

January 2023

Revisiting the Africa-Europe energy relationship

Last year, Europe's frantic search for alternative natural gas supplies to replace Russian gas imports led to an unexpected interest in African gas. Presently, Europe accounts for the bulk of Africa's natural gas exports, and European governments are hoping to temporarily increase Africa's share of these imports still further. Thus, an effective energy relationship between these two regions is crucial.

Until the eruption of the Russia-Ukraine war and the worsening of Europe's energy crisis, this relationship was mainly conducted in a commercial way by European or international energy companies and relevant African hydrocarbon entities (national companies and/or national/international company partnerships). This seems to be changing with the European Union (EU) taking a more interventionist role in the 'management' of Europe's gas imports.¹ Unfortunately, there has been a lack of consistency in recent EU policies which is creating some confusion among gas suppliers.

Two EU policy announcements issued in December 2022 could raise tension this year between Europe and its non-EU gas suppliers. The first is the EU climate action regarding the Carbon Border Adjustment Mechanism or CBAM² and the second is its gas price cap mechanism decision.³ Although the yet-to-be fully adopted CBAM does not cover hydrocarbon imports, it does target energy-intensive products exported by African and Middle Eastern hydrocarbon producers. Nevertheless, it was the gas price cap decision, which directly relates to natural gas trade, which triggered immediate African reactions.

Algeria's energy minister was the first to respond by stating that 'Algeria does not support the idea of capping gas prices'. The Algerian minister added that, 'open, transparent, non-restricted, and non-discriminatory gas markets are more than necessary...'.⁴ Interestingly, this was something the European Commission strongly pushed for a few decades ago during its gas market liberalization negotiations with gas exporters.

Incremental African gas volumes are planned to be supplied to Europe starting this year and new international gas project investments are also expected to be sanctioned in 2023 and future years (e.g.,

¹ As formally framed in the EU's REPowerEU plan and including the recent gas price intervention announcement (footnote 3 see below).

² European Council (2022). "EU climate action: provisional agreement reached on Carbon Border Adjustment Mechanism (CBAM)", 13 December. <https://www.consilium.europa.eu/en/press/press-releases/2022/12/13/eu-climate-action-provisional-agreement-reached-on-carbon-border-adjustment-mechanism-cbam/>

³ European Council (2022). "Council agrees on temporary mechanism to limit excessive gas prices", 19 December. <https://www.consilium.europa.eu/en/press/press-releases/2022/12/19/council-agrees-on-temporary-mechanism-to-limit-excessive-gas-prices/pdf>

⁴ *Algerie Presse Service* (2022). "Arkab: l'Algérie ne soutient pas l'idée de plafonnement des prix du gaz naturel", 20 December. <https://www.aps.dz/economie/149037-arkab-l-algerie-ne-soutient-pas-l-idee-de-plafonnement-des-prix-du-gaz-naturel>



the final investment decision - FID - for the next phase(s) of Mauritania-Senegal's Grand Tortue Ahmeyim LNG project). The EU gas price cap is temporary, and it is not clear how it would be implemented, if at all. But it could unnecessarily affect FIDs of potential new or expanded African gas export schemes. Could 2023 bring the moment of truth for all the African gas supply plans and expectations announced last year? Could an increase in African gas exports to Europe and African gas project FIDs materialize this year?

All this is taking place against the background of Africa's search for an as yet elusive fair energy transition. After the mixed results of COP27, the road to COP28 this year will again be a challenging one for African policymakers. Existing and future African gas exporting countries are at different stages in the formulation of their energy transition strategies, but for all of them, natural gas is expected to play a fundamental role not only in their energy transition strategies, but in their overall economic development. It would be naïve and irresponsible to think that gas production in Africa could suddenly be stopped, significantly reduced, or avoided altogether.

However, the long-term uncertainties about the future of unabated gas supplies pose a problem not only for gas exports to Europe, but also for supplies to African domestic energy markets. It is highly likely that European or international companies' investments in African gas development projects will be affected by future European decarbonization measures, and therefore both African gas producers and international investors will need to focus on carbon capture, storage and utilization projects and the urgent reduction of associated gas flaring and methane emissions.

Europe could play a role in assisting African hydrocarbon-producing countries in their energy transition strategies. A series of Africa-Europe initiatives, including the Africa-EU Energy Partnership,⁵ were set up, but these have had limited impact so far. Initially, there were African concerns about the EU Green Deal, specifically 'that it was imposed on them' and that it was focused on 'mitigation, circular economy, and carbon taxes'.⁶ In some cases, attempts by EU governments to develop clean energy initiatives in Africa have been based on old energy trade models applied to new clean products, such as the ambitious plans to export North African green hydrogen to Europe using massive dedicated renewable energy capacity in North Africa, while levels of clean electrification in Africa remain far from satisfactory.

Therefore, the Africa-Europe energy relationship will need to be revisited to address not only Europe's short to medium term gas import needs, but also Africa's longer-term domestic energy consumption and energy transition concerns. Could 2023 be the trigger year for a more effective and sustainable Africa-Europe energy partnership or will it be a year of accentuated tensions between Europe and its African gas suppliers?

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⁵ <https://africa-eu-energy-partnership.org/>

⁶ Hanne Knaepen (2020). "Barriers to Europe-Africa Cooperation on Climate Change", ISPI, 21 December. <https://www.ispionline.it/it/pubblicazione/barriers-europe-africa-cooperation-climate-change-28645>