

# EUROPEAN POLICY BRIEF



## GLOBAL RE-ORDERING: EVOLUTION THROUGH EUROPEAN NETWORKS

### How does Mediterranean Instability Affect the EU's Security and Energy Policy?

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30/03/2014

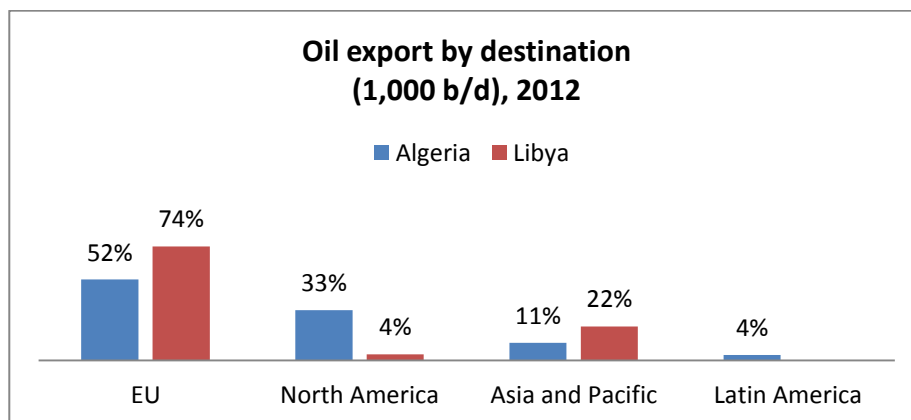
#### INTRODUCTION

Libya and Algeria, two of the EU's most important oil and gas suppliers, have been facing a period in which growing social and political complexity have emerged as threatening elements to their stability. Contradictions concerning democratization, transparency and good governance, usually regarded as 'the lesser evils' in autocratic regimes, have now become emergency issues. The result is that today the EU considers the two countries necessary but unreliable partners – a judgment made even more significant in the light of the European Union's policy aimed at the diversification policy of its energy supply.

However, even though the Southern Mediterranean countries have become relatively less important compared to the Middle East and Central Asia, the EU does not seem to be willing or even in a position to give up its primacy in the Mediterranean area. The recent signature of a Memorandum of Understanding with Algeria and the growing efforts put in the Libyan transition process, combined with an awareness that neither China nor the US can rely on easy access to the area, increases the ambivalence of the EU's foreign and energy policy. The EU's future orientation will depend to a great extent on how events will turn in these two crucial countries.

### Algerian and Libyan supplies in the EU energy framework

Oil accounts for 49% of Algeria's total exports, and for less than 2% of the EU imports.<sup>1</sup> 39% of Algerian gas is exported to Europe, accounting for the 10.9% of the European import. In 2012 Algeria ranked as the third supplier to EU, after Russia, 22%, and Norway, 20%. 74% of Libyan oil is exported to Europe, adding up to 10% of EU oil imports.<sup>2</sup> Libyan gas, instead, accounts for only 0.5% of European gas imports. Libyan and Algerian supplies are of crucial importance to some EU countries: Italy and Spain depend on Libya for as much as 22% and 13% of total crude oil consumption, and on Algeria for about 30% of their gas consumption.<sup>3</sup>



The Trans-European Energy Network (TEN-E), a European program for energy infrastructure improvement and better interconnection, financed by Connecting Europe Facility program, indicates nine strategic geographic infrastructure priority corridors in the domains of electricity, gas and oil. Among these projects, the program includes feasibility studies and the construction of an Algerian-Italy gas pipeline (GALSI), as well as the development of the MEDGAZ gas pipeline, connecting Algeria to Europe, via Spain. The TEN-E also financed a project for the Reinforcement of the Spain Morocco Submarine Electrical Interconnection across the Strait of Gibraltar. Northern Africa and Sahel, with Sub-Saharan Africa as a further objective, are also considered priorities areas for the construction of adequate, integrated and reliable energy networks.

The TNE-E underlined how the efficiency of the European Union's internal energy market depends upon the security of supply, integration of renewable energy sources, and strategies and tools aimed at making sure that consumers benefit from new technology in order to switch to a competitive-low carbon economy. Improvement to aid better functioning of the energy infrastructures and of smart grids and gas transportation networks are intended to be coupled with integrated energy markets.

The 'NSI West Electricity' program of the North-South electricity interconnections in Western Europe aims at favoring interconnections between EU Member States belonging to the Mediterranean area – including the Iberian Peninsula, integrating electricity from renewable energy sources and reinforcing internal grid infrastructures to foster regional market integration.

