THE ITALIAN CLIMATE CHANGE THINK TANK

# ENERGY IN AFRICA: WHAT RELATIONS BETWEEN ITALY AND CONGO?

## POLICY BRIEFING
## JANUARY 2024

Lorena Stella Martini

Giulia Signorelli

# SUMMARY

# EXECUTIVE SUMMARY

Prime Minister Giorgia Meloni's visit to the Republic of Congo (RoC) in October 2023 is part of the Italian government's strategic plan for Africa, entitled the Mattei Plan, which is currently being outlined for official announcement during the **Italy-Africa Summit** that will be held in Rome on 28-29 January in the presence of the leaders of several African countries. In the executive government's intentions, the Mattei Plan is characterised by a pragmatic, egalitarian and non-predatory approach towards African partners. It is also focused on reciprocal advantages and benefits, both for Italy's national interests as well as for Europe's.

**In this framework, relations between Rome and Brazzaville are mainly of an economic-commercial nature, especially with regards to the oil & gas sector,** which has been recently strengthened by agreements made in 2022 by President Sassou Nguesso and Eni to start **importing liquefied natural gas (LNG) into Italy.** Eni, the largest producer of natural gas in the country, made the announcement in early January 2024 that it would introduce gas at the Tango FLNG[1] and produce its first LNG cargo by the first quarter of 2024, thus poised to be RoC a producer of LNG.

In addition to being Africa's third-largest oil producer, the RoC boasts 280 billion cubic metres of natural gas reserves and is increasingly moving towards natural gas given the decrease in crude oil production due to a natural decline of its fields. Gas production has indeed increased by nearly 11 billion cubic metres per year in the last three years.

**However, an economic system centred on fossil fuels is proving increasingly problematic for the country.** Dependence on the oil sector has resulted in high volatility of GDP growth, affecting private investment and long-term economic prospects. At the same time, poverty rates have increased since the early 1970s, when the country began exploiting its oil resources.

The continued reliance on oil revenues and the abandonment of non-oil sectors has also resulted in rampant corruption and chronic economic stagnation. **If the country does not make efforts to reform and diversify its economy to attract more climate investment, economic losses could reach up to 17% of GDP by 2050 as a result.**

**From a public health perspective, the consequences of climate change can be particularly alarming for the country.** Since the start of the century, approximately six hundred thousand people have been victim to natural disasters mainly associated to floods and epidemics.

[1] An acronym for Floating Liquified Natural Gas, a natural gas liquefaction plant

In this context, **the RoC should embrace political and institutional reforms that would allow access to new climate finance and lead to the diversification of its economic system by leveraging non-oil sectors** such as forest management, renewable energies, eco-tourism, sustainable agriculture, as well as sustainably developing its mining sector. As it restructures its economy, the RoC may benefit from its 'natural corridor' and thus serve the region in terms of trade, logistics and services. **RoC's partnership with Italy, particularly in the context of the Mattei Plan, should be pointed to such direction.**

**A partnership based on the exploitation of fossil fuel resources is not the best investment for the country's economy,** as it fuels a vicious cycle of debt, poverty, inequality and corruption, besides restricting the capacity of non-oil sectors to drive the economy towards real diversification. **For Italy, a partnership of such nature is not only unprofitable in the face of declining Italian and European gas demand under all scenarios, but it would also collide with market new interests** (this is particularly true in the 1.5-degree decarbonisation scenario). **Insisting on gas in the Italy-Congo relationship increasingly ties Italy's foreign policy to gas policy, and away from its climate commitments.**

A new partnership with Congo should instead focus on a concrete commitment by the Italian government on the following points:

- **Commit to stop promoting new gas exploration and gas-related development projects with political support and public finance** to avoid tying Italy down to redundant and unnecessary contractual commitments.
- **Redirect public finance incentives** such as SACE guarantees and the Italian Climate Fund (FIC) to supporting projects that are not associated to the oil & gas industry, such as projects in renewable energy, forest conservation, sustainable agriculture - sectors that have a currently unexplored potential and which, given the territory's composition and needs, could help **drive non-oil sectors towards economic diversification,** as well as strengthening RoC's climate change adaptation and mitigation strategies.
- **Stimulate forms of economic and industrial diplomacy to identify zero-emission projects** that are open to the participation of new and different private actors which can help unlock private finance.
- **Support the adoption of climate adaptation policies to systematically address the damage and losses caused by climate change as well as future costs.** In doing so, Italy should act on the climate-food systems nexus and consider synergies with the Adaptation Fund, inspired by the initiatives built with Ethiopia, to advance climate adaptation in RoC.
- **Play a central role in the European commitment in RoC,** as established in the Multi-annual Indicative Programme 2021-2027 for EU-Congo cooperation.

