Market restructuring and investment in Gas and Electricity sectors in the Southern and Eastern Mediterranean Countries

Benoît ESNAULT
Scientific Officer
OME
Best Practices workshop
Brussels, 12 May 2004

The socio-economic situation of SEMCs

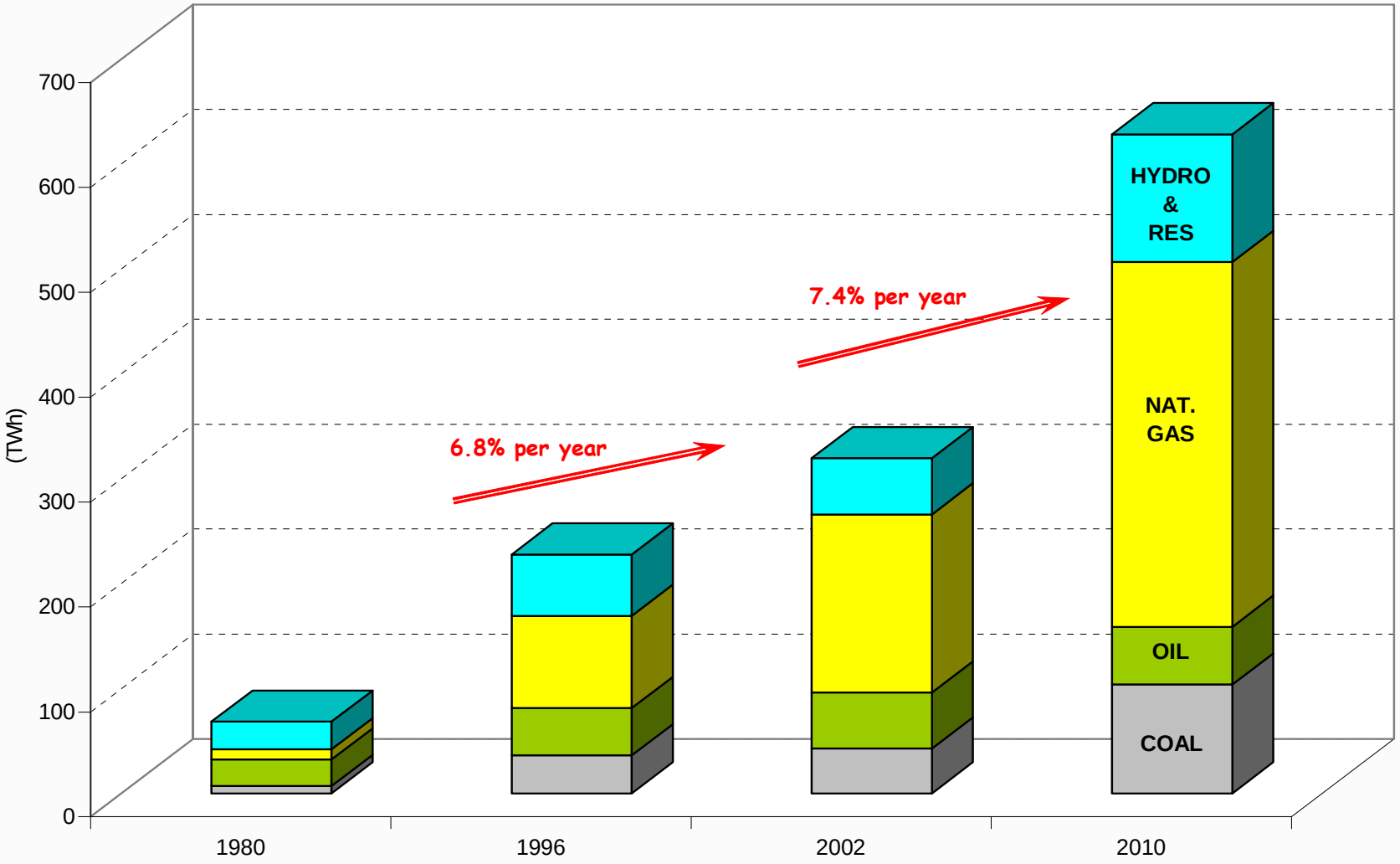
- Demography
  - Sustained increase in population (+1.6%/year)
  - Concentration on littorals and urbanisation
  - Need for strong employment creation

