural gas have eased with the advent of new production techniques, which have added large quantities of unconventional natural gas to global supplies. As nitrogen fertilizer theoretically only requires air, water and large amounts of energy for its production, alternatives to natural gas are conceivable and depend on the economics and price developments of natural gas.

Phosphorus on the other hand is a chemical element and without alternative. Based on older reserve figures of the US Geological Service (USGS) some studies have expressed concerns about supply constraints. They argue that a peak in phosphate production could be expected as early as 2033 with negative consequences for agricultural production.<sup>8</sup> However, a recent study of the International Fertilizer Development Center (IFDC) has dramatically upgraded global reserve figures.<sup>9</sup> It argues that the price assumptions of the USGS estimate were too low and that higher prices would increase reserves by making production of hitherto uneconomical resources profitable. The discrepancy is huge and mostly attributable to a tenfold upgrade of Moroccan reserve figures. The IFDC report has an estimate of 60 billion metric tons (mt) of global phosphate rock reserves as compared to the 2010 USGS estimate of only 16 billion mt. In response to the IFDC report USGS also upgraded its Moroccan reserve estimate and now gauges global reserves at 65 billion mt.<sup>10</sup> A more sustainable management of the phosphorus cycle is warranted in any case. Still, according to the new reserve estimates of IFDC and USGS a peak in phosphate production would not be imminent at all. It would be another 300-400 years off, and Morocco would command a whopping 85 percent of global reserves in the case of IFDC and 77 percent in the case of USGS.

Morocco is only the third largest producer worldwide after China and the US, but these two countries are also large consumers. They do not export anything; the US actually requires phosphate imports. Morocco already supplies a third of global phosphate exports. With increased reserve depletion elsewhere, this dominant position will grow in importance. GCC countries are important producers of ammonia and urea, which are

7. FAO, "Current World Fertilizer Trends and Outlook to 2011/12," (Rome, 2008).
8. Dana Cordell, Jan-Olof Drangert, and Stuart White, "The Story of Phosphorus: Global Food Security and Food for Thought," *Global Environmental Change* 19(2009).
9. International Fertilizer Development Center (IFDC), "World Phosphate Rock Reserves and Resources," (Muscle Shoals, Alabama, September 2010).
10. U.S. Geological Survey (USGS), "Mineral Commodity Summaries 2011," (Reston, Virginia, January 2011).

needed for production of nitrogen fertilizer. They do not have production of potash. Saudi Arabia has a modest production of phosphate fertilizer, which it will expand dramatically once the phosphate mining project at Al Jalamid in the north of the country comes on stream around 2014. Saudi Arabia currently holds a world market share of about 10 percent of urea production and aims at a similar market penetration rate in traded di-ammonium phosphate fertilizer once the Al Jalamid project is operational.<sup>11</sup> GCC countries are expanding their petrochemical production facilities rapidly and there is a shift of production capacity from Europe and America to the Gulf.<sup>12</sup> In 2006 34 percent of global ammonia green-field developments were in Saudi Arabia alone according to the Oil and Gas Journal, compared to Asia Pacific with 18 percent, South America with 23 percent and other countries with 25 percent.

GCC countries face increasingly natural gas shortages except for Qatar, but they want to safeguard sufficient supplies of natural gas feedstock for their petrochemical and fertilizer industries. They try to achieve this by gains in energy efficiency and development of alternatives to natural gas. Nuclear power and renewable energies could be used for the production of electricity and desalinated water. CO<sub>2</sub> could be injected into mature oil fields instead of gas. The petrochemical industry in the Gulf countries is a development priority. It is a major aspect of an economic diversification that aims at enhancement of the value chain of oil and gas production. The sector is also the first that has organized itself on an industry wide basis in the form of the Dubai based Gulf Petrochemical and Chemicals Association (GPCA). Other industries are still organized on a national level within the framework of their respective national chambers of commerce and industry.

Saudi Arabian Basic Industries (SABIC) is the largest single producer of urea in the world.<sup>13</sup> It owns Saudi Arabian Fertilizer Company (SAFCO), the Al-Jubail Fertilizer Co. (SAMAD) the Ibn Al-Baytar (National Chemical Fertilizer Co. or NCFC) and the United Jubail Fertilizer Company (UJFC). Other Gulf producers of nitrogen fertilizers include the Qatar Fertiliser Company (QAFCO) and Bahraini GPIC, which is a joint venture owned by the Bahrain Government, SABIC, and PIC of Kuwait. FERTIL in Abu Dhabi is a joint venture between ADNOC and Total. Another Gulf based nitrogen fertilizer company is Salalah based Oman India Fertilizer Co. (OMIFCO).

Fertilizers are an important ingredient of modern agriculture. Vaclav Smil estimates that even the most efficiently used organic agriculture could only support 60 percent of the current population of the earth.<sup>14</sup> At the same time he stresses the importance of more efficient fertilizer use in order to reduce the detrimental effects of its usage like water pollution and greenhouse gas emissions. The Gulf countries are a power house in the production of nitrogen fertilizer. Morocco is one in the field of phosphates. Together with the phosphate reserves of Jordan and Saudi Arabia there is a virtual monopoly in the long run. This monopoly should be used wisely and not with a view towards short sighted gains. Gulf nitrogen fertilizers and capital together with Morocco's phosphate reserves could provide a meaningful contribution to productivity increases of African agriculture. Maghreb countries have also considerable know-how in dryland agriculture and production of citrus fruits for exports.

11. <http://www.maden.com.sa/eng/Maaden-and-SABIC-finalise-historic-joint-venture.htm>

12. Giacomo Luciani, "The GCC Refining and Petrochemical Sector in Global Perspective," in *Gulf Geo-Economics*, ed. Eckart Woertz (Dubai: Gulf Research Center, 2007); Bassam Fattouh and Robert Mabro, "The Investment Challenge," in *Oil in the 21st Century: Issues, Challenges and Opportunities*, ed. Robert Mabro (New York, Oxford: Oxford University Press for OPEC, 2006).

13. Brief of the Fertilizer Committee of the Gulf Petrochemicals and Chemicals Association (GPCA), no date.

14. Vaclav Smil, *Enriching the Earth: Fritz Haber, Carl Bosch, and the Transformation of World Food Production* (Cambridge, Mass.: MIT Press, 2001).

Yet, such cooperation should not be sought on an exclusive bilateral level, like Gulf countries seem to intend in Sub-Saharan Africa or like Libya has tried in Mali and the Ukraine before its revolution put a provisional end to such efforts. The goal should be a raise in global production levels, not a gain of privileged bilateral access to food production. The latter would be illusionary in times of crisis anyway. No country can reliably export large quantities of food while its people are dying of hunger. Cooperation of Gulf and Maghreb countries should be closely tied in with multilateral initiatives to increase food production while taking interests of local smallholders and pastoralist in African countries into consideration. Only if they get a fair share in land deals in the form of business opportunities, jobs or compensations mutually beneficial outcomes can be expected.

Gulf and Maghreb countries as food net-importers also need to participate more actively in multilateral efforts to make global food markets more reliable. Whether it is internationally coordinated storage solutions for staple foods or a regulation of derivatives trading in food commodities, they will need to ramp up their institutional capacities to influence outcomes in international institutions like the WTO, the G 20 or the FAO.

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# FOOD SECURITY SOUTH OF THE MEDITERRANEAN : HOW CAN THE EUROPEAN UNION CONTRIBUTE ?

*Hassan Benabderrazik*

## FOOD SECURITY SOUTH OF THE MEDITERRANEAN : HOW CAN THE EUROPEAN UNION CONTRIBUTE ?

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« **T**he womb that delivered the beast is still fecund ». Even after the financial crisis, the conditions and factors that gave rise to the food crises of 2007 and 2010 continue to be fully present in the world economy. A new food crisis, along with its onslaught of misery and impoverishment could therefore break out at any time. The latest developments in the cereal markets in connection to the drought in Russia clearly show this.

Our goal is to analyze the opportunities that a cooperative alliance between the two Mediterranean shores may grant towards collective food security. To this end, the first half of this paper will be devoted to analyzing the key factors of the food crisis, as well as its influence on both shores of the Mediterranean. The second half will seek to define this collective food security that we aspire to. The expression “collective security” is freely borrowed from the strategy implemented within NATO during the Cold War, because it is likewise the product of a political will to create strong and friendly relations in the face of certain threats (from communism during the Cold War and from a food crisis in the current political landscape).

### **Key factors of the food crisis**

It is a paradox that the success of the Uruguay Round, where agriculture was reincorporated into the decrees of international trade regulations, lays at the origin of the new volatility experienced by the agricultural world markets. By limiting the capacity of governments to massively subsidize their production and to pour their excess products onto world markets by force of subsidies, the adoption of the World Trade Organization’s regulations lead to a highly significant reduction of available stocks and, as a result, to substantial price increases in the world markets. Reduction of stocks and the adoption of policies to support farmers’ revenues without production incentives (in order to decrease trade distortions) resulted in the increased instability of world prices. By drastically reducing food products from developed countries in the world markets (either as food aid or simply surplus production), the

broadened reach of the World Trade Organization's regulations generated rising and volatile prices.

The second key factor in the development of the food crisis involves the strong relationship between energy prices (oil in particular) and basic food products (sugar, cereal and oilseeds). The development of bio-fuels allows the simple transformation of cereal starch into ethanol -a substitute for gasoline- and oilseeds into biodiesel -a substitute for diesel.

In consequence, any oil price increase encourages the conversion of a portion of the crops into bio-fuel, increasing the price of the crops and reducing what remains strictly as food. However, since oil is a non-renewable and finite good, its price increases as the world economy grows. Any increase in the demand for oil products is therefore enough to drive the conversion into bio-fuels with renewed vigor, to the detriment of what is left available strictly as food.

The third factor is financial. In their quest to diversify risks and uncorrelated the prices of asset categories, fund managers have transformed raw materials into financial assets (the allocation of portfolio funds into assets whose prices are uncorrelated reduces their risk). This has given rise to new demand for these products and to favour the appearance of financial bubbles in their markets. The latter, however, are futures markets, essentially developed in order to hedge the risk of changing prices, and their transactions do not involve physical exchanges (merchandise deliveries) but rather, most often, financial exchanges (repurchase of the property rights over the merchandise). Therefore, these markets encourage speculation from investment funds seeking diversification. But this financial interest in raw materials considerably increases the risk of a speculative bubble for these products. A speculative bubble arises when a price increase gives rise to new waves of purchase orders that lead to further price increases. It was this feedback mechanism (which typically ends with a crash) that disrupted the basic foods markets in 2006 and 2007.

The fourth factor relates to Asia's increasing power. The exceptional economic growth of this continent has led to a significant modification of its people's eating habits that includes an increase in the consumption of animal protein. However, animal protein is the result of transforming cereals into meat. It takes two and a half kilograms of corn to obtain one kilogram of chicken, or three and a half kilograms of cereals to obtain one kilogram of beef. This change in eating habits and the rise of a substantial middle class has thus led to a global increase in the continent's consumption of cereals and animal products which production has not been able to keep pace with. The massive imports that have resulted have profoundly altered the balance between offer and demand in the basic foods markets and led to the consequences that we all know.

The combination in 2006 (and in 2010) of these four factors caused a fundamental shift in basic food prices and foreshadowed the ensuing food crisis. And yet these four factors remain present. Appeals to regulate the markets have had no consequences.

The accommodating monetary policies of the central banks, designed to counteract the financial crisis, encourage investment funds to increase their positions on the raw materials markets in order to hedge inflation



risk. And furthermore, Chinese growth has not slowed down while oil prices, having decreased from \$150 to \$35 a barrel between July 2008 and February 2009 have surged once again. Oil now costs \$110 per barrel.

The correlative price increase of agricultural raw materials in this context is therefore not surprising.

### **Food crisis, interdependence and Mediterranean complementarity**

Food crises have had a profound impact on the southern shore of the Mediterranean. In order to keep food prices affordable to the population, governments have been willing to spend without check, leading to public deficits and difficult budgetary trade-offs. Those countries who, on the other hand, withstood the world markets' price increases suffered major political upheavals (Tunisia, Egypt, Jordania...). And even those who used public funds to soften the impact had a hard time stocking up due to the lack of available products. Algeria paid seven times the price it paid in 2006 for powdered milk.

The paradox and what justifies this reflection, lies in the fundamental inversion of the problem underlying this food crisis. In the years immediately prior, what mattered to countries on the northern shore of the Mediterranean was finding an outlet for their production. The increased competition in the cereal markets from the old Soviet countries, most notably Ukraine, forced the European Union to forge an alliance with the United States in order to exclude Ukrainian corn from the European market by exploiting the fact that Ukraine is not a WTO member. As a consequence, on the one hand, the southern shore of the Mediterranean depends on the northern shore for its supplies during a time of crisis, while on the other hand, when crops are abundant, countries in the north require the southern markets to sell their production. This relation applies to continental products, which are cereals, oil products, sugar, dairy and meats. For the so-called Mediterranean products, this dependence is reversed but less marked because of Spain's dominant role in supplying them to Europe.

### **Reaching an agreement: obstacles and benefits**

As said in the introduction, the present paper explores the feasibility of a North-South agreement that is founded on this cross-dependence. The purpose of this agreement would be to safeguard a market for northern countries in exchange for their guaranteeing a supply to southern countries during a period of food shortage.

The difficulty in reaching this kind of an agreement lies simply on the lack of incentives for private or public operators in the very short term. When the market is very well stocked, operators in the south turn to the competition in order to obtain lower prices. Inversely, when markets are strained, operators in the north have no difficulty in selling their production and seek the most lucrative rather than the geographically closest partners. This selfish combination is what makes reaching such an agreement difficult.