- **Actively assist the Congolese government in identifying approaches to reforming its taxation system**, together with Europe, UN institutions, and Multilateral Development Banks.

# 1 CONGO IN THE ITALIAN STRATEGY FOR AFRICA

In October 2023, Prime Minister Giorgia Meloni led in a two-stage diplomatic mission to Africa which started in Mozambique and ended in the Republic of Congo (RoC).

The mission to RoC took place about a year and a half after a previous visit led by Luigi Di Maio, then Italy's Minister of Foreign Affairs and International Cooperation, and accompanied by Roberto Cingolani, then the country's Minister of Ecological Transition, as well as Claudio Descalzi, CEO of ENI. The mission was part of Italy's diversification strategy launched in the aftermath of the invasion of Ukraine by Russia (then Italy's top gas supplier) and it became known as the 'dash for gas' that saw government representatives sign new agreements not only in RoC but also in Algeria, Egypt, Libya, Mozambique as well as Angola.

Meloni's October visit should instead be interpreted in the context of the Mattei Plan. Defined as Meloni's plan for cooperation with Africa, the Mattei Plan is as a pragmatic, egalitarian and non-predatory approach to African partners as it is also focused on mutual advantages and benefits both for Italy's national interest as well as Europe's.

The October mission to the African continent, in RoC and in Mozambique, meant to be an opportunity for the government to highlight a new component of the long-awaited Mattei Plan: the desire to draft the Plan together with its African partners, thus leveraging the cooperation narrative in order to go beyond it until reaching a point of mutual construction.

The Plan's presentation, announced by Meloni soon after taking office, was already foreseen in the framework of the Italy-Africa Intergovernmental Summit supposed to be held in November 2023, which was later postponed to January 2024 due to the critical security situation in the Middle East and at the international level. The postponement might have have been a response to the government's desire to avoid risking its priority strategic focus on Africa being eclipsed up by the Middle East situation, while also buying time to better define the Plan, including the ways in which African partners might have been involved.

In mid-November 2023, a government decree entitled d-l161/2023 – Mattei Plan was published bearing "urgent provisions for the 'Mattei Plan' for development of states on the African continent", which laid the first foundations for the governance of the Plan, even though it did not contain detailed elements on the announced involvement of the African countries. In January, the decree was converted into a law defining the areas and priorities for intervention and establishing a steering committee to manage the Plan and its political structure which are expected to take place at the Italy-Africa Summit on 28-29 January 2024.

According to Meloni's statements made on the Mattei Plan while in Brazzaville, far from having a 'paternalistic approach', the decade-long cooperation between Italy and the Republic of Congo, which is capable of looking as much as Italy's interest as well as at the growth of the local population and its economic fabric, perfectly fits into the structure of the proposed Plan.

Bilateral diplomatic relations between the countries dates to 1965, just five years after the RoC's independence. Throughout this period, the Italian diplomatic representation in Brazzaville has always remained open, even during periods of heavy political instability in the country. Italy was also the first Paris Club member to cancel RoC's debt.

Despite modest figures, relations between Rome and Brazzaville are primarily around economic and commercial issues. Italy stands as one of Congo's main European trade partners with local presence of solid Italian corporations, such as Eni (established in RoC since 1968, mainly in the oil & gas sector), Renco (present since 1999, recently involved in reforestation projects), MSC (present since 2022, engaged in logistics with a view to Congo-Asian markets connection) and SAIPEM (with a contract obtained by Eni in 2023).

The oil & gas sector is the main player in this relationship of economic interests in the RoC, with a recent focus on supplying Italy's domestic market whereby the country should receive one billion m3 of LNG from Congo in the winter of 2023-24, and 4.5 billion from 2024-25 as agreed in 2022 by Eni's CEO and Congolese President Denis Sassou Nguesso.

During the last October meeting with President Nguesso, Prime Minister Meloni also emphasised cooperation on climate change in Africa, a topic which is becoming increasingly important for the **Italian Climate Fund (ICF),** an Italian fund dedicated to climate-related investments. According to Meloni's announcement at COP28 in Dubai, **70%** of ICF's 4.4 billion euros should be invested in the African continent, with investments equally distributed across climate mitigation and climate adaptation ventures. This is a positive sign, at least on paper, as it underscores that a long-term effort towards sustainable development such as the Mattei Plan does not ignore climate change. **Climate change can no longer be treated separately from the energy issues, given that two-thirds of global CO2 emissions derive from fossil fuel consumption.**

The leaders of African countries have also openly expressed their willingness to play their part in the fight against climate change to reduce emissions and push for decarbonisation on a global scale. Indeed, the Nairobi Declaration, signed at African Climate Week last September, offers a concrete proposal to establish a new financing mechanism aimed at restructuring Africa's debt and unlocking climate finance. For Italy (as well as other countries), building partnerships with African countries - on climate and other sectors – also means listening to the demands that coming from Africa.