Desertec, an excessively ambitious joint-venture program for the development of energetic grids from renewable energy in Sahara region, has been now frozen. However, the Algerian national company for

<sup>1</sup>Algerian gas faces three challenges , MEES, 03/04/13

<sup>2</sup> Eurostat data

<sup>3</sup>See S.Lochner and C. Dieckhöner, *European Gas Imports from North Africa*, Intereconomics, 2011

electricity, Sonelgaz, has announced the construction of wind and solar plants in the Algerian desert and along the coast worth \$100 bn.

The vision of an interconnected North Africa must overcome many problems, the most important of which is the acute difficulty faced in integrating the Northern African markets. Not only are the borders between Morocco and Algeria often closed due to the unsolved dispute on the Sahrawi Arab Democratic Republic's legitimacy, but Libya, Algeria and Tunisia seem to lack the means, or the political will, to fight trans-boundary terrorist organizations. According to some analysts, Algiers didn't seek to neutralize jihadist presence in Kabylie in order to keep the country militarized. At the same time, clashes between the national army and terroristic groups are relatively frequent. The landscape for foreign firms worsened last year when regional unrest spilled over Algeria's borders in the form of an armed attack on a BP-Statoil gas facility near the Libyan border. The January 2013 attack and the ensuing military response caused dozens of dead, and some companies reconsidered their presence in the region – or at least their willingness to field international staff. Recent security risks, such as the kidnappings of international workers makes companies even more cautious, have also increased the price of investing in the region.

High levels of corruption and overly strict hydrocarbon legislation makes the climate for foreign investors more and more inhospitable. In Libya, the aftermath of the crisis unveiled the previous regime's illegal appropriation of public funds, while in Algeria the national oil company, Sonatrach, was implicated in a bribery scandal that resulted in multiple arrests, including the former Minister of Energy, Chekib Khalil.

In 2012, Algeria began revising the hydrocarbon law in an attempt to attract foreign investors. In 2006 Sonatrach was granted a minimum equity stake of 51% in every hydrocarbon project launched in the country, and a windfall profits tax was introduced for IOCs. The parliament approved new amendments in January 2013, which, without changing Sonatrach's majority stake requirement, amended the tax structure and offered greater fiscal incentives to companies investing in offshore exploration and unconventional resources. Sonatrach owns roughly 80% of the total hydrocarbon production in Algeria, while IOCs account for the remaining 20%. Sonatrach is the largest oil and gas company not only in the country, but also in Africa, and operates internationally.

### **Political stalemates and the EU's role**

In April 2013, the Algerian President Abdelaziz Bouteflika, aged 77, was victim of a stroke that left him partially paralyzed and totally absent for more than two months while being treated in France. Following his return in a wheelchair to Algeria on July 18, there were serious doubts about his capacity to govern. The Algerian government tried to prevent popular unrest at home by injecting \$280 bn into the economy and by promising political reforms.<sup>4</sup> That is not the first time that Bouteflika has attempted to buy peace and solving the deep-rooted problems, such as youth unemployment, remains hard in the absence of a comprehensive and coherent development strategy.

When the Constitutional Council validated the decision of Bouteflika to run for a fourth term, the Prime Minister Abdelmalek Sellal quit his office to become the director of Bouteflika's election campaign, as in previous elections. Sellal was replaced by the Minister of Energy and Mines, Yousef Yousfi. In the government reshuffle, Ahmed Ouyahia became chief of the President's cabinet after having been prime minister for more than ten years, and Abdelaziz Belkhadem, former leader of the first party in the country, the Front de Libération Nationale (FLN), was appointed the Personal Representative of the Head of State. It is not difficult to see this maneuver by Bouteflika's faction as an attempt to centralize power and prevent possible trouble during the next election, and also prevent the possibility that one of these influential personalities would run against him.

Bouteflika's decision to run for another term, despite his physical conditions, shows how the conflict between the establishment and the army meant they could not agree upon a successor. In other words, Bouteflika remains the candidate of last resort. In this way, Algeria's leadership has made the country

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<sup>4</sup>A. Layachi, Ibid.

dependent on Bouteflika's precarious health and once again, Algeria's future will not be decided through elections.

The Islamic radical faction refused to take part and has organized demonstrations in several cities which have been strongly repressed. Police were deployed en masse and supporters of the Barakat movement expressing their opposition to Bouteflika's new mandate were arrested to prevent other protests in the capital city.<sup>5</sup>

Algeria remains a strongly authoritarian regime, in which the role and influence of the powerful head of the Algerian secret services, Mohammed Mediène, remains unclear. Algerian opposition has often complained about the aloof, if not indulgent, European attitude to the "dark sides" of one of its main suppliers. When the EU provided international observers for the last presidential elections, the observers declared the election was fair, even though they did not obtain access to the list of voters. The EU prioritizes supporting the regime's stability and its fight against terrorism above Algeria's democratic development. Indeed, the Constitutional amendment in 2008, that allowed Bouteflika to be reelected, did not trigger any strong criticisms in Europe. At the same time, the government is accused of selling off Algeria's natural resources and conceding in negotiations with Europe. The public debate in Algeria focuses upon the possibility that the Ukrainian impasse could be "the Algerian moment" and that the country could profit from this delicate situation to expand its market, adjust prices and provide proof of accountability.