The reasons that may, on the contrary, encourage an agreement are more difficult to mobilize than those resting on the immediate interest of obtaining a better buying or selling price.

The first benefit of striking this agreement would be economic. In contrast to what happens in the case of distant transactions, the geographic proximity of the two regions means that the benefits obtained from their transactions would reinforce the economic growth of the two partners. By the simple mechanism of the Keynesian multiplier, the revenues associated with these transactions contribute to the economic activity of both partners because the likelihood that these revenues are later spent on one side or the other is larger than in the case of long-distance trade.

The second benefit would be political. The population in the southern countries devotes a significant proportion of its income towards food and is thus highly sensitive to fluctuations in basic food prices. If a population spends 50% of its income on food and the prices of basic foods double, the income is reduced by one quarter. Considering the relative poverty prevalent in this region, this brutal reduction has immediate social and political consequences including demands, strikes, riots and uprisings. From the perspective of governments in the southern countries, these events are difficult to manage and can potentially lead to major changes. For northern countries, instability in the markets translates into increased migratory movements and, secondarily, into decreased economic activity given its dependence on the southern markets.

## Solutions

Having established the economic and political rationale for a concerted regulation of the prices of food products in the Mediterranean, its practical feasibility must be laid out. Two ways of carrying out this regulation are conceivable. The first requires unifying the market of food products by integrating the southern countries into the European market, within the natural continuity afforded by the association agreements in place. The second way, without unifying the markets, rests on the constitution of physical or financial stocks and on common rules of intervention to reduce the price instability for the southern countries and partially, as well, for northern countries.

Establishing a customs union, as a supplementary stage to the free-trade agreements reached between the European Union and the countries of the southern shore of the Mediterranean, would allow to extend European intervention mechanisms to the southern countries and thus safeguard the desired stability. During a period of extreme stress on world markets, this customs union could tax the exports of sensitive products, contributing thus to strongly reduce price increases and protect consumers. This option would require a prior convergence of the agricultural support systems in the southern countries towards the European model, which could be achieved by means of programmes such as the ones undertaken to allow the Eastern European countries to join the single market. These programmes would be financed on par, yielding an agricultural and agro-industrial integration that would profit both parties.

Of course, considering the different sensibility of the northern and southern populations to agricultural price variations, export taxes could be imposed at rates that may generate prejudice among the southern populations and reduce this integration's appeal. But even in this case, it would still fully conserve its purpose as it would involve an upgrading of production systems in the southern countries, which would in itself contribute to the region's food security.

The second solution could be developed in a context of separate markets. It rests on the constitution of physical stocks that would be jointly financed, established through fixed rules with regards to the volume and prices of acquisitions and deliveries. In simple terms, the countries who agreed to this mechanism would commit to buying the production and stockpiling it so long as prices remained low in order to sell them when prices increased. The appeal of this to the northern countries is evident, since these stockpiles would constitute an outlet during a period of abundance of supply, while for the southern countries this mechanism would guarantee their supply during a period of shortage. A similar mechanism would need to be established for the agricultural raw materials futures markets, aside from the physical stockpiles.

In parallel to the constitution of the stocks, governments would take long positions by means of a common fund when prices were low and appeal to their delivery when prices increased. The positions would be rolled-over at maturity whenever prices were below the delivery targets.

Quite clearly, these protection mechanisms that involve the constitution and management of physical or financial stocks require a strict policy of restraint in order to avoid constituting them at excessive prices or delivering them at prices that are too low.

Solutions involving the constitution of stocks have been recommended by the G20 in order to regulate agricultural markets. Considering the regional benefits these solutions would generate and the common interest towards regional stability, their regional implementation would allow them to be more easily developed.

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# FOOD-PROCESSING POLICY REFORMS IN THE MAGHREB

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**T**he food-processing sector in the Maghreb countries is suffering a crisis that is the result of pursuing policies that were inherited from a period of abundance of raw materials and sustained revenue increases in first-world economies. These policies prove to be inadequate in the current context which, since 2007, has been characterized by rising prices of raw materials and decreased growth prospects. In this regard, the capitalist crisis in first-world economies allows the reform agendas of the three Maghreb countries to converge, despite their different starting points with regards to the food-processing sector. This reform agenda, however, runs counter to the interests of powerfully established pressure groups in the three countries. The role of regional agreements in managing this process is thus particularly important and constitutes the subject of this presentation.

The text below describes the inherited food industry policies, analyses the political economy of the common reform agenda's components, and reconceives within this context the role of regional agreements that serve to accelerate decision-making and facilitate the management of interest groups.

### **Overview of the Legacy**

Food industry policy in the Maghreb countries has been largely "taken hostage" by consumer interests or, in other words, by urban populations who are sustained (bought) by government subsidies and low-priced imports. This gives rise to financial interests that are either tied to the control over exchange fluctuations of so-called "strategic" products, or to generous subsidies to locally produce these same products. .

In parallel, Maghreb countries have adhered to the European policy of an open economy that is based on the "preservation of the traditional exchange flows" (produce, dates, olive oils, citrus fruits, etc), implemented by means of quotas to generate profits. Everything ran smoothly in this world of financiers, so long as the over-production of basic products and the revenue growth in Europe lasted. If we keep in mind that capi-

talism can only survive by means of its own crises, this setup could not persist.

In matters of food and agriculture, the present stage of capitalism has been marked by the Doha Round's agriculture negotiation failures, the skyrocketing prices of agricultural raw products since 2007, the health or sanitation crisis (mad cows, cucumbers), the battle over Genetically Modified Organisms and intellectual property rights, the increasingly influential agro-ecology and local agriculture movement (slow food) on policy and the growing importance of great multinational distribution to organize food processing networks.

All of these factors will tend to bring existing commercial networks to a halt. To assess the new situation, it is enough to take notice of the difficulties experienced by the Moroccan camp to have the agricultural agreement plan approved at the hands of the European parliament. The Green party, claiming to protect family farming and the environment, questioned the very foundation of trade between the two shores (cereals versus fruits and vegetables). José Bové expressed his view on the proposed agreement at the European Parliament's Committee on International Trade (INTA) in the following terms: "This agreement liberalizes agricultural trade. It will bring produce farmers -particularly tomato farmers- in southern Europe to their knees. On the Moroccan side, the consequences for family farming will be equally disastrous. Cereal imports will skyrocket and place the country at the expense of speculation from international markets."

In view of these warning signs of times to come, the region's countries launched ambitious programmes. In Algeria, Morocco and Tunisia significant changes were announced in agricultural policies starting in 2007/2008 under various designations (Renewal Plan in Algeria, Green Plan in Morocco, Quinquennial Plan in Tunisia, etc). These plans were designed based on an ambitious hypothesis of investment revival and policy reforms. As is often the case, the part having to do with investments was easier to implement. With policy reforms, attempts have remained timid because they have been opposed by the region's historical interest groups.

The way out of this impasse would be to articulate the reform projects by means of an inclusive approach that welcomed the new agents involved, international commitments and a regional integration project on a scale of the entire Maghreb region.

## **Agents and Reforms**

Following the 2007/2008 crisis, the coalitions in power in each of the Maghreb countries had to wake up to the fragility of their productive model in the food processing sector. They all responded by launching strategies and other development plans that involved heavy subsidies to private and public investments, but failed to take notice that along with the technical innovations and educational progress, new agents were in the process of taking control of the economic aspects of agricultural and food production, displacing the historical players and administrations that had always been in charge.

In the Mitidja plains of Algeria, Morocco's coastal plains or Tunisia's irrigation fields, productivity advances increasingly diffuse into networks of leaders who are anchored to their territories and located outside the circuits controlled by the administrations. These entrepreneurs have developed their competitiveness by intelligently combining new technologies (drilling, micro-irrigation, and telecommunications) with the proximity factor and classical production. Thanks to this combination, innovations in production, marketing and consumption are increasingly numerous, even if they go unrecognized because of weak fieldwork in the Maghreb.

In this regard, the agricultural model reform will be a reform that is inclusive of these new agents, or it will not be. To ignore the social base of the reforms and with it, regulation of competition and innovation will no longer be possible.

## Reform components

In all three countries, the way out of the crisis in this sector will require abandoning food subsidies, regulating competition and developing innovations (particularly in the low-cost segment). None of the three reform components should pose major political risks, given the historical accrual of properly and improperly acquired rights.

### Subsidy Reform

In a recent report commissioned by the European Union<sup>1</sup>, it appears that the Maghreb countries continue to depend on price-blocking mechanisms which constitute a major hindrance to modernising consumption modes and technologies. In Morocco, the 'Caisse de Compensation' (Social Welfare Fund) subsidizes the price of flour, sugar and energy products. In Algeria, as in Tunisia, there is a committee in charge of compensations that interferes with a wide range of prices by means of the 'Caisse Générale de Compensation' (General Social Welfare Fund).

TABLE N°1 : PORTION OF BUDGET EXPENDITURES RESERVED FOR SUBSIDIES								
	2003	2004	2005	2006	2007	2008	2009	2010
Algeria	0	0,1	0,1	0,2	9,9	7	7,7	nd
Morocco	4,9	7,2	8,8	10,7	12,4	19,9	7,8	8,9
Tunisia	3,5	5,1	11,8	13,6	15,7	17,7	1,6	11

Today we have a fairly accurate understanding of the consequences of these subsidy policies.

- On a budgetary level, the study cited below shows that after 2007, subsidies reach an average 10% of running expenses
- On an economic level, these policies are expensive due to the inefficient technological choices they entail and the over-consumption of subsidized products (sugar in Morocco, semola in Algeria)
- On a social level, these policies have a regressive social impact insofar as they benefit foremost those who spend the most.

1. Food and energy prices, Government subsidies and fiscal balances in South Mediterranean Countries, Ronald Albers and Marga Peeters, January 2011.

The absence of a reform in this area in all three Maghreb countries constitutes almost an exception on a global scale, as more than forty countries in Asia and Latin America have moved towards more well targeted social policies.

## Regulating Competition

The need to reform competition regulations stems from the coexistence in this sector of competing products made by companies that operate in highly unequal conditions. We have national operators in the formal sector who complain about competition from non-structured operators and about European and American imports that are aided by subsidies and free-market agreements. We have the non-structured operators who consider themselves penalized by their exclusion from certain lucrative markets. We have, finally, foreign operators who consider their rights violated by contraband and counterfeit products.

## Refocusing research and development

With regards to the research and development, we could say that the system has largely failed its mission to develop new 'low-cost' technologies that are accessible to the small and medium size operators, thereby benefitting the simple transfer of innovations conceived in first-world countries which are capital-intensive but thrifty in terms of labour. There are plenty of examples in this regard, notably in terms of promotion of capital-intensive technologies and/or working-capital funds (seeds, mechanization of harvest, automation of irrigation systems...). India's experience in this matter shows, however, that applied research that focuses on the needs of the large majority of operators (those who enjoy minimal capital) yields convincing results at a low cost. This translates into accessible drilling machines, greenhouses or irrigation technologies being placed in the market.

## Regional agreements levers form reform

The Maghreb countries have a common reform agenda to counter the food-processing industry crisis. This agenda is composed of measures which are hostile to certain well established interests in all three countries.

As a result, subsidy reform will be opposed by operators of subsidized networks, by other former and prospective beneficiaries (who lose their funds) and by fainthearted political authorities concerned about short-term stability. At this point, the difficulty surrounding the decision for any political figure who is to confront the risk of a spillover should be recognized, as the latest such large reform undertaken in Iran illustrates<sup>2</sup>. Competition, on the one hand, presently encounters the least taxed segments and the most impenetrable niches.

2. See the article devoted to this subject in 'Revue Economica', October of 2011 by the author of this article under the title "Pourquoi eux et pas nous?". [trans. "Why them and not us?"]

As far as research is concerned, the scientific community which is used to the comfort of preestablished protocols will not rejoice in the overhaul of the monopoly it exerts in this domain. Considering where we are coming from, we should recognize that internal political forces cannot support this reform agenda.



We are confronted with the classic dilemma of necessary reforms without immediate political support. In order to confront these problems and to oppose the attempts to block them by lobbies, political economy teaches us that it is useful to resort to the force of bilateral agreements, whether regional or multiregional, whose arrangements take precedence over national policies.

However, in view of the statement published after the last encounter between the Algerian and Moroccan ministers and which is reproduced below, it seems that an understanding of this role of regional agreements is still beyond reach.

“Recently an agreement has been signed between Morocco and Algeria to reinforce their cooperation in agriculture and to work together on matters that are tied to food safety. The agreement anticipates cooperation over the next five years that will allow the two countries to organize information and expertise-exchange visits by respective services that are tied to the Ministry of Agriculture.

Both countries hope, via this cooperation, to favor the adoption of a common position on the subject of regulating the market of international food products.”

In fact and this is my conclusion, the management of this reform agenda will be unable to advance if it marches solely on this external lever. The recognition of the economic role and political representation of new agricultural agents who are anchored to their territory, are innovators and accumulate networks around their leadership, constitutes the second pillar on which this process rests.

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# FROM THE LOGIC OF PLACEMENT TO THE LOGIC OF INTERMEDIATION: GUIDANCE AND SUPPORT FOR UNEMPLOYED GRADUATES IN TUNISIA IN A CONTEXT OF CRISIS

*Abdelwahab Ben Hafaïdh*

## FROM THE LOGIC OF PLACEMENT TO THE LOGIC OF INTERMEDIATION: GUIDANCE AND SUPPORT FOR UNEMPLOYED GRADUATES IN TUNISIA IN A CONTEXT OF CRISIS

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In Tunisia, the subject has long been off limits. To evoke the “unemployment of college graduates” in this country which, with a population of 10 million, had invested in human resources since independence sounded like an admission of defeat. Only a few months after a “propaganda” report was published praising and celebrating the Tunisian model’s achievements, a young street vendor’s suicide triggered an unprecedented revolt. At the forefront of the uprising stood the country’s youth, pushed to the limit by unemployment and social injustice. Neither the 5-6% GNP growth per year, nor the various measures introduced (fiscal incentives to attract foreign businesses to Tunisia, hiring incentives for Tunisian companies, public employment grants, hiring announcements in the public sector, incentives for students to prolong their studies, etc) yielded positive results. Every year the country produces too many new graduates, and economic activity is not sufficient to entirely absorb them.