It remains to be seen whether Italy's focus on the extractive industry in the RoC is necessary and wise given the context of a foreign policy now geared towards meeting decarbonisation goals, as well as towards an inclusive growth and sustainable development of the Republic of Congo. The growth and development of the RoC, based on the Italian government's mindset, should focus on fostering the country's political stability, which remains a key objective for Italian foreign policy towards the South as well.

## 2 CONGO AND FOSSIL FUELS

The RoC is a major fossil fuel producer, both oil and gas, and since 2018 it has been a full-fledged member of the Organisation of Petroleum Exporting Countries (OPEC). It is Africa's third largest oil producer with reserves of 1.8 million barrels of oil and a production of 262 thousand barrels of oil per day. The Republic of Congo is also home to 280 billion cubic metres of proven natural gas reserves that are increasingly being the focus of production given the decline of oil production caused by the depletion of oil fields due to exploitation - a dynamic common to other African OPEC countries.

In 2021, most of Congo's natural gas (65%) was pumped back underground to increase oil recovery, while 21% was burned through flaring, (an increasing percentage relative to previous years). Up until 2003, the country produced small quantities of gas, mainly related to oil production. By contrast, since 2003, gas production has increased considerably to nearly 11 billion cubic metres per year. However, according to the Global Gas Flaring Tracker Report published by the World Bank in March 2023, the RoC, along with India and Ecuador, is the country where flaring has increased the most on an annual basis over the past five years, with all the environmental and health consequences associated with it. Still based on World Bank data, from 2018 to 2022, the country ranked 14$^{th}$ in the world in terms of flaring volume, ahead of Algeria, Libya, Nigeria, and Egypt in Africa.

The sector is mainly run by foreign oil companies, such as Total, Eni, Aiteo, Perenco and China's Wing Wah. The development of the oil and gas sector is a priority for the RoC, as well as the development and monetisation of the downstream sector through energy production and the increase of domestic gas production. Within this context, a law passed in October 2016 incentivizes exploration and production. Most of the oil and gas fields are located off the shores of the Congolese coast. These areas are shared by some of the major international oil companies, whose business plans reveal the country's importance for further mid and long-term investment, both in infrastructure expansion (for increase in exports), as well as oil and gas extraction.

Eni, present in the country since 1968, is seen as the largest producer of natural gas in the RoC (even though most of the natural gas produced is burnt or pumped back underground to facilitate the recovery of crude oil). In June 2023, the company declared its intention to focus on the development of the country's gas resources by selling some oil assets to the Anglo-French company Perenco.

As per the plans declared during the visit of the Italian delegation and Eni's CEO to the RoC in the spring of 2022, the country is becoming a natural gas net exporter. In October 2023, the Congo LNG project was inaugurated, in which Saipem is also involved as a contractor. It is the first gas liquefaction project involving the installation of two floating liquefaction facilities (FLNG) with a total LNG production capacity of around 4.5 billion cubic metres per year by 2025, while the marketing will remain exclusively with Eni. In early January, the company announced the introduction of gas at the Tango FLNG[2], which will produce its first LNG cargo by the first quarter of 2024. As declared by the company, the terminal will draw gas from one of the main fields in operation, Marine XII, whose resources are already being used to feed the country's main natural gas power plant, Centrale Électrique du Congo (CEC).

According to Eni, the facility supplies energy to over a million people. However, it remains to be seen whether only the surplus of the gas produced is exported, leaving the bulk of resources to be accessed by the population, as the company claims. The actual share of the population to access electricity is at 50% – 66% of which is concentrated in urban areas while only 15% is accessed in rural areas. Even though gas-fired power plants have contributed to the replacement of diesel generators and thus helped increase access to electricity over the past 12 to 13 years, the current situation remains extremely critical, with rural and remote areas rarely connected to electricity grids.

As far as RoC's electricity provision is concerned, it is still considered inadequate and the infrastructure insufficient to satisfy a growing population[3]. A single electricity transmission line connects the inland north to the south towards the coast, where Pointe-Noire, the country's main port, is located. In fact, the growth in demand for energy is met mostly thanks to electricity imports from the neighbouring Democratic Republic of the Congo, with all its associated potential risks, given the instability in Kinshasa.