In June 2013 the president of the European Commission, José Manuel Barroso, signed a Memorandum of Understanding (MoU) on a strategic partnership in the energy field with Algeria. During the first visit since the beginning of his term, he underlined that Algeria is "the natural partner" of European Union and that energy represents a key element of Euro-Mediterranean partnership, involving stability and development.<sup>6</sup> The Memorandum emphasizes the importance of renewable energy sources and environmental sustainability. Technology transfer is promoted in order to favor renewable energy diffusion and enhance energy efficiency. The EU is interested in securing energy procurement and a privileged relationship with Algeria, offering in exchange the possibility of improving the country's energy system with a better interconnection of energy grids and the differentiation of national energy sources. In the European Union's view, energy cooperation and support to sustainable development are deeply interconnected.

As the signature of the Memorandum has been hailed as a step forward to better coordination between the two grids of Mediterranean, it is interesting to note the comments of Algerian internal opposition on the MoU. Some opposition newspapers suggested that the agreement showed how to "surrender to international prices". Algerian political opposition concerns also pointed out that the price reduction of LNG was due to the mounting American exploitation of shale gas, inevitably affecting the Algerian economy. Algeria has recently planned to double its electricity capacity through the creation of a new gas turbine. This would increase gas consumption, possibly matching the current export rate. This would lead to a renegotiation of prices, with the aim of decoupling the price of gas from the price of oil.

The EU remained mostly silent when the protests in Eastern Libya erupted in mid-February 2011, though the UK and France quickly asserted themselves as the revolution's supporters.<sup>7</sup> While the NATO intervention was effective in removing President Qaddafi from power, it also resulted in a security and power vacuum in the post-Qaddafi state, making reconstruction arduous. European politicians, particularly in France and the UK, largely underestimated the difficulty of this transition, hoping for a fast "democratic escalation".

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<sup>5</sup>Algeria accused of protest crackdown, Al Jazeera, 03/17/14

<sup>6</sup>For the official announcement see: [http://ec.europa.eu/commission\\_2010-2014/president/news/archives/2013/07/20130707\\_1\\_en.](http://ec.europa.eu/commission_2010-2014/president/news/archives/2013/07/20130707_1_en.), for an Algerian point of view: <http://www.algerie-focus.com/blog/2013/07/barroso-lunion-europeenne-est-le-partenaire-naturel-de-lalgerie/>, <http://www.agoravox.fr/tribune-libre/article/le-memorandum-algerie-union-138693>.

<sup>7</sup>R.H.Santini and A.Varvelli, "The Libyan crisis seen from European capitals", Brookings Institution, June 2011. <http://www.brookings.edu/research/papers/2011/06/01-libya-santini>.

The elections held on July 2012, marked the first turning point in the recent history of the country. The Libyan people voted for the General National Congress (GNC), a body enjoying full legislative authority, composed of 200 members and endowed with the power to appoint a new interim government. The elections were held in a quasi-peaceful climate, especially in the big cities.

An important role has been played by the National Coalition of Mahmud Jibril, the former NTC Prime Minister. On the eve of the elections, Jibril created the “National Forces Alliance” (NFA), a 58-party coalition that established itself as a more secular and modern nationalist movement, although it did not renounce the importance of Islam in its program. Moreover, the NFA proposes a liberal economy and territorial decentralization, while arguing against federalism. In order to counterbalance the Islamist parties, the United States and their Western allies have chosen to support Jibril's Alliance, which eventually gained the biggest electoral success, winning 39 seats.

This “positive” result had the effect of overshadowing the country's persistent instability. The September 11<sup>th</sup>, 2012 attack in Benghazi, in which Christopher Stevens, the US Ambassador to Libya, and 3 other U.S. officials lost their lives, confirmed a significant presence in Libya of terrorist groups or militias linked to radical Islamism. Western perception rapidly changed as the US and Europe realized that Libya's pacification process was far from complete and that the state-building process too was merely in its initial stage. The influence of the Libyan Muslim Brotherhood over the country's political system, initially perceived as internally fragmented, has been growing over time.

Unfortunately, this polarization was not only a political phenomenon, but quickly turned into armed conflict. Islamists and secularists are related to associated militias: the former with Al Qa'qa and the Zintan militaries, the latter with Misurata's militias or the Libyan Revolutionaries Operations Room militia in Tripoli.