Having attained social and political visibility after the revolution of January 14, 2011, graduate unemployment poses researchers the question of its social and political intelligibility. Every year 85,000 people enter the labour market. This problem exposes a new field of research which transcends any statistic or economic considerations and highlights instead the notion of intermediation. From this perspective, the unemployment situation should no longer be analyzed in terms of inputs (number of graduates) and outputs (number of placed graduates), but rather in terms of a process of employment preparation which begins with what are called active mediation efforts, and is meant to accomplish the goal of professional placement. As it has often been used, the notion of occupational placement designates the process which allows a person to integrate into the socio-economic system by learning its codes and rules and includes the totality of a person’s relations to his or her social environment. The notion becomes problematic when we inquire about the actors involved: who does what? And, who are the agents who facilitate the link between offer and demand?

This matter becomes even more problematic as soon as we question the well-foundedness of the postulate of 'over-education'. From this perspective, we begin to realize that over-education is nothing more than a false working hypothesis; the problem is neither the availability of higher education and university nor the national and international market's absorption capacity, but rather the relationship between the two. In other words, the process by which the worlds of higher education and the labour market are brought together.

### **A new paradigm and a new policy: from occupational placement to intermediation**

Here, in particular, in an environment that is hardly democratic and where unemployment data seems to be highly questionable, the logic of occupational placement runs up against the practical issue of flux management. In contrast, intermediation focuses more on continuous education, information and creating new skills. The notions of over-education / status downgrade and graduate unemployment are closely connected but do not fully match. While both concepts suggest a decreased profit due to very poor intermediation, over-education implies the placement of graduates in "worse jobs" but not the absence of employment. <sup>1</sup>

The haze of statistical information, on the one hand, and the inefficiency of mediation channels between the graduate and the labour market on the other, can generate enough confusion so as to garble or distort the basic facts and render the intermediation process hardly efficient. Indeed, in the case of Tunisia, this process has seen two different stages: the first was the period from 1990 to 2010, corresponding to the height of «relay» intermediation, reflecting a pro-active policy which sought to answer the problem in a somewhat forced way. The second stage has been to question the old narrative. After the revolution, we begin to find out the real unemployment rates. We discover for instance that the unemployment rate among 18 to 29 year olds was 29.8% in 2009 or 24% in 2004, whereas it had always been said that the overall unemployment rate in Tunisia did not surpass 14%. The rate turns out to be particularly high among higher education graduates, where it reaches ... 44.9%, in contrast to the officially cited 22.5% unemployment among graduates on a national scale.

This rate, which has practically doubled in ten years, from 22.1% in 1999 to 44.9% in 2009, is the result of a higher education system that revolves foremost around the quantitative rather than the qualitative. Very high success rates are registered at every level, and every year hundreds, even thousands of degrees are awarded that do not reflect the true level of young students.<sup>2</sup> A month after the revolution 500,000 job seekers were tallied, among which there counted 150,000 graduates, to which we would now have to add the new cohort of university graduates from 2011, in addition to those graduates returning from Lybia who worked either in the tourism industry or for Tunisian interests. The most conservative estimate reckons there are 250,000 unemployed graduates. One telling sign is that among the approximately 30,000 illegal Tunisian immigrants who crossed over to the northern shore of the Mediterranean after January 14 20011, a high number of them were college graduates.<sup>3</sup>

1. Jean-Michel Plassard & Thi Thanh Nhu Tran : L'analyse de la sur éducation ou du déclassement. *Revue d'Économie Politique*; Sep/Oct. 2009; 5. p 751
2. The Press : 2-6-2011
3. Interview with Mahdi Mabrouk, illegal immigration specialist and author of « Voile et Sel ».

In order to offer a solution to the stressful situation of the unemployed youth, the transitional government developed an even more pro-active strategy (a forcing scenario) that seeks to satisfy a large portion of the employment demand. According to estimates, recruitment in the public sector reached 34,000 posts, among which 24,284 were civil employees and 10,000 were in state businesses. But recruitment in the public sector represents only one of the axes of the employment emergency program established by the transitional government after the January 14 revolution. Since the beginning of 2011, the government has sought to stimulate the public sector by reducing state examination delays and by simplifying the procedures involved. In this regard, codes have been enacted to ensure that, as a general rule, new employees be hired by work and academic history, making written or oral examinations an exception which the examination commission may require. This year's simplification of the hiring process also includes the suppression of the old requirement to publish examination announcements in the Official Bulletin <sup>4</sup>.

## Public employment intermediaries: instruments without policy ?

Labour market intermediaries (or rather, programmed placement agents) in Tunisia can be classed into several categories, including intermediaries who are directly involved with the labour market, employment program financing institutions and vocational training institutions. Nonetheless, the process most well-known to college graduates is the one related to occupational placement programs. These include:

- **The Active Search Programme for Higher Education Graduates (AMAL):** This programme seeks to restore hope among youth and is directed mainly to people who have been seeking work for a long time, namely two to three years. After it was established, the transitional government insisted that AMAL is not a contract between a corporation and an employment seeker: it is an active search for employment, and employment seekers commit to following a road map that is made up of stages that consist in either training or retraining activities.<sup>5</sup>
- **Higher education Graduate Placement Programme:** Its purpose is to allow the beneficiary to acquire professional qualifications by alternating between practice at a private company and training at a private or public training institution, in conformity with the demands of an employment position which said company is committed to create. The program's target population is higher education graduates who have been unemployed for more than three years since obtaining their degree.
- **Introduction to Professional Career Internship "SIVP":** The purpose of this internship, which has been inherited from the old regime, is to help its beneficiary acquire professional skills that may facilitate his or her employment. The target population includes first-time employment seekers who are Tunisian nationals and have been higher education graduates or have had equivalent qualifications for more than six months. The contract's duration is one year. In exceptional cases the contract may be renewed with a different host company.<sup>6</sup>
- **Adjustment and Professional Placement Contract:** The purpose of this contract is to allow the employment seeker who does not hold a degree in higher education to acquire professional skills that conform to

4. The Press : 9 -22 -2011

5. It is an occupational placement grant of 200 Dt per month, as opposed to an unemployment benefit, which will assist over 50,000 employment seekers who take part in a year long training internship and vocational updating in relation to their original field, in order to increase their employability.

6. The government provides: a monthly allowance of 150 dinars, the intern's social security, the cost of up to two hundred hours of complementary training. The company is responsible for: Providing the intern a complementary monthly allowance of at least 150 dinars and to recruit at least 50% of the total number of interns within a period of 3 years.

the needs of a job offer presented by a private company which has not been satisfied due to lack of available candidates in the market. Its target population is employment seekers without a higher education degree.<sup>7</sup>

- **Civil Service Volunteer Programme:** This programme's purpose is to allow higher education graduates who are first-time employment seekers and who have not previously benefitted from the SIVP programme to voluntarily enroll in part-time internships relating to general interest projects, with the purpose to acquire practical skills and professional attitudes. The programme provides a personalised assistant to help guide the intern into a career with a salaried job or independent work.

An assessment made by a team of researchers from the Applied Social Science Forum (ASSF) in September of 2011 based on a sample of 2,300 students who had graduated in human and social sciences demonstrated the limits of this approach. It is too bureaucratic, and far from ensures a path from theoretic contribution to practical application.

### Public international intermediation in a time of crisis

Public international intermediation for the college graduate labour market is a relatively recent phenomenon. It is connected to structural changes that have affected this particular segment of the labour market and to the recent higher education reforms, most notably the establishment of the LMD system (Standard degree/Master's/Doctorate). Since its introduction, however, international intermediation has evolved considerably, both structurally and in terms of its goals. The purpose of this intermediation is to render more visible opportunities that require higher skills. In addition, in order to seize the opportunity which the internationalization of degrees offers (and which remains somewhat hypothetical), the World Bank has appealed to Tunisia to deploy serious and concrete efforts to increase its participation towards international professional mobility. By way of example, should Europe desire to reconstitute its declining working population, replacement demands in European countries will peak in the 2020s and will affect middle and higher level positions. If we consider the current education levels, all countries in the MENA region will be lagging behind since most potential migrants (ages 1 to 39) will have at best completed their primary education. If education levels improve on time, however, the outlook will change <sup>8</sup>.

Created in April of 1972, the Agence Tunisienne de Coopération Technique (Tunisian Technical Cooperation Agency) is a privileged instrument for international technical cooperation. A non-profit organization, the ATCT was created in order to mobilize Tunisian skills and human and institutional expertise and to serve the purpose of international solidarity and development.

Under the direction of the International Planning and Cooperation Ministry (Ministère de la Planification et de la Coopération Internationale), the ATCT is a public establishment that is endowed with a moral status and financial autonomy <sup>9</sup>.

Among its goals and functions, the ATCT administers private or public individual and institutional skills and expertise which Tunisia mobilises in

7. According to this system the government provides: a monthly allowance of 80 dinars for the duration of the contract, the intern's social security, complementary training costs up to 400 hours. The company must: provide the intern a complementary monthly allowance of at least 50 dinars and recruit the intern who completes the internship contract.
8. The World Bank: *Shaping the Future: a Long-Term Perspective of People and Job Mobility for the Middle East and North Africa*. 2010.
9. Its attributions are defined according to law 72-35 of April 27, 1972.

order to promote and strengthen its relations with other countries and other regional and international institutions. Among its objectives are:

- To advertise the potential of available skills for technical cooperation in Tunisia.
- To inform executives of employment opportunities in the international labour market.

For the ATCT, the Gulf region is the most privileged destination for high level Tunisian talent. The number of Tunisians in Arab countries is estimated to be 153,256, according to the latest statistics from the Ministry of Foreign Affairs, which are compiled from consular registers that ended at the end of 2008. Tunisian presence in Arab countries and particularly in the Gulf is dominated by technicians, numbering 8,740 out of a total of 10,803 foreign workers in 2008.

The Tunisian Agency for Technical Cooperation (ATCT), which seeks to select candidates in light of the profiles required in the international labour market, has at its disposal a computerised database of candidates which, at present, comprises more than 16 million files of Tunisian executives and technicians in various fields.

The dispatch of executives by the ATCT takes place exclusively through this database. It is thus committed to collect the maximum number of candidates in order to provide the endlessly growing foreign demand for Tunisian high executives and skilled workers. The Gulf countries constitute in this regard the largest employment market for high level Tunisian executives. Among the 8,092 Tunisian foreign workers working abroad through the ATCT, 6700 or more than 82% were recruited by countries in the Gulf.

In this regard, Qatar is at the forefront of the Arab Gulf nations having surpassed, respectively, the Sultanate of Oman, the United Arab Emirates, Saudi Arabia and finally Bahrein.

Nonetheless, the financial crisis has made clear where the limits of career conversion lie in these countries and the absence of training or labour replacement intermediation. The shortcoming lies in the lack of career retraining. This is one of the reasons why this matter is considered to be central to the new government's challenges. An agreement was recently signed to promote career training and placement with the transitional government that included the Ministry of Career and Employment training, the Ministry of Higher Education and Scientific Research and Cnam France (Conservatoire national des arts et metiers or National conservatory of arts and professions)<sup>10</sup>.

The agreement is for a period of three years and is renewable, and also promotes the integration of new training procedures that seek to perfect and develop the Tunisian skills that are sought by international companies.

The signing parties are committed, in particular, to establishing a programme of higher career cooperative education (work-study), to establish procedures that allow to change careers into sectors of high demand, and to promote complementary training for new graduates who seek employment. This new plan rests on the idea that the capacity

**10.** Cnam France is a higher vocational training establishment intended for individuals who are already employed. It offers 1,500 teaching units and 500 degrees, levels bac to bac+8 in 350 specialised professions in "industrial sciences and information technology" and "Management and society".

to reduce unemployment is relatively weak when compared to the steady increase of new graduates (80 thousand each year). <sup>11</sup>

## Final remarks

The explicit intervention by public institutions in the area of intermediation has seen two phases: the first one rested on a descending logic of centralized placement, while second one, established in a context of crisis rests on a logic of intermediation.

Currently, the Tunisian system is characterized by the presence of a large number of intermediaries whose missions are sometimes redundant. This multiplicity stems from the system's historical development, which occurred during a time when the resources to fulfill the specific needs of the labour market were variable. This situation implies an extra cost at the administrative level, which further complicates the relationship between employment seekers and offerers.

If it is true that certain embassies abroad are on the lookout for employment opportunities, particularly in the Gulf countries, the efficiency of this network still needs to improve. Furthermore, the **poor geographic distribution of intermediaries** should be also be mentioned: in the interior and southern regions of the country, distances between employment bureaus and towns are sometimes very significant, which naturally discourages potential employment seekers.

Indeed, currently 55% of employment and independent work offices are located in the Sahel and North provinces, including the district of Tunis. This remark is equally applicable to the ATCT, which is located in the city centre and does not have offices in the interior regions.

(Endnotes)

<sup>11</sup>. The Press 9-20-2011



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# YOUTH SPECIFIC POLICIES IN TIMES OF ECONOMIC DIFFICULTIES

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### **Youth, economic difficulties and the representation problem**

Maghreb Youth is among the first groups affected by economic difficulties. The latter have specific effects on the life of millions of young people struggling everyday with their living conditions. With the absence of any state or institutional protection mechanism, the rise of unemployment can have harsh effects both on young people who lost their job or are long-term unemployed.