[2] An acronym for Floating Liquified Natural Gas, a natural gas liquefaction plant
[3] Considering that more than 40% of the population is under 14 years old.

# 3 ECONOMIC, SOCIAL AND POLITICAL CONSEQUENCES OF FOSSIL FUEL DEPENDENCE

The lion's share of RoC's tax revenues derives from the production and export of crude oil. Moreover, **oil exports account for 55% of the gross domestic product (GDP), 85% of the value of exports and 80% of government revenues.** This has made the country's economy largely dependent and vulnerable to oil price fluctuation, which affects government revenues. The concepts of *just transition* and of *economic and social resilience* should therefore guide the diversification of RoC's economy away from fossil fuels and towards the creation of alternatives for a secure and sustainable future.

When considering oil price volatility and, more broadly, the current instability of the oil market, it is easy to identify a dynamic that is effectively preventing RoC's stable and steady growth. Over the medium-term, a drop in production - already declining due to the natural depletion of oil fields and lack of investment – coupled with a collapse in oil prices could have significant impacts on government revenues.

In fact, **as the recent history of the Republic of Congo shows, declining revenues from the oil sector implies significant cuts in services for the population, as well as an increase in debt.** According to the Director of the Société Nationale des Pétroles du Congo (SNPC), a price of $75 per barrel would ideally be needed to recoup the costs of new oil investments, however, the net-zero (NZE) scenario of the World Energy Outlook 2023 (WEO 2023) estimates that in 2030 the price will be reduced to less than half of that amount. Moreover, the announced and implemented policies (APS) scenario do not reach that price from 2030 onwards.

**Therefore, there is a major risk that the country becomes trapped in highly unproductive oil investments and in a spiral of debt** – an issue that is already a major concern for the RoC. The debt issue could also potentially tie Brazzaville to China, its largest external creditor. Debt has led the country to request intervention of the International Monetary Fund (IMF) for debt restructuring. According to IMF data, public debt stood at 92.5% of GDP at the end of 2022 (an improvement from 98% a year earlier). Public external debt in 2019 was 62% of GDP, (a share of 20.4% to China alone). Still based on IMF data, public external debt in 2022 amounted to 43.1% of GDP (16.8% of which is with China).

To reiterate the negative impact that hydrocarbon dependence can have on economic growth, data from the World Bank highlights how despite recovering from a 7-year recession led by the collapse of oil prices in 2014, and further exacerbated by COVID-19 pandemic, per capita GDP growth has remained negative, while the rate of poverty has gone up to 46.6%. Such poverty rates are higher than those from the early 1970s, when the country began exploiting its oil resources, while GDP growth rates have been consistently lower than in other African countries, such as Angola.

**The recent sharp increase in oil prices has paradoxically generated negative consequences for a heavily oil-dependent economy as that of the RoC.** Indeed, the increase in oil prices has also brought with it an increase in the price of oil-derived products, and a consequent shortage of fuel - on which the RoC is dependent given its limited refining capacity. This situation forced the government to increase subsidies for fossil fuels (including natural gas), currently estimated to reach the equivalent of 2.4% of GDP in 2022. Not only has this amount exceeded public spending on social protection, but the subsidies have led to the opposite intended consequences. Instead of shoring up the most vulnerable in society, the subsidies ended up increasing social inequalities by benefiting those affluent segments of the population that consume precisely two of the most heavily subsidised fuels in the country - diesel and petrol. In a nutshell, although the increase in tax revenues from the export of oil at higher prices led to a temporary improvement in the fiscal balance - the country's tax revenues increased by 65% in 2022, despite declining production - the fiscal costs of subsidies have increasingly burdened the national budget, limiting the country's ability to use the revenues to rebuild its financial resources, while GDP has declined.

The already precarious situation of the population is further worsened by rampant food insecurity that is exacerbated by the recent spike in inflation, which, in the RoC as elsewhere, has hit the food sector in particular ways. The RoC also has a below-average Human Capital Index (HCI) compared to other Low-Middle Income Countries - LMICs.

Moreover, the dependence of the Congolese economy on the fossil extractive industry offers few opportunities from an employment point of view, due to the low percentage of labour in the hydrocarbon industry. Confirming this, about three-quarters of the Congolese labour force (including most young people) is employed in the informal sector, as self-employed or in low-productivity jobs.

