

Energy Interconnectivity Projects to Receive Boost from Regional Rapprochement

May 21, 2023

Key Takeaways

- Inter-Arab energy connectivity projects are the likely beneficiaries of the rapprochement between Gulf Arab states, and Iran and Syria.
- Stalled gas and electricity deals in Lebanon, Syria and Iraq are the projects most likely to benefit first from the current wave of regional cooperation.
- While domestic political and institutional challenges have so far hindered progress, the deals present an opportunity to put diplomacy into action and provide much-needed economic relief to the region's stressed economies.

As regional political dynamics shift, joint Arab energy projects stand to gain. Prior to the reintegration of Syria into the Arab fold and the landmark China-brokered resumption of diplomatic ties between Iran and Saudi Arabia, Arab states spent years working on joint electricity grid and energy projects linking Gulf states, Jordan and Egypt with Iraq and Lebanon in what was then seen as a rare window for mutually beneficial cooperation. With recent region-wide reconciliation and a demonstrated desire for greater economic collaboration, these interconnectivity projects are likely to receive an immediate boost despite structural and political challenges that had previously slowed their implementation.

Mutually Beneficial Deals

Recent planned inter-Arab energy projects centred on Lebanon and Iraq, the subjects of intense competition between Iran and Arab states. Both states suffer chronic economic and energy crises. Iraq, despite ranking as the second-largest oil producer in OPEC, witnesses severe electricity blackouts due to a shortfall in electricity generation compounded by 8% growth in annual electricity demand. In Lebanon, the national electricity grid currently provides citizens with 4 hours of electricity per day.

In a deal reached in 2021 and signed in July 2022, Egypt agreed to provide Lebanon – via the disused Arab Pipeline - with 650 million cubic meters of natural gas annually at prices 30% below market rates. This would generate an additional 450 MW for Lebanon. However, it is uncertain whether the deal will proceed on these terms as it would make better economic sense for Egypt to sell the allocated gas to Europe at a higher rate. A separate agreement reached between Jordan and Lebanon in 2021 would see Jordan provide Lebanon with 250 MW of electricity from its national grid via Syria. Both deals were brokered by the US and are to be at least partly financed by the World Bank.

Other deals include a July 2022 interconnectivity agreement between the Saudi Electricity Company and the Iraqi Ministry of Electricity entailing the construction of a 435 km-long grid connection linking Arar, Saudi Arabia to Yusufiya, near Baghdad to carry 1 GW of Saudi electricity to Iraq by 2024. In October 2022, Iraq and Jordan broke ground on a 330-km power-line linking Jordan with the Iraqi border town of Al Qaim in Anbar to provide 400MW of Jordanian electricity to Iraq by the end of 2023. A project between Kuwait and Iraq through the Gulf Cooperation Council Interconnection Authority (GCCIA) would see Kuwait provide 500MW of electricity to Basra by the end of 2023, with the potential to increase future Gulf electricity supplies to Iraq to up to 2 GW.

Obstacles Preventing Progress Thus Far

Despite mutual desire, economic need and international support for these agreements, domestic political and institutional challenges have hindered their implementation thus far.

In Lebanon, the government amended electricity tariffs and in 2023 launched a call for applicants for an electricity regulatory body in response to demands from the international community for a regulator. However, as of April the country still does not have a president, has not formed its electricity regulator – which lacks any real mandate in reality - and has failed to audit Electricity du Liban, the state-owned electricity utility. The latter two reforms are conditions set by the World Bank in order for Lebanon to secure a \$300 million loan for the purchase of Egyptian gas and Jordanian electricity. French diplomats in February estimated that Lebanon requires “two years” to meet reform requirements. Meanwhile, Egypt’s deepening currency crisis may impact its decision to sell gas to Lebanon at preferential prices.

Iraq’s contentious government coalition-building in late 2022 revealed deep divisions among Shia political elite, raising questions about the impact of such divides on economic projects. Concerns over the inefficiency and transparency of the energy sector continue to plague Iraq, as its grid overhaul and energy generation projects have been met with delays and rising costs. Negotiations over electricity tariffs between Arab states – namely Iraq and Kuwait - have also slowed progress.

Despite the reopening of Gulf embassies in Damascus and Syria's reintegration into the Arab fold with its expected attendance at the May 2023 Arab League summit in Saudi Arabia, competition for influence in Syria between Tehran and Arab states continues. Pro-Iran factions within Syrian state institutions are sceptical of—if not hostile to—the prospect of Syrian economic reliance on Arab states that a few years ago supported regime change in Damascus. Attempts at Arab-Syria economic, trade, and security cooperation during the past five years were frustrated by these factions, along with Hezbollah. However, elements within the Bashar Al Assad regime may use the inter-Arab energy projects' implementation as bargaining chips for greater resources and international recognition as the regime looks to cement power and rebuild from the civil war and the 2023 earthquake. But while US diplomats have given multiple assurances that Egyptian gas and Jordanian electricity will be exempt from sanctions, growing domestic political opposition in Congress to Caesar Act exemptions has sown doubt in Cairo, Amman and Damascus that the promised sanctions waiver will hold.