Economic difficulties are not only cyclical but should be understood from a structural perspective. The inability of the economy to create enough jobs, aggravated by the scarcity of resources and the decline of solidarity mechanisms (notably family support), the poor standards of several branches of the education system, the absence of social protection and healthcare for educated and unemployed youth are among the structural constraints that should be taken into account.

Economic difficulties can induce strong political changes. In the case of North African countries, there is a strong link between the two spheres since the Arab Spring. If the Tunisian Revolution started in December 2010 with the self-immolation of Bouazizi, a street vendor, one should also keep in mind the revolt of the Mining Basin of Gafsa in 2008, which was the most important protest movement in Tunisia since the "Bread" revolt of 1984. The young unemployed, particularly graduate and high school students played a key role in the two types of mobilization.

Since the beginning of the Arab revolts, a strong causality can be unveiled between political authoritarianism and economic difficulties. Maghreb Youth involved in the revolts denounced the absence of democracy as one of the causes of poverty, unemployment and rising inequalities. In fact, the political meaning given to economic difficulties points out the problem of representation of Youth interests in this specific context. The lack of legitimate and efficient representation of their interests make the young people take over the public space and "the street".

Another aspect of the representation problem is the relationship between youth groups and policy making. The representation of Youth and the formulation of its priorities is itself a prerequisite. Who can speak in the name of the Youth? Are there legitimate spokespersons? In non-democratic systems or in times of political transitions and political upheavals, the institutional mechanisms that allow the representation of Youth do not exist or are strongly biased.

Therefore, the first step in the process of conceiving a youth policy is to start from the problem of representation. This approach allows a more legitimate representation and formulation of Youth problems (particularly during the diagnosis of problems that would be agreed upon) and a more efficient implementation of policies.

It is obvious that the existing institutions dealing with the Youth in Morocco, Algeria or Tunisia are not perceived by young people as the advocates of their interests or as efficient representatives able to have a significant impact on the main issues they face. This mistrust is partially due to the marginalization of the Ministries of Youth in the governmental decision making process and their weak prerogatives confined to leisure and sport. In fact, the Ministries of Youth in the Maghreb rarely address the economic, social or political priorities of the Youth.

For example, the mission of the Ministry of Youth in Morocco is still formulated into paternalistic terms and seems disconnected with the language and the priorities of the Youth. According to the decree, the Ministry should elaborate educational programs in order to “protect” Youth<sup>1</sup>.

The representation problem can be solved only if:

- There are fair and transparent parliamentary, regional and municipal elections
- These elections allow the representation of Youth interests even with incentives and specific mechanisms (quotas for example)
- Maghreb Youth have enough political, institutional and civil mechanisms (NGOs, Federations, National Youth Machinery...) that make the lobbying possible
- Maghreb Youth trust the system, which means that the young people believe in the efficiency and the credibility of the existing political and institutional mechanisms and are ready to participate effectively in their functioning

1. According to the decree, the Ministry of Youth should: *Élaborer des programmes socio-éducatifs susceptibles d'assurer l'organisation, l'encadrement et la protection de la jeunesse, de l'enfance et de la femme; Améliorer et généraliser l'action associative de la jeunesse et de l'enfance afin de garantir la protection de la jeunesse et son intégration dans la société.* <http://www.mjs.gov.ma/ministere/mission-et-organisation/attribution>.

2. See Pierre Bourdieu, in *Questions de sociologie*, Éditions de Minuit, 1984. Ed. 1992 pp.143-154

## Social construction and public policy categories

Youth is far from being a homogenous category<sup>2</sup>. It includes women and men, rich, middle class and poor, urban and rural, educated and uneducated, employed and unemployed. It is not clear, for example, if the public policies address the young educated middle class or the young poor. In order to conceive specific policies addressing Youth problems, one cannot use a broad category only but one should build segmented sociological categories of young people useful in the process of policy elaboration.

The construction of these categories should be closer to reality and involves youth' self-perception on its own problems. It means building categories by using the available information or conducting surveys on the Youth. In times of economic crisis, sociological and economic analysis should help us know which segments are the most affected: rural youth, women, unemployed...

An effective Youth policy is a policy that succeeds in accompanying the young people in their transition to adulthood in the main areas of social, economic and political life, mainly through the acquisition of human capital and the reduction of risks (dropping out of school, prolonged periods of unemployment or risky health behaviors that can leave irreparable gaps). Youth's human capital is hampered by poverty and policy failures, especially the failure to provide or finance adequate services when markets do not work<sup>3</sup>.

### Unemployment and the demographic bulge

Among the issues and the sectors that can be considered as priorities for the Maghreb Youth, one should mention: employment, education, health, family, citizenship and mobility/communication. Employment is the most urgent issue for Maghreb Youth. Although there was an increase in employment during the last decade, the proportion of Youth among total unemployed is very high (more than 70%) as well as the Youth unemployment rate (21,5% in Algeria, 17,5% in Morocco and 31,2% in Tunisia).

The increase in employment hides the fact that the quality of jobs created is poor. A significant part of the jobs are created in the informal sector: street vending, repairs and maintenance, construction<sup>4</sup>.

Usually perceived as a constraint, the demographic bulge (i.e. a significant increase of the proportion of youth compared to other age groups) in the Maghreb can be an opportunity. It is true that the Maghreb countries are still unable to have a high growth rate and create enough jobs. But it is also true that the youth bulge is an asset that can reduce the dependency ratio and increase the per capita productive capacity. This effect is not inevitable and if it occurred in East Asia, it is due to the fact that "East Asian countries had social, economic, and political institutions and policies that allowed them to realize the growth potential created by the transition"<sup>5</sup>.

Paradoxically, the Youth bulge and the inability to create enough jobs in the Maghreb lead to a strong social pressure, and generated the conditions of a major political change, which would make possible the realization of the growth potential. In times of economic difficulties and political instability, states are tempted to give short-term and often inappropriate responses to the pressure of social demands. On the one hand, governments try to appease the contestation by creating public jobs without any study of the state administration's needs or the matching between the qualifications of the unemployed and the characteristics of the job. On the other hand, the long-standing solutions to youth unemployment lie in the structural reforms that should be conducted in

3. The World Bank, *Development and the Next Generation*, 2007, p.5.

4. Carnegie Endowment for Peace, *Trading high unemployment for bad jobs, Employment Challenges in the Maghreb*, 2010, p.2.

5. Demographic Transitions and Economic Miracles in Emerging Asia », David E. Bloom and Jeffrey G. Williamson, *The World Bank Economic Review*, Vol. 12, No. 3 (Sep., 1998), pp. 419-455.

the middle and the long run and are at the same time specific and non specific to youth (education system, job market, growth, exporting sectors...).

## National Agenda, Coordination and Youth Responsive Budget

Youth is not a priority in the national agenda of Maghreb countries. Young people are marginalized in the decision making process. This situation is due to the inexistence (or the failure) of political or institutional mechanisms that represent legitimately and efficiently youth interests at the national, regional and local level. In order to be effective and have a positive impact on young people's life, national governments should make youth difficulties a priority of their policies and be accountable for youth outcomes. Policy makers should articulate a coherent view of desired outcomes for young people and integrate that view with national planning and implementation mechanisms<sup>6</sup>.

Coordination between ministries and institutions (ministries of youth, education, economy, employment...) that deal with youth problems is very weak. Each ministry prepares its own planning of measures and activities without any articulation or consultation with other ministries and institutions. A successful Youth policy needs a strong coordination at the governmental and the regional level.

Maghreb Youth can draw lessons and benefit from the experience of Women's rights movements in the region. Although public policies did not address Women's employment, gender inequality was reduced in terms of political representation (quotas during the parliamentary and local elections), civil and personal rights (reforms of the Family Codes). Gender Responsive Budgeting has been adopted in the preparation of the Law of Finances in Morocco<sup>7</sup> and can be a powerful tool in the reduction of gender inequalities. Maghreb Youth can put pressure on their governments and political parties in order to be better represented at the Parliament and Municipalities. Youth Responsive Budgeting can be a strong tool for the coordination and consultation between ministries and public institutions. By working both at the technical and political levels, Maghreb Youth can make its problems among the priorities of governments.

## Conclusion

Maghreb Youth has been often studied as a threat for North African and European States. Young people were mainly perceived as a threat (immigration is perceived as an economic and a "cultural" threat in Europe) for Western countries as well as for the authoritarian regimes of the Arab world (according to the Brookings Institution, "Radicalism and terrorism remain critical security concerns" related to youth<sup>8</sup>). This approach in terms of threats rather than opportunities may be no longer relevant.

The contestation initiated by young people may change the authoritarian regimes of several Arab countries and bring democratic regimes that would transform the role of the youth in the decision making process and the relationship between Europe, USA and the Maghreb.

6. The World Bank, *Development and the Next Generation*, p.215

7. UNIFEM, *Gender Responsive Budgeting Program: Morocco*, 2009

8. Navtej Dhillon, Middle East Youth Bulge: Challenge or Opportunity? [http://www.brookings.edu/speeches/2008/0522\\_middle\\_east\\_youth\\_dhillon.aspx](http://www.brookings.edu/speeches/2008/0522_middle_east_youth_dhillon.aspx)

It would be a misunderstanding of the Arab uprisings to see them only from an economic or social perspective. Maghreb Youth is not “corporatist” and do not act as a single social group defending his own interests. In fact, Youth claims target the foundations of the authoritarian post-colonial regimes and are deeply political: corruption, despotism, oppression are denounced. The “Arab Spring” seriously questioned the thesis of a structural authoritarianism and economic underdevelopment rooted in cultural practices<sup>9</sup>. It questioned also the technocratic perspective, which sees economic and social development as a matter of “adjustment” without taking into account political change and the aspiration to democracy.

Dignity, freedom, and democracy are among its main aspirations and can be understood as a will to re-shape the politics. In the context of Arab revolts, Youth public policies cannot be separated from transformative politics and democratization processes.

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# TOWARDS AN INTEGRATED ENERGY MARKET IN THE WESTERN MEDITERRANEAN

*Sohbet Karbuz*

## TOWARDS AN INTEGRATED ENERGY MARKET IN THE WESTERN MEDITERRANEAN

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### **Introduction**

The Western Mediterranean is anything but a poor region: Southern rim countries in the region boast abundant oil, gas and renewable energy resources which should buttress North Africa as supplier of choice for Europe even if it cannot pretend to match Russia's formidable strength. Close cooperation in a sector of activity where the European Union (EU) constantly worries about its security of supply would thus seem to be a "given" of relations between northern and southern shores. Such is however not the case. Europe has signally failed to develop a regional energy strategy which takes account of the needs of the region while the low level of economic and energy trade among North African countries underlines a distrust which goes back a generation and which countries such as France and Spain have do little to overcome.

The agreement reached last summer between Algeria and Morocco which will see the former sell 0.64 billion cubic meters per year of gas to its western neighbor does offer a glimmer of hope that the climate in North Africa is improving. Further hope of change comes in the wake of the change of regime in Libya which should allow that important oil and gas producer to join the EU's Neighbourhood Policy and the Union for the Mediterranean (UfM).

The Arab spring should encourage the EU to reexamine its policy towards its southern rim partners. Focusing on the issue of free elections in Tunisia and Libya is fine but if the EU fails to underpin recent changes in North Africa with an offer of a new framework of cooperation for energy and economic issues, any hopes of better long term governance in southern rim countries will be dashed.

Two challenges face Europe which transcend national interests and will define, not only the continent's future, but the world in which Europe exists in the 21<sup>st</sup> century: security and the reconciling of energy, climate change and economic development goals. To an increasing degree these challenges will interact – for instance, in Europe's policies towards North Africa but also with other regions like south Asia and Africa. Recent



events should embolden Europe to formulate a more coherent strategic approach to energy security towards its Maghreb partners.

## EU Relations with its Southern Neighbours

Secure, sustainable and competitive energy remain key tenets of EU energy strategy but two factors argue in favor of a reformulation of current thinking. First, the EU's domestic energy production continues to decline with current domestic energy production satisfying less than half of the EU's needs: reliance on foreign suppliers will increase in the years ahead. Second, bilateral disputes between certain supplier and transit countries have led to interruptions to energy supplies to the EU.

The overall goal is the integration of energy markets and infrastructure of the EU with its neighbors by completing the Mediterranean electricity and gas rings, by extending the Energy Community Treaty to neighbors not yet party to it or, by establishing a complementary EU-Southern Mediterranean Energy Community, starting with the Maghreb countries. EU energy cooperation with southern countries is deemed to be strategic yet it lacks ambition. Furthermore the EU should appreciate that its partner's interests do not necessarily match its own. Complying with EU internal market rules is not necessarily in the commercial interest of its foreign suppliers.

## From Barcelona Process to Union for the Mediterranean

The Mediterranean region is characterized by three inequalities: rich, democratic but energy hungry countries of the north; and poor, less democratic, but energy rich countries of the south. This asymmetric relationship will not change overnight.

European countries integrated their economies as a result of the creation of European Community yet countries in the Maghreb trade little with each other because frozen border disputes have laid to rest efforts at regional integration. More than half their foreign trade is conducted with the EU. The EU has been trying for decades to introduce forms of cooperation between the two shores of the Mediterranean and extend its principles and rules in relation with its neighbors. However, these efforts have not achieved tangible results because of their lack of coherence, fragmented nature, and the insufficient resources which back them. The most significant initiative was the Barcelona Declaration in 1995 which acknowledged the pivotal role of the energy.

The launch of the European Neighborhood Policy (ENP) in 2003 was supposed to usher in a new phase but ended up encouraging multilateral bilateralism, fostering independent action plans and trying to Europeanize the south. It had no practical effect on ENP energy objectives.