Finally, the country's dependence on fossil fuels not only has an impact on economic capacity, growth trends and population welfare, but also on the governance. **Income from the exploitation of natural resources has fuelled corruption** and a lack of transparency in their distribution and use, reinforcing the patrimonial relationships between the circle of President Denis Sassou Nguesso, in power since 1979 (except for a break between 1992 and 1997) and the country's elites. According to Transparency International, the country ranks 164th out of 180 in the World Corruption Index. Overcoming the fossil fuel-based system is a very complex issue from a political point of view in the RoC, as oil revenues and political power go hand in hand.

# 4 CONGO DEALING WITH CLIMATE CHANGE

The RoC is a country particularly vulnerable to the consequences of climate change. **Since the turn of the century, almost six hundred thousand people have fallen victim to natural disasters, mainly floods and epidemics.** Floods are in fact the most widespread natural disaster, with rather dramatic consequences: the diseases that affect the population with the highest incidence, and the leading cause of mortality, are in fact water-related diseases, such as malaria. According to a UNEP study, the country's average temperatures are expected to rise by 2.5°C by 2050 and 3.5°C by 2100. Rising temperatures facilitate the occurrence of extreme weather events that, added to the environmental impacts caused by the country's mining industry, would lead to increased flooding, soil degradation and groundwater contamination.

In fact, one of the major issues that risks not only holding back the country's transition, but also causing it enormous environmental damage, with all the related growth consequences, is related to the governance of the main industrial sectors. The lack of regulation of the country's mining, timber and oil industries is likely to exacerbate the impacts of climate change, leading to significant and long-term degradation of the ecosystem. This will particularly impact the weaker sections of the population, who are more exposed to extreme weather impacts and depend to a large extent on natural resources for survival, within a broader framework of deepening inequality greatly exacerbated by the economic model based on the exploitation of fossil fuels.

On top of it, the Republic of Congo is ill-equipped to respond to climate-related shocks and natural disasters due to, inter-alia, low level agricultural technology, a lack of climate-resilient infrastructure, and insufficient medical personnel. Despite the establishment of a 'green' climate fund in August 2019 by President Sassou Nguesso, the Climate Policy Database assesses the development of climate policies to be largely insufficient. **Currently, there appears to be no climate policy** equipped with a long-term strategy and climate neutrality targets in the country.

# 5 AN ALTERNATIVE MODEL FOR CONGO

In a context of economic transformation driven by climate needs, the RoC starts from a disadvantaged position as it faces the challenge of building economic resilience. As analysed, dependence on the oil sector has resulted in high volatility in GDP growth, affecting private investment and long-term economic growth prospects. The continued reliance on oil revenues combined with neglect of non-oil sectors has resulted in rampant corruption and deep economic stagnation. **Without reforms, in other words, if the country does not make efforts to diversify its economy and attract more**

**climate investment, economic losses could reach up to 17% of GDP by 2050. Most of the population remains in severe poverty or at risk of poverty and depends on the subsistence farming and on informal sectors. It is therefore necessary to build economic development alternatives that are just and sustainable, enabling transformation through economic, political and social policies aligned to the country's actual needs.**

On its 2022-26 National Development Plan, the Republic of Congo recognises the importance of diversification as a driving force for economic growth. The Development Plan also highlights the linkage of diversification with the climate agenda. This is an important step, as **linking economic diversification efforts with solutions to address climate change represents an opportunity to break with the system perpetrated by a fossil-fuel based economy.** As explored in depth, this has proven to be clearly unsustainable in many respects.

In this context, **an effective response should be through policy reforms, institutional strengthening and climate finance, working to diversify the national economy by leveraging non-oil sectors such as forest management, renewable energy, eco-tourism and sustainable agriculture, and seeking to sustainably develop the mining sector. In restructuring its economy, the RoC should also leverage its positioning as a 'natural corridor' to serve the region in terms of trade, logistics and services.**

## 5.1 THE POTENTIAL OF FORESTS

The Nairobi Declaration calls for the recognition of the forest and peatlands (wetlands) of the Congo Basin as one of the most important carbon sinks in the world. **The Republic of Congo has one of the largest areas of tropical peatlands, a fragile ecosystem that removes carbon from the atmosphere and stores it, thus helping to slow global warming. Preserving the condition of this ecosystem is a global imperative to maintain its absorptive capacity.** COP26 has itself recognised the important role of peatlands in limiting global warming to 1.5 °C by providing a fund of USD 1.5 billion until 2025 for the protection of the Basin. For this reason, **protecting the Congo Basin should be at the centre of climate action.** In detail, the area absorbs about 4% of global carbon dioxide emissions and can store more than 30 billion tonnes of carbon - the equivalent of three years of global emissions from fossil fuel use. Protecting and enhancing the forest is key to transforming the country's natural capital into wealth.