A marked polarization of the political scenario has been affecting the post-revolution stabilization process, which reverberates on the GNC's and the government's activities. One of the most worrying turn of events for the EU are the new command logistics and organization of Al-Qaeda in the Islamic Maghreb. The changes to this group are signs of a probable concentration in the Fezzan region of radical Islamists and a consequence of the French intervention in Mali which has forced the organization to seek refuge in southern Libya. Security officials say that Fezzan, poorly controlled by Libyan government forces, is likely to become the core of radical Islamist organizations. As Libya remains a major energy supplier to Europe, these dynamics have been perceived in Europe as the transformation of Libya into a “black spot” or a “failed state”.

The EU and major European players responded with a delay in support for the Libyan people during the first steps of transition. Now, through cooperative approaches on security, institution building and migration, Europe is attempting to “help maintain momentum and support the transition to democracy”. The EU is currently running a €30 million program in Libya to address some of the country's most pressing needs including; national reconciliation, elections and respect for human rights; public administrative capacity; media, civil society and promoting the involvement of women in public life; migration; health and education. As the transition progresses, European assistance programs will shift from the current focus on meeting immediate needs to longer term goals, based on the results of several need assessments which include border security, civil society and elections. In the longer term, the EU will seek to intensify its relations with Libya through political, financial and technical cooperation, and through the use of the various instruments provided by the European Neighborhood Policy.

## POLICY IMPLICATIONS AND RECOMMENDATIONS

The EU has constantly considered the Southern Mediterranean area as its near-abroad horizon, and has aimed at establishing robust and comprehensive partnerships with the countries in this region. The EU strategy has adopted a transformative attitude, requiring partners to converge on issues such as good

governance, sustainable development, democratic procedures, favorable market regulations and market integration, cooperation on security aspects, intensified and open trade. The EU has devised an array of diplomatic tools, appointments and forums aimed at enhancing political dialogue with northern African countries, according to the principle of continual and cooperative consultation.

The energy partnership between the two coasts of the Mediterranean Sea is not incompatible with this structure, as the partnership is based on the mutual interests of energy security and diversification, better integration, and accountable and punctual supplies. It is also included in a wider framework, as in the case of TNE-E program, NSi West electricity, Med-EMIP energy cooperation. The EU engages in supporting North African countries to improve their energy infrastructure and grids, and to improve the efficiency of internal consumption, while fulfilling the export quota. Beside the hydrocarbon sector, the European Union encourages the development and exploitation of renewable resources and, in part, the research of unconventional resources.

The dilemma of how to meet both the criteria for good governance and achieve favorable energy sector agreements is a difficult one: for years the EU has accepted to enter partnerships with the above discussed leaders, possibly believing that the agreements themselves could lead to virtuous policy. Although Algeria and Libya have made some progress in the management of their energy resources, oil and gas rents have also been instrumental in keeping autocratic regimes in power. As many analysts point out, the turmoil besetting the Mediterranean area has also been the consequence of the mismanagement of public funds', persistent and pervasive inequalities and the progressive detachment of the unemployed population from the countries' leaders. The different degrees to which each EU member state is dependent upon natural resources from Algeria and Libya make it even harder for the EU to find a common position.

- Bilateral relations have often prevailed over a shared dialogue on supply security. The emergence of new powers, together with the worsening of security situation in Northern Africa and Sahel, has led the EU member states to agree on the priority to maintain a privileged access to such a crucial area.
- The outbreak of the Arab spring questions strategic factors that European countries had taken for granted, such as the longevity of the Mediterranean countries' leaderships or the presumed invulnerability of energetic infrastructures. Faced with the Libyan crisis, the EU found itself without a clear counterpart and creating a confused environment for open dialogue, in which local actors such as tribal leaders, that had been previously overlooked suddenly acquired key roles. In the case of Algeria, the EU reacting passively to the political changes and the progressive vanishing of an old regime, whose actions are quite unpredictable. The EU will strengthen its position and understanding of the forthcoming political changes through careful dialogue with regional actors and the monitoring of regional developments.
- After turmoil in the Mediterranean, the EU should understand that its access to future supplies depends on its capacity to comprehend and address Southern Mediterranean's social transformations. The EU should therefore performing a mediating role, and avoid partnerships that serve the interests of autocratic powers.

## PROJECT IDENTITY

**PROJECT NAME** Global Re-ordering: Evolution through European Networks (GR:EEN).

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## FUNDING SCHEME

FP7 Framework Programme, Collaborative Project, SSH – Europe facing a rising multi-polar world

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## DURATION

March 2011- February 2015 (48 months)

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## BUDGET

EU contribution: 7 944 718 €.

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## WEBSITE

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