The Union for the Mediterranean (UfM), launched 2008, aimed to revitalize EU relations with southern neighbors: six commercially sponsored priority projects – a key project being the Mediterranean Solar Plan (MSP) proclaimed a new era of enhanced cooperation.<sup>1</sup> It aimed

1. The MSP and other regional industrial initiatives such as German backed Desertec Industrial Initiative and Medgrid (succeeding French backed Transgreen) foresees the development of 20GW of new capacity in the southern Mediterranean generated from renewable resources by 2020.

to meet the electricity needs of the south; export part of the green electricity to Europe; and establish north-south and south-south power interconnection networks. Yet many unanswered questions exist as to project profitability, infrastructure, legislative and regulatory convergence and financing and there is little certainty that renewable energy technologies will turn be the engines of significant job creation some experts proclaim.

It is not clear whether recent political changes in southern rim countries will lead to any fresh thinking in Brussels which is disappointing: mutually beneficial concrete projects bringing the states, financial institutions and the private sector together will be vital for success but a sine qua non is that a non-political secretariat of the UfM is established.

### **Building an Integrated Energy Market**

The electrical grid interconnections as well as existing and projected gas pipelines between Maghreb countries and Europe constitute important milestones for integrating electric and gas markets in the region. The development of a Mediterranean Electricity Ring (Medring), interconnecting the Mediterranean basin's power systems by 2020 remains a key goal. There are already two electricity interconnection between Morocco and Spain and a third one is planned; direct current submarine power line between Tunisia and Italy is expected to be operational by 2017; the interconnections between Morocco-Algeria, Algeria-Tunisia, and Tunisia-Libya are already in place although they are not working perfectly. Last year, Algeria, Morocco and Tunisia confirmed their intention to establish a Maghreb electricity market. Nevertheless, the goal of integrating this grid into the European super-grid in not too distant future is bold.

Ever since the construction of the first pipeline from Algeria to Italy thirty years ago, natural gas has been the main factor of interdependence between Europe and southern Mediterranean countries. This interdependence has offered security of demand for Mediterranean gas producers as much as security of supply for European consumers.

Four cross-Mediterranean pipelines currently bring gas from Algeria and Libya to the northern shore. At present, most gas arrives in Europe via the Trans-Med pipeline and the Maghreb-Europe Gas pipeline.

The Medgaz pipeline between Algeria and Spain came online in early 2011. It is not clear yet whether the projects like Galsi pipeline from Algeria to Italy via Sardinia and is the trans-Saharan pipeline from Nigeria to Algeria will see the light of day by 2015 as planned. Libya sends its gas to Italy via the Green Stream. Completing a gas ring in south west Mediterranean would require linking Libyan infrastructure to Tunisia and Algeria. This would enable Libya to use Algerian gas export infrastructure which is underutilized.

While hydrocarbons currently make up the bulk of energy exports of south Mediterranean countries, the future will promote their renewable potential as a reliable energy source for Europe. Whether electricity interconnections and renewable energy projects will replace the existing interdependency in hydrocarbons is as yet unclear.

## Energy Challenges and Opportunities

Oil and natural gas are of paramount importance for the faster economic development of Maghreb countries but rapidly increasing domestic demand in southern rim countries; slow progress in exploring and developing new fields; declining size of new discoveries, and struggling production levels constitute major challenges for producers which will not be met unless upstream contractual, regulatory and fiscal terms are adjusted to attract foreign companies.

Although Algeria is a significant oil and gas exporter, it will struggle to remain a large exporter after the next decade. Libya, on the other hand, will be the rising star. Tunisia and Morocco will have to import most of their hydrocarbon needs. All hold substantial amount of renewable energy and some have considerable potential for unconventional hydrocarbons waiting to be harnessed. The following subsections look at the energy challenges and opportunities facing these countries today and in the future.

### Algeria

The results of Algeria's third international exploration bid round, since the enactment of the 2005 Hydrocarbon Law, were the worst to date. Although many external factors played a role in the disappointing result, the industry's diminishing interest in Algeria due to unattractive contractual terms or blocks offered suggests that Algeria needs to revisit its upstream policy and terms if it wants to attract foreign investment.

The status quo is not an option as even the recently approved development plans will not be sufficient for Algeria to meet rapidly rising domestic gas demand and remain a leading gas exporter. The mid to long term outlook for Algeria's oil sector will be much worse than gas. Algeria's stated targets to increase sustainable crude oil production capacity to 2.5 million barrels per day by 2015, and gas export capacity to 120 bcm by 2015 are unlikely to be met. Progress on major projects continues to be slow and domestic oil and gas infrastructure is being neglected.

In June 2011 Sonatrach concluded an agreement with Gas Natural Fenosa which ends a dispute dating back to 2007 over the price of natural gas. The agreement outlined the principles of cooperation and marks the start of a new strategic relationship between the two companies who are determined to look to the future. This rapprochement could facilitate the advancement of other projects between the two countries.

Algeria's substantial renewable energy resources and modest unconventional hydrocarbons potential offer a new frontier for broadening bilateral cooperation beyond the traditional hydrocarbons sector. In April 2011 Sonatrach and Eni signed a cooperation agreement covering the exploration and possible development of unconventional gas, with a particular emphasis on shale gas.

Several European companies, particularly from Spain and Germany, are seeking to develop bilateral cooperation with Algeria in the field of green electricity generation. Last July 2011, a Spanish-Algerian joint

venture launched Algeria's first hybrid/solar power plant and three additional such plants are planned before 2017. Algeria's ambitious plans to become a major green electricity producer and exporter to Europe via Spain and Italy can only be achieved if the country offers more attractive terms to foreign investors than it does today.

## **Lybia**

Libya's energy future remains deeply uncertain following the change of regime in that country. Libya's oil production is unlikely to return to prewar level before 2014. ENI is the largest foreign investor in the hydrocarbons sector. Although the National Transitional Council has stated it will honor the oil contracts concluded by the Libyan government some senior officials suggest that companies from the countries who supported them may get special treatment in future upstream contracts. Libya lacks a clear domestic gas policy and has a limited gas infrastructure.

Progress in upstream gas sector for International Oil Companies (IOCs) has been slow since UN sanctions were lifted in 2003. IOCs don't know how much of the gas they produce will be obliged to be sold into domestic market and at what price.

Two-thirds of Libyan gas production is exported to Italy. The Greenstream pipeline to Italy was shut down between February and October 2011. LNG from Libya's over 40 years old Massa El Brega plant is shipped to a dedicated terminal in Barcelona, Spain. An upgrade of this plant and a planned new plant in Brega will depend on finding and developing new gas reserves.

Nevertheless, as production is expanded in the near future, the country's export infrastructure capacity will become a limiting factor.

## **Morocco**

Since Morocco has limited hydrocarbons resources of its own, it increasingly relies on imports to satisfy domestic need. However, Morocco is endowed with substantial wind and solar energy potential. It is for these reasons that the new Moroccan energy strategy, adopted in 2009, aims to achieve a balanced mix energy where clean fossil fuels are combined with renewable energies, mainly wind and solar, with the help of energy efficiency.

Despite that fact that importing oil and coal to supply growing power sector is more costly than natural gas, Morocco introduced natural gas in its energy mix in 2005, by using part of its transit allowance from the Maghreb-Europe Gas pipeline to feed a power plant. Although the pipeline was commissioned in 1996 the Moroccan government remained politically averse to developing any dependence on Algerian gas supplies. Yet plans to build an LNG receiving terminal to import natural gas were discreetly discarded earlier this year and three months ago, Algeria's Sonatrach and Morocco's Office National de l'Electricite signed an agreement for the supply of gas (0.64 billion cubic meter per year) to be shipped through the Maghreb-Europe Gas.

Already the regional frontrunner in renewable energy development, Morocco aims to have half of its installed electricity generation capacity in 2020 coming from renewable and alternative energies. Morocco also wishes to become an important hub of the increasing electricity exchange between the countries around the Mediterranean thanks to the interconnections it has developed with Spain and Algeria.

## **Tunisia**

Tunisia has a small but flourishing oil and gas sector, which is supported by the efforts of a number of smaller companies alongside a few large ones. Improvement in fiscal regime and introduction of production sharing agreement played an important role in that. Although recent discoveries have compensated for declining oil production, reversing this decline and reaching pre-peak level in the early 1990s may only be temporary.

The natural gas sector is in a better shape than the oil one. If the planned south Tunisian gas project goes ahead, Tunisia might become a gas exporting country, albeit for a few years. Development of unconventional resources is given a priority in the country. North Africa's first shale gas hydraulic fracturing operation took place in Tunisia in early 2010. Tunisia is also actively cooperating with foreign companies in extracting shale gas within the South Tunisian Gas Project.

In addition to hydrocarbons, Tunisia is actively involved in developing and promoting its renewable energy sources. Tunisia has developed a Tunisian Solar Plan, despite its name, encompassing a wide range of energy efficiency and renewable energy projects over the period 2011-2016.

## **Unasked Questions**

The EU external energy policy is focused on ensuring secure energy supplies at competitive prices and aligning the energy markets in its neighbours with the EU market model. The EU Energy Community Treaty is regarded as the basis for energy dialogue between the EU and its southern partners. The EU sees such an approach a vital tool to effectively promote its energy interests beyond EU borders, and contribute to the competitiveness of the European industry. But the question of what benefits EU partners draw from complying with the EU energy policy objectives and internal market rules must be asked? And it deserves to be answered. Political trust, essential to any long term policy of close cooperation between northern and southern Western Mediterranean countries, depends on such an answer.

One of the economic benefits the EU offers to the south in its revised ENP is the "Deep and Comprehensive Free Trade Agreements" which is supposed to pave the way towards the market integration. This entails the harmonization of trade standards and practices with those of the EU, market liberalization and accession to the WTO.

It is peculiar that the EU never makes a direct reference to the opening of the EU market to agricultural products from southern neighbors, reduce

or eliminate its tariff quotas on agriculture. Reconciling the interests of European farmers' with those of the southern neighbours remains a challenge and a test for the EU's political credibility.

There are some other questions in the minds of the southern countries. Will promoting European energy-climate goals, accelerating transition to low carbon economy, imposing limits to carbon emissions stimulate EU energy industry and export technology or increase production costs in southern countries?

Will the so-called green energy revolution provide local jobs, new income possibilities and hence a key driver of development in southern neighbours as proclaimed by the EC?

## Concluding Remarks

The concept of exporting the EU's energy market model will very much depend on the attractiveness of the EU's economic and political offer. By aligning their market model with the EU's one, the southern countries are assumed to come closer to the EU. However, the EU defines nowhere that this indeed should also bring the EU closer to them.

Countries in the Maghreb region could work together with the help of the EU to build an integrated and stable regional energy market which would lead to increasing trade and investment. They could develop on a large scale their renewable energy potential and establish a trans-Maghreb power grid to provide energy security for the region. However, the priority should be given to the meeting of local energy demand, and transfer of technology and know-how. The signature of a Euro-Maghreb Energy Community Treaty is still an ongoing EU objective and time will tell whether it will lead anywhere.

Involvement of industry sector and non-governmental institutions in any energy cooperation is a must. This means that energy cooperation dialogue must be pursued by involving all the stakeholders. Today, the distinction between international and national oil and gas companies on technological, financial and management strengths are diminishing. Establishing synergies between the national companies of the south and private companies of the north on joint projects as well as cooperation and collaboration in non-traditional domains such as joint R&D, offshore oil and gas safety, energy efficiency and unconventional hydrocarbons exploitation could be a catalyst.

Another area of cooperation could be integrated refining and petrochemicals projects which add value to the hydrocarbons resources in the southern neighbors.

A long lasting cooperation based on mutual interests towards a more secure energy future requires building bridges between the interests and needs of the EU and its southern neighbours. Both sides must be treated as equal partners and process owners in such a bridge that incorporates the two legs of energy security concept, security of supply and security demand.

Both sides of the Mediterranean could meet half way of the bridge of cooperation. To construct such a bridge is more plausible in sub-regional level. A sub-regional cooperation approach in a 4+4 (Portugal, Spain, France and Italy in the north and Morocco, Algeria, Tunisia and Libya in the south) formula in western Mediterranean could be more productive way establishing integration between the two shores.

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# SOLAR ENERGY AS AN ACCELERATOR FOR DEVELOPMENT IN NORTH AFRICA

*Dr. Till Stenzel*



## SOLAR ENERGY AS AN ACCELERATOR FOR DEVELOPMENT IN NORTH AFRICA REGIONAL PERSPECTIVE

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Solar energy is becoming a major economic development opportunity, which the Maghreb should take advantage of. But for solar energy to flourish, it needs different market institutions and structures than what has been established to-date. With rapidly falling prices of solar technologies and a vast solar resource available, the economic, technological and environmental factors are in place for the creation of a new local industry. This can act as a catalyst for economic development in the region, as well as an example of regulatory and institutional change.

In the following, it will be discussed why the current market approach in the Maghreb has inherent limits that are inadequate to fully exploit the potential of this technology, and what steps of reform could now be instituted to open up this market. Particular reference is made to Tunisia and Morocco, which are currently at the forefront of solar energy developments in the region.

### **Market background**

In emerging market countries, growing populations, as well as growing wealth has always lead to increased energy demand. This phenomenon has been witnessed in all parts of the world throughout the last decades, as an increasing number of countries grew out of poverty and millions of people were increasingly able to join a consumer society. Furthermore, in most Maghreb countries the median age of the population is around or below the age of 30, putting additional emphasis on this phenomenon as an aspirational generation longs to combine political change with economic opportunities.