According to the World Bank, an investment of USD 690 million in alternative practices to deforestation and logging would benefit 380,000 people in forest communities and reduce emissions by 131 Mt $CO_2e$.

Moreover, forests can be transformed into a productive asset for national growth. Given the potential mentioned above, if the country prioritises sustainable forestry actions, it could create new jobs and emission reduction equivalent to 6.5 million tonnes of $CO_2$ per year.

The Congo Basin (together with the Amazon, South-East Asia and the South-West Pacific) was also at the centre of the agenda of the **Three Basins Summit,** held in the capital Brazzaville from 26 to 28 October 2023, and focused on the protection of forest ecosystems through the promotion of cooperation and financing mechanisms. During her recent visit to the RoC, Prime Minister Meloni recognised the importance of this Summit in the fight against climate change, which puts human dimension at the centre, guaranteeing "social and economic sustainability along with environmental sustainability".

On the sidelines of the Summit, the roadmap for the implementation of the **EU-Congo Forest Partnership in Brazzaville** was also signed, the Memorandum of Understanding (MoU) of which was signed at COP27. It envisages measures to safeguard the Congolese forests and to promote sustainable value chains - all in line with the EU Regulation on deforestation of June 2023.

## 5.2 RENEWABLE ENERGY

**The RoC has enormous potential to focus on renewable energies, particularly solar and hydroelectric power.** With an average solar radiation of 4.7 kWh/m2 and limited seasonal variability, the country is exploring the potential of solar energy in Djiri, a district of the capital Brazzaville. The RoC also has great potential for hydroelectric power production that is estimated to be between 2.5 and 3.9 GW. However, little more than 5% has been developed so far. In fact, the currently installed hydropower capacity is 214 MW provided by three hydropower plants; in 2021, according to data gathered from Ember, only 22% of the electricity produced came from hydropower. Most of the potential could be developed in the north of the country, in the Plateaux, Sangha and Cuvettes regions. Other power plants are currently at the planning stage: the Chollet hydroelectric power plant with 600 MW is planned in cooperation with the government of Cameroon; the Sounda, Loufoulakari, Mourala and Kouembali power plants are all at the feasibility study stage, with an installed potential of 600 MW, 50 MW, 101 MW and 150 MW respectively.

**Accompanied by off-grid solutions, such as mini-grids, renewables can be instrumental in large-scale deployment and increased access to electricity, even in the most remote locations and rural areas, currently not connected to any grid.** This type of solution has numerous benefits. First of all, it would make the country and its rural population (over 30%) more energy self-sufficient: in detail, it would not only decrease or eliminate electricity imports from the neighbouring Democratic Republic of Congo - thus decreasing the country's energy dependency, with all its political consequences - but it would also allow us to break down the traditional centralised system that requires the presence of distributors, thus increasing access to energy and contributing to building a true 'democratisation of energy'.

Furthermore, especially at a time of great instability in global energy markets and prices, the introduction of decentralised energy systems powered by renewable energy would in the long run lead to lower costs than the cost of oil products. As already mentioned, most of the Congolese population depends on expensive oil-derived products, such as diesel and kerosene, whose prices are highly volatile and dependent on market developments. For a moderate initial investment in solar panels, the total expenditure per household calculated over the long term would be much lower. More generally, projects to improve the electricity distribution network would facilitate the introduction of renewable energy by replacing biomass as the main fuel, generating further positive impacts on the health of the population.

## 5.3 A SUSTAINABLE MINING INDUSTRY

The RoC also has a mostly unexplored or untapped potential in mining - particularly iron, but also potassium, diamonds, gold, and copper (a strategic raw material, according to the EU's list of critical raw materials).

The mining industry is in fact considered one of the sectors on which to focus to promote diversification of the country's economy.

On 28 November 2023, the President of the Republic, Sassou-N'Guesso, announced plans to build a mining port about 20 kilometres from Pointe-Noire, with the aim of exporting Congolese minerals. He also mentioned linking the Nabemba iron ore deposits in Congo to those of MBalam in Cameroon, as well as the reopening of the Mayoko-Moussondji deposit.