- The economic situation of SEMCs
  - Most SEMCs are developing countries
  - Medium GDP: less than 2500$/inhab.
  - Huge needs for collective infrastructure
  - Important dependence on oil export

The energy issue in SEMCs

- The increase in energy demand
  - Economic and population growths require important additional energy supply
- Investment needs from 2000 to 2010
  - Over 100 billion US$ required in the electricity sector
  - About 48 billion US$ required in the gas sector
- Markets specificities
  - Small national markets
  - Low consumers' payment capacity

Electricity generation in SEMCs



The liberalisation processes in Southern and Eastern Mediterranean Countries

Why reforming energy markets? general statements

- Markets are analysed on the basis of economic efficiency
  - Transparency
  - Price=cost (price truth)
  - Subsidies removal
  - “Rational” management (reduce costs)
- Improving operator’s efficiency and collective economic welfare

The main driving forces of liberalisation and privatisation in SEMCs

- International context
  - Euro-Med Partnership: application of European regulation (Algeria, Turkey)
  - IFI's requirements
  - Limited access to international financial markets
- Attracting foreign investors
  - Creating new investment opportunities
  - Confidence for investors
  - Country risk reduction

Changes in SEMCs' electricity markets

	Recent electricity law	Private generation	Private generation (in process or completed)
Algeria	Feb. 2002	with recent law	1
Egypt	in process	1996	2
Lebanon	Sept. 2002	with recent law	-
Libya	none	-	0
Morocco	in process	1994	3
Syria	none	-	0
Tunisia	none	1996	2
Turkey	Mar. 2001	1989	many

Liberalisation status in SEMCs' gas sector

- Ongoing gas market liberalisation (EU based)
  - Algeria, Turkey
- Project of liberal gas regulation
  - Morocco, Israel, Egypt
- No project of liberalisation
  - Tunisia, Jordan, Lebanon, Libya, Syria

The drawbacks of deregulation

- The end of stable systems
  - Competition
  - The end of central long term planning
  - The end of state guarantees
- Complexity and risk
- Consequences of liberalisation for domestic consumers
  - Risk of price increase
  - Social consequences of reforms

The investment issue in SEMCs' electricity and gas sectors

FDI, the dominant solution

- Palliating limited states' investment capacity
- SEMCs mainly relied on IPPs to complete their needs for new power plants
- Focus on power generation, but substantial needs in network infrastructure
- However, according to several analysts
  - "*the reality is emerging that as the number of potential private power projects grows, the number of potential developers is in sharp decline*"

Investment: the challenges for non-export energy projects in SEMCs

- Competition between potential host countries
- High risk evaluation by investors
  - Political and institutional risk
  - Economic risk
  - Market risk
- Host countries need to propose secured projects
  - Guarantees concerning outlets
  - Profit repatriation
  - Currency risk coverage

IPPs in SEMCs

- Assessment of IPP projects
  - 20 projects have reached their financial closure (12 in Turkey, 3 in Morocco & Egypt, 1 in Algeria &Tunisia)
  - Concessions, BOT or BOO
  - Medium time between announcement and financial closure: 6.5 years
- Financial schemes
  - Power Purchase Agreements including price indexation on “hard” currencies and fuel prices
  - Equity: between 25% and 40%
  - Loans: local bank (generally marginal), foreign banks, ECAs, international institutions

IPPs: a contrasted outcome

- Lower than expectation but still 40% of additional capacity in past 10 years (disparities)
- Investors are difficult to attract and IPPs have often revealed expensive
- Enthusiasm for IPP schemes wining down
  - Turkey: legislative changes & new Law
  - Egypt: after 2 IPPs, new financing means
  - Morocco: State requires shares in projects

Conclusions

- Investment financing is the main issue in SEMCs
- Investors require stability and high profitability
  - Long term PPAs
  - IPPs are not compatible with competition
- Considering the current economic context, reforms and international cooperation should
  - Not only consist in promoting liberalisation and FDI
  - Promote non-market solutions including economic and technical assistances