Moreover, in the vicinity of North Africa, a vast energy market is currently demanding more renewable energy. The European Union has set itself ambitious and legally binding targets for the use of energy from renewable sources, under EU Directive 2009/28/EC. Furthermore, Germany has just voted to abolish nuclear energy by 2022, creating a gap of 140TWh/annum of electricity production to fill, the equivalent of approximately 18

nuclear power stations running at full capacity. Switzerland has followed Germany along this path, having voted to phase out nuclear power by 2034, and Italy has rejected the introduction of new nuclear power in a recent referendum. To cap this trend, the EU's Large-Combustion Plant directive (2001/80/EC) will result in the switch-off of up to 50GW of generating capacity across the EU of mainly old coal and oil-fired power plants.

These developments all point to one conclusion: North Africa has an enormous opportunity to use solar energy to confront its own economic and social development challenge, as well as a source of wealth creation from the export of solar energy to Europe. Energy supplied to its domestic population creates more economic opportunities, while energy exported abroad brings foreign direct investments and currency reserves, creating a sustainable virtuous circle.

However, energy markets in North Africa have traditionally been state-organized, controlled and often subsidized. This structure was independent of whether a country was in possession of vast amounts of natural resources (Algeria, Libya, Egypt) or not (Morocco, Tunisia to some extent). Energy market structures were borne out of political priorities, as well as practical considerations. Politically, energy was seen as a strategic resource and a way to distribute wealth and patronage. Practically, the market structure grew out of an "etatist"-school of thought, widely taught in the French Grand Ecoles and instilled in a generation of leaders in the Maghreb world. Central planning by technocrats and centralized control of resources was seen as the more efficient and effective means of controlling such a valuable asset.

With the centralized planning approach, countries like Tunisia and Morocco have achieved a high level of electrification, with each country having connected more than 99% and 90% of the population to the public electricity network respectively (see African Business 2010). However, with the wide electrification of the population now achieved, both countries are facing new challenges to meet the investment requirements to meet rapidly growing consumption, as well as the potential to unlock renewable energy export markets in Europe.

## Economics

Solar energy technologies have seen a dramatic fall in prices over the past five years. Photovoltaic (PV) modules that were sold at more than €3/W during the boom in 2008, are now selling at little more than €1/W, and often even below this level. Concentrating solar power (CSP) systems are now being built in the USA for PPAs in the \$0.15/kWh (ca. €0.11/kWh) range, and are expected to fall further once the first power plants have started operations and next generation designs are under way. The IEA in its World Energy Outlook already estimates CSP generation costs in North Africa at \$0.12/kWh (ca. €0.085/kWh) by 2020 (IEA 2010).

Both technologies have significant market potential in the Maghreb context. Both provide a hedge against volatile fossil fuel prices, protecting the countries' current accounts during years of rising fuel prices and stabilizing price levels in the long-term. A hydrocarbon- and coal-based energy system in a resource-poor country will always be subject to vola-

tility in energy prices. Developments in the world energy markets tend to be beyond the control of individual governments. The commodity boom in 2007/2008 drove oil prices up to \$150/barrel and even in the current environment with the world economy risking being dragged into another recession, oil prices are stubbornly pinned at around the \$100/barrel mark. PV modules can be built rapidly and in small increments, and the production profile is aligned to the region's peak demand during the summer. CSP systems have a further advantage as they can store heat generated during the day in order to extend their operations during the evening and nighttime. Hence, CSP systems also have a more stable production profile that does not fluctuate with every cloud, which makes the technology more predictable and easier to integrate into existing grid infrastructure and to export to Europe.

Investment demands are growing in the region. Growth of annual electricity demand averages over 6% in Tunisia and almost 7% in Morocco. In the context of Tunisia, this means the equivalent of opening a 400MW CCGT power plant every two years, in Morocco this growth mandates the addition of almost 800MW of capacity every two years. At the same time, according to its latest financial accounts, STEG in Tunisia currently is subsidized in excess of TND 1.1billion (ca. €550million) per year, due to artificially low electricity prices and high overhead costs (STEG 2011).

The level of capital investment for such new power plants poses a challenge for the publicly owned electricity companies in the region. Tunisia started to introduce private-sector competition into the power sector, with an independent power plant (IPP) model. The first such IPP, a 471MW combined-cycle gas-turbine (CCGT) power plant which started operations in 2002, now meets ca. 25% of the annual power demand in Tunisia in a highly efficient operation.

Morocco has similarly started embarking on a series of IPP projects, supplementing the existing operations of the national grid company ONE. However, in both countries, IPPs have been awarded only after long tender processes and in an ad-hoc manner, without providing the prospect of a continuous and growing market.

## Outlook

For energy markets to meet the aspirations of a young population, as well as to unlock the potential of solar electricity exports, structures have to move beyond state-organized tenders and controlled markets. Solar radiation in North Africa is up to 30% better than at the best sites in Europe. This means that with the same or lower capital expenditure, 30% more electricity can be generated from the same assets.

Cost reductions achieved in other markets over the past decade have laid the foundation for the Maghreb to strategically approach solar energy. For example, with Moroccan or Tunisian sunshine levels and current German cost of installations, levelized cost of energy production are already expected to get close to €0.10/kWh, a level which is generally considered to be cost competitive with fossil fuel technologies over the coming decade. Importantly, solar energy costs are driven by upfront installation costs, which means that once a system is installed, it exhibits

none of the price volatility seen with fossil fuel technologies. Data from industrial energy customers in Tunisia shows that energy price inflation was running at 11% annually over the past seven years, more than doubling the price level in that period. With government budgets being hard-pressed to reduce subsidies while fossil fuel prices continue to rise, holding down energy prices will be every more difficult. At the same time, solar energy systems will continue to reduce costs, thus bringing solar ever closer to direct cost competitiveness.

Beyond the opportunities for solar energy to meet increasing domestic demand, a vast export market has opened up for this energy source in Europe. Here, countries should think beyond narrow existing national institutions and models in order to fully appreciate the opportunity that presents itself.

In the same way as Algeria and Libya extract oil and gas resources many times larger than their annual domestic consumption, all Maghreb countries can produce solar electricity at many times the rate required for domestic use. However, while oil and gas can be stored in barrels or pipelines and transported by ship, electricity cannot be economically stored today and needs to be delivered by electricity cable to the end-customer in real-time. This is a significant investment opportunity to attract a new industry and unlock the potential of a natural resource that does not run out.

For example, Nur Energie estimates that a first 2000MW solar export project in Tunisia with a dedicated cable link to Italy will cost up to €10bn. Such a project would be able to deliver approximately 10TWh of electricity, and hence meet ca. 3% of projected Italian electricity demand in 2020. Up to 60% of the value-add could be created locally in Tunisia, thus turning the single largest foreign-direct investment programme also into the single largest injection of investment into the Tunisian economy. It is estimated that over 20,000 jobs could be created directly and indirectly in Tunisia through such an investment.

By establishing a local supply chain for the project and creating the expertise and experience in such projects locally, this would also allow Tunisia to establish an industry that is capable of exporting its products and services to other countries, a particular expertise of Tunisia, where over 75% of its trade is with the European Union. However, for such investment opportunities to be unlocked, and to be repeated beyond individual ad-hoc projects, institutional change is necessary:

- Freedom for the private sector in solar electricity generation projects
- Freedom to export electricity through new dedicated cables as well as using the existing grid infrastructure (where technically feasible)
- Work towards the inclusion of electricity in the free-trade agreements in the region and between Maghreb countries and the EU
- Treatment of solar export projects under the same “totally exporting” industries regime as other manufacturers (i.e. in agriculture, textiles, electromechanical industries)

By providing an investment framework that allows private companies to explore the many niches and opportunities for solar technology projects, the industry can develop a dynamic that will provide a sustainable and

durable market opportunity, rather than individual state-sanctioned one-off projects. State-owned utility companies such as STEG and ONE could complement and support such development by focusing on specific services that match their existing capabilities, for example in the field of electricity cable connections, new line upgrades and cable service and maintenance.

A move towards solar energy liberalization would capture the spirit of the wave of reforms that the region has experienced and would channel the energy it has unleashed into new and sustainable business models and economic development opportunities that will truly leave a lasting mark on the region.

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(see [http://www.steg.com.tn/fr/institutionnel/pdf/etat\\_financier\\_2010.pdf](http://www.steg.com.tn/fr/institutionnel/pdf/etat_financier_2010.pdf))

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# THE ROLE OF MULTILATERAL BANKS. TOWARDS AN EURO- MEDITERRANEAN DEVELOPMENT BANK ?

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Anyone who dares raise the subject of multilateral banks will always risk drawing scorn and criticism from the parties involved. Over the past sixty years, these banks have asserted their muscle and power through the loans they have provided and the economic policies they have imposed in exchange for them. These banks have played fundamental roles in relation to development models, financial models, projects in various sectors and budgetary policies. During a period of crisis this role becomes decisive as they impose and implement restrictive economic and financial policies in compensation for the favorable loans. We need only recall the structural adjustments and social consequences that have recently unfolded in countries like Morocco, Jordan, Tunisia or Egypt. Multilateral banks are financial institutions that fall into various categories:

- Institutions created at Breton Woods:
  - The International Monetary Fund (IMF)
  - The World Bank
- Regional development banks
  - African Development Bank
  - Asian Development Bank
  - Inter-American Development Bank
  - Caribbean Development Bank
- And the following banks:
  - European Bank for Reconstruction and Development (EBRD)
  - European Investment Bank
  - Islamic Development Bank
  - Other multilateral and regional institutions

These two groups of banks perform similar roles and missions with the exception of the IMF, which establishes more restrictive prerogatives for its member countries and offers financial assistance by providing loans to those who experience real or potential difficulties to balance their payments. The IMF's mission is to supervise and analyse the policies undertaken by member countries and to assess the effectiveness of those policies towards achieving sustained and balanced economic growth.

In the present exposition we shall limit our discussion to the role of multilateral development banks and organisations that operate in the Mediterranean region and to their impact on the economic and financial policies of the countries involved. There are five financial institutions operating in the Mediterranean region: the World Bank, the African Development Bank, the European Investment Bank, the European Bank for Reconstruction and Development, the Islamic Development Bank and the Arab Fund for Economic and Social Development.

## World Bank Group

The preeminence of the World Bank and more precisely the World Bank Group (IFC, IBRD, IDA...) in relation to the other multilateral banks is uncontroversial, not only because of the loans it offers to support reforms, but also because of its counseling missions in relation to governance, risk management and reform operation or its research into youth unemployment.

The World Bank has often been criticised in the past because of the draconian measures it has imposed on countries in exchange for its loans. As pointed out, its structural reforms have produced significant economic downturns and increased unemployment when they should have been accompanied by real business plans that pinpointed growth areas which could induce significant job creation.

An analysis of the World Bank's activities and operations in the Mediterranean region highlights the need to consider the particularities of the Middle East and North African regions in addition to the recent events that have unfolded in numerous countries of the region. As highlighted in the latest report, the World Bank Group seeks to implement a support framework that is founded on the following three axes:

- **To promote better governance** by emphasising government transparency
- **To improve and consolidate economic and social cohesion** and to boost women's economic and social participation.
- **To accelerate economic growth** by developing the private sector and encouraging competition, with an eye to regional and world integration.

The total value of loans granted by the World Bank Group over the course of the financial term ending in June of 2011 added up to \$43 billion, in comparison to the \$58.9 billion granted over the course of the term ending in June 2010. Of these \$43 billion, the Middle East and North African region received only 5% or \$2.15 billion. Upon analysis, the "water, decontamination and transportation" sectors are shown to use up nearly 50% of these funds.

It is worth pointing out that a large portion of the World Bank Group's commitments to Mediterranean countries is dedicated to Turkey and relates to financing SME's, job creation and bank intermediation support, and that more than a quarter is devoted to the energy sector.

Furthermore, the World Bank's operations in the Mediterranean's northern shore, aside from Croatia, are insignificant.



The International Finance Corporation (IFC), a subsidiary of the World Bank, provides loans to the private sector, and its commitments in the Mediterranean include investment financing as well as equity contributions.

### **African Development Bank (AfDB)**

The African, Asian, Inter-American and Caribbean development banks were all created under the same model, both on the level of shareholders and with regards to their mission and the services offered. Here we only address the African Development Bank because of its financial role in the North African Mediterranean economies.

The AfDB's two main lending instruments are its project loans and its loans to support reforms. The project loans are allocated specifically whereas the reform support loans seek to help countries improve their macroeconomic policies, promote structural and sectoral reforms, lend budgetary support and undertake institutional reforms.

In the North African sub-region, the AfDB operates in six countries: Algeria, Egypt, Libya, Morocco, Mauritania and Tunisia.

The total value of loans and grants approved for these countries added up to €1.54 billion in 2010, which is 40% more than the 1.10 billion of 2009. This represents 40.1% of the total approved loans from the AfDB group. Three countries in particular were the beneficiaries of 99% of this support: Egypt, Morocco and Tunisia.

The AfDB's funds are dedicated above all to infrastructure projects (74.4%), and its beneficiaries are mainly Egypt, Morocco and Tunisia. Since the 1990s, the AfDB has considerably reduced the number of countries that are eligible for its concessional window.

### **European Investment Bank**

The European Investment Bank is the European Union's financial institution. Its shareholders are the twenty seven member States of the EU. The EIB's mission is to grant long-term financial support for investment projects that contribute towards Europe's larger goals in the following domains:

- Small and medium enterprises
- Cohesion and convergence
- Fight against climate change
- Environmental protection and sustainable communities
- Promotion of sustainable, competitive and safe energy
- Economy of knowledge
- Trans-European networks

Outside of the EU, the EIB's reach extends to over 130 countries (pre-accession countries from southeastern Europe, **Mediterranean neighbourhood countries**, countries from Africa, the Caribbean, the South Pacific, Latin America and Asia, Central Asia, Russia and other eastern neighbors), where it is involved in implementing financial aspects of EU cooperation and development aid policies (development of the private sector and infrastructure, energy supply security or even environmental sustainability).