In this regard, however, there emerges the possible risk of replicating, in the development of the national mining industry, the exploitation-based mining models that have most famously characterised the African fossil industry, preventing these resources from generating truly inclusive growth for the RoC. In this context, **a sustainable extractive industry that respects human rights and the environmental and labour standards outlined in the UN framework, and the development of a cutting-edge local industrial fabric capable of retaining as much value as possible locally, are positive steps towards the country's sustainable development.**

## 5.4SUSTAINABLE AGRICULTURE

**Climate-smart agriculture (CSA) or sustainable agriculture can be another pillar of the country's transition economy, helping to overcome subsistence agriculture, decreasing food imports and, in general, counteracting climate change.** Currently, agriculture in Congo contributes 9.5% of GDP and employs 34% of the working population, most of whom practice subsistence agriculture. However, only a small part of the land is cultivated (less than 10%). Since the sector cannot meet domestic demand, Congo is therefore heavily dependent on food imports, which account for about 80% of national food consumption. Investments should include research and development for resistant crop varieties in sustainable agriculture, the adoption of irrigation and weather monitoring technologies that would allow for better management of water risks such as maize, soya, castor beans and other oilseeds; and investments to improve soil fertility and restore degraded land as well as to increase the productivity of food crops.

When it comes to agriculture, it is also important to bear in mind that the already scarce cultivated land is threatened by the impacts of climate change. Increasingly frequent floods in the country are causing irreversible damage to agricultural crops, fuelling the precariousness and poverty of the population who are forced to abandon their land and give up their only means of livelihood. **Out of 185 countries, the RoC ranks 152$^{nd}$ in terms of exposure, sensitivity and adaptive capacity to the negative impacts of climate change.** Climate-related shocks and natural disasters will certainly have a negative impact not only on arable land but also, indirectly, on labour productivity. According to the World Bank, the reduction in labour productivity due to heat stress will be the main cause of losses in all sectors, especially in agriculture and industry, where productivity could drop by 20% and 17% respectively by 2050. It follows that **climate adaptation, declined in different sectors, emerges as a key consideration in the development of an alternative for the country.**

## 5.5ECO-TOURISM

The tourism sector in the Republic of Congo has much untapped potential. After a peak in arrivals in 2013, the number of tourists has gradually declined, and today the sector suffers from numerous problems, including the lack of qualified staff, logistical difficulties and the absence of a strategy tailored to the specific characteristics of the country. The RoC, thanks to its rich biodiversity, has great potential in the area of eco-tourism, or sustainable tourism. The development of this sector - with the right investments also in the training of local personnel - could serve both the purpose of diversifying the national economy away from the focus on oil and gas, and the need to protect Congolese biodiversity, not only by reducing the environmental impact that characterises mass tourism, but also by contributing to long-term sustainability in the areas concerned. From the point of view of economic growth, the eco-tourism sector can lead to the creation of direct and indirect jobs. Indeed, relying on an inclusive *'community approach'*, this model aims to involve local communities and on-site productive sectors, such as the agricultural sector.

## 6 A NEW APPROACH TO AND WITH CONGO

**The case of the Republic of Congo demonstrates that a partnership based on the exploitation of fossil resources is not the best investment for the country's economy. On the contrary, it fuels a vicious cycle of debt, poverty, inequality and corruption, while restricting the capacity of the non-oil sectors to drive the economy towards full diversification.** The analysis shows how the Republic of Congo's economic (and other) dependence on the exploitation of oil resources does not bring long-term economic and social benefits, exposing it to great risks in a context in which the global market is proving increasingly volatile with respect to international trends (as the last two years have amply demonstrated) and in which the need and urgency of energy transition is emerging ever more strongly.

**In the same way, a partnership based on the exploitation of fossil fuels is not convenient for Italy either:** the plans to expand gas exports from the RoC to the European continent are part of a framework where betting on gas entails numerous risks. The global market, is increasingly projected towards the adoption of renewable energy on a large scale and sees European and global gas demand dropping already in the next decade. Betting on gas, therefore, means risking stranded assets, i.e. investments that will be lost for unprofitability.

In this context, an analysis of gas demand trends highlights the unsustainability of investing in new LNG capacity: in the Net-Zero (NZE) scenario, according to WEO 2022, no new infrastructure is needed. In fact, global gas demand is in sharp decline in both the NZE scenario and the Announced and Implemented Policies (APS) scenario (WEO 2023). This applies to all regions - even Africa, where domestic gas demand under announced and implemented policies (APS) is stagnating at current levels and declining under the net-zero scenario (NZE).

Focusing specifically on Italy, if the country were to realise the commitment it made in 2022 and reinforced in 2023 in the G7 context of a decarbonised electricity system by 2035 and reach the European objectives by 2030 and those of the National Integrated Energy and Climate Plan (PNIEC), its gas requirements would drop by 40% in 2030 compared to 2022.

Regarding supply: as recently announced by Fatih Birol, Director of the International Energy Agency (IEA), by 2025, so much new LNG capacity is expected to come on stream globally that, in an NZE scenario, an oversupply would occur, making the global gas market a 'buyer' market - i.e. one in which there is an excess of supply over demand, leading to a collapse in prices.