Potential Impact - All Parties Stand to Gain

If implemented, the immediate impact of the energy connectivity deals' is clear: economic relief for Lebanon and Iraq. For Lebanon, the Egypt and Jordan deals' combined 700 MW would double the Lebanese grid's electricity generation to eight hours per day and reduce Lebanese citizens' reliance on expensive diesel-run generators. Gulf and Jordanian electricity would act as a stopgap for Iraq to help meet some of its higher electricity demand during summer months - when it requires an additional 10-12 GW at times of peak loads - as the country moves forward with domestic electricity generation and grid overhaul projects.

Another near-term impact would be increased Iraqi, Lebanese and Syrian co-dependence on Arab states and Arab energy at the expense of Iran. Iraq currently relies on neighbouring Iran for 1.2GW and 5 million cubic meters of natural gas daily - roughly one-third of its energy needs - leaving Baghdad dependent on Tehran's energy policies and political calculus. Iran has frequently halted energy supplies to Iraq, most recently in the summer of 2022 over delayed Iraqi payments held up by 2018 US sanctions. In 2021 it stopped energy supplies due to cold weather, cutting off 6.5GW of Iraq's electricity supplies at once. Gulf Arab and Jordanian electricity would offer Baghdad a more reliable energy source.

The energy deals could also serve as a pillar of Arab outreach to Syria. With reintegration in full swing, the long-discussed energy deals are a logical first step towards putting diplomacy into action. Both Lebanon deals would provide Syria with natural gas and electricity exempt from US Caesar Act sanctions. With 18% of its pre-war electricity production off-line, the supplies of gas and electricity would allow Syria to immediately add hours to its strict electricity rationing program which currently provides residents with as little as three hours of electricity per day.

With the infrastructure of the 1,200km Arab Gas Pipeline running from Egypt to Lebanon through Syria and Jordanian electricity grid connections with southern Syria already in place, the two Lebanon deals could be implemented relatively swiftly. The projects could help to convince pro-Iran elements within the Al Assad regime that economic ties with Arab states are both beneficial and the most effective route to bypassing crippling US sanctions. Arab diplomats are already looking at the potential implementation of the deals as a stepping-stone to wider economic cooperation and are actively lobbying Washington to expand the promised sanctions waiver to include post-war reconstruction and rebuilding of earthquake-hit areas in northern and western Syria. Concessions from the Assad regime in return are, however, lacking – a point of concern for Western policymakers as they observe Gulf outreach to Damascus.

Ushering in a New Era of Cooperation

The winds of change brought by de-escalatory measures and warming relations between Gulf states and Iran, Syria and the Arab world, Turkey and Egypt are breathing new life into Arab energy interconnectivity projects.

Tehran's adherence to its commitment to non-interference would remove much of the political and financial incentive for non-state actors and insiders to block the deals. A reactivation of trade and investment deals may shift Iranian perceptions of Saudi Arabia solely as a regional rival and mollify Tehran's opposition to greater Arab economic involvement in Iraq, Syria and Lebanon, long viewed by Iran as its spheres of influence. Gulf states can leverage their ties with Washington to push America to follow through on promised Caesar Act exemptions and add their weight to the international community's pressure on Lebanon to complete energy sector reforms.

In line with the regional trend towards greater economic cooperation, increased Arab energy connectivity offers an immediate and logical way to boost economic ties and address shared challenges. With the legal frameworks, tariffs, multilateral agreements, support of the international community and much of the infrastructure in place, inter-Arab energy and electricity projects offer a mutually beneficial first step in regional leaders' move towards greater multilateral cooperation. By providing needed energy and economic relief to Lebanon, Syria and Iraq, epicentres of Arab-Iranian rivalry post-2003 US invasion of Iraq, the projects' implementation would serve as a fitting coda to two decades of competition and as the dawn of a new era of cooperation rises.

Copyright © 2023 Think Research and Advisory.

Think Research & Advisory is a MENA-based firm providing independent research and strategic advisory to support decision-makers in navigating a complex global landscape. Our strong suite of services provides unique insights, analysis, and evidence-based views in the areas of energy, geopolitics, macroeconomics, and media.

As part of our services, we leverage our dynamic team of experts, well versed in our thematic areas of focus, to deliver bespoke and targeted strategic advisory on the most pressing challenges facing global and regional leaders. Think's actionable data, distinctive perspectives and insights, and agile advisory services make us an indispensable ally in strategically approaching problem-solving and decision-making.

Think Research & Advisory is born out of SRMG.