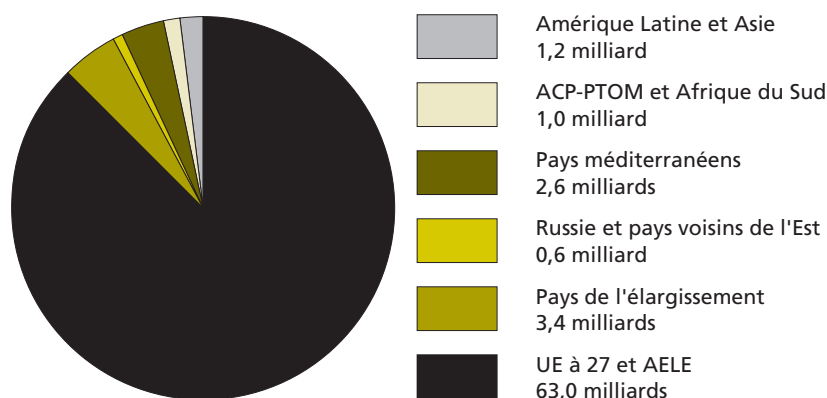
The EIB, the most important non-sovereign international lender and borrower, funds its activities by borrowing from capital markets, essentially in the context of public bond offerings. Its AAA rating allows it to obtain the best financial terms.

The EIB offers its clients five kinds of products:

- Loans
- Technical assistance
- Guarantees
- Venture capital
- Microfinance

The EIB's instruments for operating in the countries of the southern shore of the Mediterranean are organized into a specific structure, the Facility for Euro-Mediterranean Investment and Partnership (FEMIP) which was created in 2002 and includes Algeria, Egypt, Jordan, Lebanon, Israel, Palestine, Syria and Tunisia.

In 2010, the European Investment Bank accorded € 72 billion to support the European Union's goals: 63 billion were loaned to member countries of the European Union and the EFTA, and 9 billion were loaned to partner countries. Thus, 88% went to EU countries and 12% went outside the EU. Countries of the southern and eastern shores of the Mediterranean received only 2.6% of the € 72 billion, as the pie chart indicates:



Over the course of the period from 2002 to 2009, FEMIP financed more than 135 projects, essentially in the energy and transportation sectors, for a value exceeding €10.94 billion.

Mediterranean countries other than those of the southern and eastern shores benefit from pre-accession EU funds. Over the past eight years, the EIB has financed projects for a total value of nearly €12 billion, mainly in Turkey, where their value has amounted to €9.6 billion. These funds are mainly used to finance businesses and concern mostly the transportation sector (39%) and Small and Medium Enterprises (39%).

We should also remark that for the present programming period, these countries benefit from of an € 8.7 billion fund with an EU guarantee, in addition to € 6.2 billion at the EIB's own risk.

As can be appreciated over the course of this exposition, the EIB continues to be the main lessor of funds in the Mediterranean region by a large margin.

### **The European Bank for Reconstruction and Development (EBRD)**

Upon its creation in 1991, the EBRD's mission was to help and sustain the transition to a market economy of central and eastern European and ex-Soviet countries who were committed to respecting and implementing principles of democracy, pluralism and a market economy. The EBRD offers funding to banks, various industrial sectors and private and public businesses -whether new or already in place- according to their needs. The EBRD distinguishes itself from other multilateral financial institutions in that it devotes a larger portion of its investments to the private sector.

The EBRD operates in 29 countries, but only five of them belong to the Mediterranean region and benefit from the bank's funds; these are Croatia, Bosnia-Herzegovina, Montenegro, Albania and Turkey.

In 2009, assistance to these countries amounted to € 416 million. Its main beneficiaries were Croatia with 195 million and Turkey with 107 million.

It is worth mentioning the G8's decision (at its Deauville summit in May of 2011) to expand the EBRD area of influence to include the southern and eastern Mediterranean countries, so that it could manage the funds it granted to four Mediterranean countries.

### **Islamic Development Bank (IDB)**

The Islamic Development Bank is responsible for a significant portion of funding in countries in the Mediterranean zone. Recently, the IDB became engaged with an ambitious strategic programme seeking to diversify its loans by including support for the private sector, human development and regional integration.

In conformity with Islamic Law, the IDB's loans are granted at return rates of 5.1% over 20 years and with a grace period that can reach up to five years.

For 2010, the IDB has agreed to loan Mediterranean countries up to \$ 671 million, the main beneficiaries being Tunisia with \$ 282.5 million, Egypt with \$ 120 million, Turkey with \$118.7 and Mauritania with \$ 84 million.

### **Other institutions**

#### **The Arab Fund for Economic and Social Development (AFESD)**

The AFESD coordinates the development funds in the Gulf region. The AFESD's terms are more concessional than those of the IDB, with return rates of 2.5% over 20 years for the least developed countries.

The AFESD provided support amounting to nearly 10 billion € over the period from 1974 to 2008. Its main beneficiaries were Egypt with 1.86 billion €, Morocco with 1.85 billion, Syria with 1.32 billion and Tunisia with 1.23 billion.

The article on “investments of the Gulf countries in the Maghreb” will provide additional information on Arab investments in the Maghreb.

### Other contributors

Numerous other financial contributors to projects in the Mediterranean exist, including various organs within the European Union such as the EU Neighborhood and Partnership Instrument (ENPI), which replaced the MEDA programme for the south Mediterranean countries as well as partially the TACIS programme for the countries east of the European Union. The pre-accession funds managed by the Instrument for Pre-Accession Assistance (IPA) provide financial assistance to candidate and potential candidate countries engaged in the accession process to the European Union.

A number of these countries are members of the Union for the Mediterranean: Turkey, Croatia, Albania, Bosnia-Herzegovina and Montenegro.

Also worth mentioning are certain bilateral initiatives between financial institutions north and south of the Mediterranean. One such initiative is the Infra-Med, created by the French Deposits and Consignments Fund (Caisse de Dépôt et Consignations or CDC) and the Deposits and Management Fund from Morocco (Caisse de Dépôt et de Gestion or CDG), which involves a fund that is dedicated to financing infrastructure projects in the Mediterranean's southern shore. The fund is endowed with 600 million € and is meant to implement 24 projects in 13 countries of the southern Mediterranean.

### Is funding in the Mediterranean region adequate?

An analysis of the various funding projects and the multitude of institutions that provide for them demonstrates a number of prominent weaknesses and dysfunctions:

- All of these institutions were created for particular geographic regions, of which Mediterranean countries are either only neighbours or constitute only a part.
- The instruments used are often inadequate and fail to respond to the real needs for co-development; they have been unable to overcome the obstacles blocking the long-term financing of the economies or business access to bank credits.
- The total support, while significant, remains inadequate for the region's investment needs even on account of infrastructure requirements only.
- Lack of coordination between lessors.
- Lack of projects allotted to southern countries.

To this we should add the weaknesses inherent to a region which is not geographically and economically homogenous, which is particularly the case with the southern and eastern Mediterranean Countries (SEMC):

- Very weak trade between the SEMC countries
- Very weak banking services in these same countries
- Weak transformation of savings into long-term financing
- SEMC countries are perceived to be risk-prone and fragmented
- Financial markets are unable to provide alternative funding avenues for the private sector
- Taxation systems do not make very long term savings attractive
- Proliferation of guarantees due to the existence of a multitude of organisms covering incurred risk
- Lack of efficient mobilisation of the main source of foreign currency (aside from hydrocarbons), namely the yearly transfer of up to 20 billion € by immigrants from southern Mediterranean countries.

The democratic transitions that seem to be taking place in various countries of the region cannot succeed without significant and quick improvement of the population's living conditions. Indeed, according to the EIB more than 300 billion euros will be needed by 2030 in order to create the necessary infrastructure, both for the purpose of ensuring economic development of the SEMC countries and in order to integrate the peripheral regions. To this, we should add the need to create 50 million jobs by 2020. The other significant challenge that needs to be addressed is the uneven living standards between the two shores. Indeed, the average per capita income in the SEMC countries is seven times less than the eurozone's.

On the funding level, we also wish to point out their weakness in relation to countries north of the Mediterranean. Per capita funding from the World Bank Group is 39 euros in Eastern Europe, 18 euros in Turkey and 10 euros in the SEMC countries; likewise, the EIB provides 57 euros per capita for the Eastern European countries, 34 euros for Turkey and only 8 euros for the SEMC.

The situation and weaknesses described constrain and slow down the dynamics of the private sector, thereby preventing any durable growth acceleration in the southern and eastern Mediterranean countries, in addition to the fact that the existing financial organisms are inadequate to face these difficulties. Confronted by such handicaps, co-development thereby appears to be the appropriate framework in order to obtain external funding that could stimulate an economic expansion in the south and the eastern Mediterranean, reduce the uneven living conditions between the two shores and offer a long-term growth stimulus for the European countries.

Considering these weaknesses and handicaps, the solution that emerges is to create a Euro-Mediterranean development or co-development financial institution; indeed, the Mediterranean is the region with the most number of operators, while it is also the only one which does not have an institution dedicated to promoting everyone's efforts.

One of the missions that this institution could be entrusted with, if it existed, is for it to manage, in place of the EBRD, the \$ 80 billion which the G8 (at the Deauville summit in May 26 and 27, 2011) decided to provide to four Mediterranean countries, as previously mentioned (Egypt, Tunisia, Morocco and Jordan) in order to support these countries' democratic transitions.

Furthermore, the Mediterranean is the only region in the world which does not appear as its own region in the international reports in a global and consolidated way (IMF, World Bank...). In fact, in these studies the Mediterranean appears fragmented as the MENA region. How to provide this region with some coherence? The solution lies in providing it with an adequate financial structure.

### **Towards an Euro-Mediterranean Development Bank**

First, the idea to create a Euro-Mediterranean development bank is not new. This project has been attempted on multiple occasions both by international as well as private institutions (the Mediterranean Financial Club in 1995); it was examined in 2002 by the Spanish presidency of the EU after it observed that the EIB hardly financed the private sector. The Parliamentary Assembly of the Mediterranean pronounced itself on various occasions in favor of creating a development bank dedicated to the Mediterranean. Still, this idea has not drawn unanimity. Some believe that one more bank will not solve the financial problems; others consider that the General Secretariat of the Union for the Mediterranean could play a comparable role to the one played by the European Commission with regards to some of the funding. We should also note that a number of countries refuse altogether to provide any capital for a new financial institution.

In 2009, the President of the French Republic and Co-president of the Union for the Mediterranean entrusted Mr Charles Milhaud with the constitution of a commission "to assess the possibility to create a bank dedicated to financing the co-development of the Mediterranean."

This commission proposed to create a financial institution dedicated to financing the co-development of the Mediterranean and advanced the following three options:

1. To create a Mediterranean bank as a subsidiary of the EIB's FEMIP (Facility for Euro-Mediterranean Investment and Partnership), with a 35% equity participation that could reach up to 50%
2. To establish a new bank of sufficient size to face the aforementioned challenges; this would require mobilising a significant amount of capital (10 billion €).
3. To establish a medium-sized institution that would depend on already existing deposit funds in the Mediterranean.

The commission established two prerequisites:

- The institution would need to conform to the principle of co-development and co-responsibility by incorporating the southern and eastern countries into its capital and management
- The institution would require a AAA rating in order to secure suitable loans at manageable terms.

Even though nearly everyone agrees on the need to create a Euro-Mediterranean co-development bank, everyone diverges when it comes to deciding on capital distribution, origin of the funds or relations with other multilateral financial institutions in the region. As indicated, some

believe that to simplify the procedures and not have to resort to a revision of the Union for the Mediterranean treaty, the future bank would need to be a subsidiary of the EIB. Others propose creating a bank whose shareholders would be equally divided between the northern countries, the southern countries and the private sector on both shores.

It is essential to avoid simply creating one more bank that uses the same financial instruments and conditions as the others. Any new bank must contribute solutions to the problems and weaknesses listed by the concerned countries or by experts. Taken from this perspective, the following are needed:

- To create adequate financial instruments which allow a large mobilisation of savings in the southern and eastern Mediterranean countries in order to perpetuate the institution's resources.
- To conceive and implement funding projects that respond to the needs of the economies concerned, particularly in infrastructure, renewable energy and decontamination of the Mediterranean.
- Involvement with the private sector by providing loans, in particular to small and medium enterprises, as well as venture capital participations.
- To coordinate if at all possible the various funds allocated by other international financial institutions in the region.
- To provide solutions to the stumbling block which regional guarantees offered to investors and lenders in the region represent, in order to unify or harmonise the hundreds of bilateral agreements or existing treaties in the region.
- To perform financial engineering that is in harmony with and adapted to the region.

This future institution also needs to play a key role together with the region's governments and banking services in order to mobilise savings and their transformation. By way of example, as has already been indicated, money transfers by immigrants to their countries of origin south of the Mediterranean exceed 20 billion euros. Yet none of these countries has been able to capture this capital in order to finance infrastructure, like Spain and Portugal did, and to a certain extent Turkey by opening up interest-bearing accounts for Turkish immigrants at Turkey's central bank. If we examine Al Maghrib Bank's reports, we note that bank deposits by Moroccan immigrants never fell below 12 billion € over the course of the past three years, representing more than 20% of the total deposits in Moroccan bank accounts.

Among countless possibilities, this bank could issue "Sukuks" or Islamic bonds, on the condition that they be tied to assets (projects); this would allow drawing a part of the funds from the Gulf countries.

Surely, such a bank would contribute to helping various SEMC countries transition from a rent-and-privilege based economy to an economy of competition and transparency. It is under these minimal conditions that such a bank can succeed and contribute to the human and economic development of the region. Countries of the northern Mediterranean would likewise benefit from this development since economists estimate that any supplementary growth by SEMC economies would promote growth in the north. It would therefore contribute to attenuating the effects of the crisis!

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# INVESTMENTS FROM THE GULF COUNTRIES IN THE MAGHREB

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### **Investments from the Gulf countries in the Maghreb<sup>1</sup> : Introduction: the theory of “elective affinities” against the facts:**

The economic complementarity between the Gulf countries and those of the Maghreb is often understood to be a natural one. The former, who reap a significant financial profit from exploiting their copious -or so it is believed- natural resources appear to be the ideal partners for countries in the Maghreb, who enjoy more limited financial resources and are subject to constraining demographic pressures. In addition to these purely objective elements, the cultural, linguistic, religious and political paradigms constitute further powerful forces that would seem to promote a close relationship between the two regions and to optimise their synergies. In economic affairs, we could speak of “elective affinities” between countries in the Gulf region and those in the Maghreb, which neither historical nor geographic constraints should be able to challenge.

In light of the evidence this Goethian presentation of the matter may appear compelling; nevertheless it fails to withstand an analysis of the facts, and empirical investigation demands further nuisance.

The following remarks do not portend to offer an exhaustive analysis of existing investment relations between the two regions. The more modest goal is to offer a grid for objective analysis that allows for an improved global understanding of existing relations and to identify the key issues.

### **Regional analysis: “secondary” relations that center on a limited number of sectors.**

Considered in their regional dimension, investment relations between the Gulf states and the Maghreb are confined to playing the role of “second best” by the parties involved, both from a qualitative (A) and a quantitative (B) point of view.

1. In the present document the Gulf countries are understood to include Saudi Arabia, Kuwait, Bahrein, Qatar, Oman and the United Arab Emirates, while the Maghreb is meant to encompass Morocco, Algeria and Tunisia (Lybia and Mauritania are excluded by virtue of their idiosyncrasies and the weak data available).

## Quantitative aspects of the investment relations

The relationship between the two regions, while relevant, cannot in a quantitative sense be considered a priority for any of the parties involved.

- The Maghreb receives only a feeble portion of the total volume of investments from the Gulf region. As shown in table 1, in the past 5 years, Maghreb countries have attracted 4 to 5 times fewer investments from the Gulf than the Machrek region. While this difference has begun to subside since 2008, this is more a result of decreased investments in the Maschrek than increased investments in the Maghreb. This has had a direct impact on the respective growths of the Machrek/Maghreb regions, as shown by the fact that from 1996 to 2008 Machrek countries enjoyed a much higher GNP Maghreb countries, while the gap has been considerably reduced since 2009. This seems to show that Maghreb countries are less dependent than Machrek countries on the volume of investments from the Gulf region.

Country	1996-2005	2006	2007	2008	2009	2010	2011	Annual Average
Algeria	4.0	2.0	3.0	3.0	2.1	3.9	4	3.1
Egypt	4.4	6.8	7.1	7.2	4.7	5.2	6	6
Jordan	4.7	8	8.9	7.9	3.2	3.9	4.5	5.8
Lebanon	3.3	0.6	7.5	8.5	7.0	7.0	7.0	5.8
Morocco	4.5	7.8	2.7	5.6	5.0	3.0	4.4	4.7
Syria	3.3	5.1	4.2	5.2	3.0	4.0	5.5	4.3
Tunisia	5.0	5.7	6.3	4.5	3.3	3.8	5	4.8

Source : World Bank

- The gap is even more significant if we compare the portion received by Maghreb countries with the global sum of investments from the Gulf. In this regard, the Saudi example is significant: in 2009, for instance, the Kingdom invested approximately 40 billion USD in FDIs (source: «2010 World Investment Report» United Nations Conference on Trade and Development) that were mainly destined to the United States and the European Union.
- A similar point may be drawn if we consider the matter from the perspective of the host countries rather than the countries which are the source of the investments. In this regard, the European Union plays a more central role for the Maghreb, as demonstrated by the fact that in the past 10 years the portion of European FDI in the region has doubled the FDI from the Gulf.

## Qualitative aspects of the investment relations

### *Over-representation of certain sectors*

An analysis of the breakdown by sectors of investments from the Gulf region in the Maghreb offers a critical perspective to understand and assess the investment relations between the two regions.

Table 2 below shows the disproportionate portion of investments in Energy, Housing and construction, Banking and Insurance (financial services), Tourism and Telecommunications.

**TABLE 2 BREAKDOWN OF INVESTMENTS FROM THE GULF REGION IN THE MAGHREB BY SECTORS (2003-2011)(BILLIONS OF DOLLARS)**

Sector	Number of projects
Automobile production	3
Banking, Insurance and Financial Services	60
Chemical products, metals and fertilizers	8
Distribution	16
Electrical equipment	1k
Energy	32
Engineering services	7
Food industry	18
Glass and cement	9
Housing and construction	83
Mechanical equipment	3
Medications	6
Metallurgy	8
Other	4
Software and computing	3
Telecommunications	19
Tourism	68
Transportation and logistics	21

Source : MCDConsulting

These sectors share at least two points in common:

- They are all extremely “capital intensive”, in the sense that they require considerable investment quantities. The Gulf states are indeed very often involved with “megaprojects” (where the investments surpass 500 million USD) that require a high level of acquaintance with local decision-making centers, either to obtain licenses (Telecommunications), other amenities (Banking and Insurance) or concessions (Tourism, Housing and Construction). Their “capital-intensive” character is in contrast with the fact that after an initial phase of expenses they require relatively little labor (in contrast to industry, for example).
- A further salient point is that, aside from Tourism, the development of these sectors depends mainly on the internal demand of the host countries. In consequence they do not allow these countries to strengthen their export capabilities, even though this is an essential goal for countries in the Maghreb if we consider how their trade deficits affect their macroeconomic stability. In the mid-term, these investments may further reduce the investment capabilities of the host countries since the products of their internal demand can be exported by means of the repatriation of dividends by the foreign investors. Paradoxically then, the massive contribution of foreign capital in such sectors where national demand is captive can wear away the country’s own investment capabilities.

### *The procyclical character of the investments*

On a separate level, the chronological breakdown of investments from the Gulf region in the Maghreb reveal a remarkable procyclical character:

**TABLE 3: CHRONOLOGICAL BREAKDOWN OF INVESTMENTS BY GULF REGION COUNTRIES IN THE MAGHREB (2003-2011)**

Year	Number of projects
2003	11
2004	13
2005	31
2006	61
2007	53
2008	73
2009	45
2010	58
2011 (1st semester)	27

This is a result of the fact that investments from Gulf countries in the Maghreb proceed from the management of accumulated surpluses. As such, the level of investments is directly contingent on the level of profits. This can have disastrous effects on the economy by reinforcing the risk of overheating during a period of growth, or on the contrary, by leading to a brutal unavailability of financial resources during periods of economic slowdown.

It may be noted that this character is by no means exclusive to investments from the Gulf states. But with the financial crisis, the procyclical effects of FDI have been partly alleviated by the development of partnerships and agreements (development agreements, technology, commercial and franchise partnerships, management contracts, representation offices) which are often used by large multinational partnerships as a preliminary to a direct investment. Because the Gulf countries represent less than 8% of partnership agreements struck in the Maghreb region, there is hardly a counterbalance to the procyclical effects of their investments.

### ***Analysis by countries: Specific problems are not sufficiently recognized***

The broad points laid out in the preceding section should not preclude an analysis that considers the specificities of the host countries. Such an analysis leads us to consider the case of Morocco and Tunisia (A) apart from the situation in Algeria.

#### **Morocco and Tunisia**

The financial needs of their national economies led Morocco and Tunisia to quickly adopt legal standards which (a) certainly reinforced their image in the eyes of countries in the Gulf region but have not, however, allowed them to resolve the inadequacies of their respective ambitions (b).

#### ***From seeking investment resources to adopting legal standards***

Morocco and Tunisia share the fact that they have limited natural resources and “consequently”, we might say, given the limited level of diversification of the region’s economies, these countries have limited investment capabilities.

This structural obstacle has had a direct impact on the legal *corpus* devoted to investment development and protection. Even though, as a result of Tunisia's experience with socialism the two countries evolved in ostensibly different ways, both were very quickly determined to providing a framework that could attract foreign investment. Since the mid-eighties, the two countries have in effect adopted legislative measures seeking to (i) abolish the obligation to associate with domestic investors, (ii) simplify the administrative constraints and (iii) provide foreign investors with important fiscal advantages.

The legal effort to become integrated into the world economy furthermore led to Morocco and Tunisia's admission into the World Trade Organisation in 1995 (both countries had already signed the GATT agreements in 1987 and 1990, respectively). Belonging to the WTO confers important warranties to foreign investors because of the "national treatment" and "most favoured nation" clauses, which in principle protect them from any sort of discrimination.

This arsenal has been completed by the signing of numerous bilateral conventions to protect investments (notably with the Gulf countries), providing legal *ad-hoc* bases to prohibit discrimination and to manage any eventual disputes.

### *The inadequacy of their respective ambitions*

The combined efforts deployed by Morocco and Tunisia to strengthen the legal security of investors has allowed them to brace their appeal -in relative terms at least- with respect to Algeria.

**TABLE 4: GEOGRAPHIC BREAKDOWN OF INVESTMENTS BY STATES IN THE GULF REGION IN THE MAGHREB (2003-2011)**

Country of destination	Number of projects
Algeria	99
Lybia	46
Morocco	142
Tunisia	84

Source : MCDConsulting

Despite these a priori convincing results, Morocco and Tunisia's strategy to attract investments from the Gulf region, seeking to exploit what should be their main comparative advantage -cheap labor, where the relation between cost and training is presumed to constitute a powerful appeal- is nonetheless hindered by two factors:

- First, the Moroccan and Tunisian workforce is subject to competition from the abundant Asian labour market -where costs are markedly inferior- and to that of the so-called Eastern European countries -where the average level of education is higher. This double pressure has engendered an "exclusion effect" to the detriment of workforce from the Maghreb, whose appeal in the world markets it thereby presently more limited.
- Furthermore, as has already been noted, countries in the Gulf region have developed an investment strategy that is founded on «capital-intensive» sectors that guarantee high financial returns in the short

term (notably by means of housing transactions or financial mediations) or else procure quasi-annuities by means of exploiting infrastructure which cannot be duplicated (notably in the telecommunications and transportation sectors). Investments from the Gulf region in Morocco and Tunisia therefore rely less on the exploitation of their comparative advantage -labour- than on the will to capture the products of their internal demand by means of low-risk activities that are also highly profitable in the short term.

The inadequacy of the priorities and goals of each side is hence clear.

### ***Algeria***

In contrast to Morocco and Tunisia, Algeria enjoys favorable investment capabilities (a) which skews the investment relations with states from the Gulf region (b)

#### ***More favorable investment capabilities***

Due to their favorable conjuncture in the world markets, Algeria's oil and gas resources have allowed the country to accumulate a financial surplus of about 200 billion USD and to balance the debt it accrued with international creditors. Algeria is thus able to regain a certain comfort it had enjoyed until the eighties, when it had been a net exporter of investments (mainly due to its contributions to the international financial bodies of African nations).

Algeria thus positions itself not so much as hoping to attract foreign investments, but rather as seeking to exchange skills.

The country's current financial health is in fact perceived to make possible the establishment of an endogenous development strategy that is simultaneously founded on internal resources and demands. FDIs are appreciated merely as a necessary contribution to gather technical skills and support the emergence of a local economic elite. This "Khalidounian" approach is made saliently manifest by the Complementary Finance Laws of 2009 and 2010, which have profoundly modified the regime of foreign investments in the country by requiring the following measures from foreign investors:

- To work in partnership with Algerian shareholders (residents in Algeria), where the latter must hold at least 51% of the capital;
- To hold a positive balance in favor of Algeria;
- To finance through local banks;
- To reinvest the earnings obtained;
- Preemptive rights of the state on all transfer of shares by or to foreign shareholders.

#### ***...which alter investment relations with the Gulf countries***

Algeria's stance has had a direct impact on the investment relations with the Gulf countries in at least two regards:

First of all, investments from the Gulf states do not entirely match the Algerian development goals of accumulating technical skills. From this point of view, Algeria and the Gulf countries share in a certain sense a status of “wealthy but poorly developed countries”, and their respective investment capabilities hardly imply any synergies to face the challenges of technical progress and industrialisation.

Furthermore, Algeria and the Gulf countries, as hydrocarbon exporters can find themselves competing with each other for a share of the world market. This is particularly the case with the gas market, where the conflict of interests is particularly patent with Qatar. This competition can have two effects on the subject of investments. For one, it can create a climate of suspicion hindering their growth due to apprehension of retaliating measures. On the other hand, it can instrumentalise the subject of investments as exchange currency for arrangements in the domain of hydrocarbons. In both cases, the subject of investments from Gulf states in Algeria is regarded as a proxy for the more relevant problem of hydrocarbons.

## Conclusion

Investment relations between states in the Gulf and the Maghreb are thus less natural and more complex than would otherwise appear. Both sides regard each other as “second choice partners”, and the Maghreb countries face specific problems that are not sufficiently acknowledged.

This observation, however, should not lead us to underestimate the enormous potential that underlies the investment relations between the two blocks. This potential will not be fulfilled until better cooperation between the players involved is in place. Increased economic integration of the Maghreb states will also be decisive to attract further investments from the Gulf states, most notably in the domain of industry. This would allow the region’s countries to simultaneously exploit their comparative advantages, consolidate their export capabilities and make up for their technological delay.

in partnership with