Indeed, the IEA's Oil & Gas report of November 2023 highlighted how LNG projects under construction or final investment are set to add 250 bcm/year of liquefaction capacity by 2030, equivalent to almost half of the current global LNG supply, with a particularly large increase between 2025 and 2027. Against this backdrop, the expected gas price in the major consuming economies (US, EU, Japan) in 2030-2050 in the NZE and APS scenarios of the WEO 2023 turns out to be below 2010 levels - net of shocks, of course. On this basis, **it is estimated that 75% of the LNG projects currently under construction in the NZE scenario and 66% in the APS scenario would fail to recover the capital invested. On the African side, this would seriously jeopardise the debt sustainability of governments that have defined their budgets on the calculation of revenues that, however, will not arrive, further aggravating the debt status of the countries.** On the Italian side, if there were guarantees from SACE, the state coffers (and therefore the taxpayers) would have to pay for the equivalent share of the loss to compensate for the failed investments protected by the guarantees.

**This means that, faced with a decreasing Italian and European gas demand[4] according to all scenarios, and an African demand that remains constant until 2050[5], to which are added the scenarios of decreasing prices, projects such as those of Eni – as the major projects for increasing production and infrastructure capacity for the export of LNG from Congo Brazzaville – are on a collision course with market trends (this, in a particularly acute manner in the decarbonisation scenario aligned to 1.5).**

**In this context, insisting on gas in the Italy-Congo relationship (as elsewhere, as pointed out in the case of Mozambique) increasingly ties Italian foreign policy to gas policy – in contrast to the country's climate commitments.** Numerous studies, IEA's included, point out that in order to stay within the internationally agreed temperature limit, no new oil, natural gas or coal fields can be developed in addition to the existing ones and, indeed, some existing fields and infrastructures should be shut in early.

[4] Snam projects Italian gas demand to 2030 at between 42 and 59 billion cubic meters, which is 15% to 40% lower than in 2022. The National Integrated Energy and Climate Plan (NECP) updated to 2023 projects Italian gas demand to 2030 to be 26 percent lower than in 2022. Source: ECCO elaborations on Snam and Ministry of Environment and Energy Security (MASE) data.
[5] According to the IEA's Announced Pledges Scenario (APS).

A new partnership with Congo should instead see a concrete commitment from the Italian government on the following points:

- **Commit itself not to promote new gas exploration and development projects and oil, either through clear political direction or through public finance.** In fact, concluding new LNG supply agreements with Congo would lock Italy into contractual commitments that, in the medium and long term, would prove redundant and unnecessary. This commitment would be in response to numerous international mandates that Italy is committed to upholding, including:
  - the **Paris Agreement**, concluded in 2015 during COP21, which calls on signatory countries to take action to limit the rise in global temperatures to 1.5°C above pre-industrial levels;
  - the **Glasgow Statement**, signed at COP26 in 2021, aimed at putting an end to new direct public funding for fossil fuel projects abroad by 2022 - a commitment that Italy has not yet fulfilled: from January to September 2023, Rome has invested at least USD 1.2 billion in public subsidies for fossil fuel projects worldwide, second only to the United States;
  - the **Beyond Oil and Gas Alliance (BOGA)**, a diplomatic initiative launched at COP26 by countries and sub-national actors committed to phasing out oil and gas production in line with the objectives of the Paris Agreement, and to which Italy has joined as a friend/partner.
- **Redirect public finance incentives,** such as SACE guarantees and the ICF, to support only projects non-related to the oil and gas industry. e.g. in the areas of renewable energy, forest conservation, sustainable agriculture and eco-tourism. Sectors that have currently unexpressed potential and which, given the diversity and needs of the region, can provide **a solid basis for strengthening non-oil sectors on the path to national economic diversification,** as well as strengthening climate change adaptation and mitigation strategies.
  - First, the funds could support the corresponding Congolese **'Green Climate Fund'**, established by the government in 2019 to finance climate change adaptation and mitigation initiatives at the national level.
  - In addition, the incentives could act as a guarantee to support investments by private companies, both Italian and Congolese. Encouraging the development of alternative sectors to the oil industry through financial instruments and support for entrepreneurship would allow Italy to benefit from investments in sectors that are still little explored in the country and potential new markets. Likewise, this would provide the RoC with the necessary tools to diversify its economy, allowing it to focus on climate-resilient growth and development.
- **Activate forms of economic and industrial diplomacy to identify zero-emission projects** that are open to the participation of new and diverse private actors and that can mobilise private finance. The contribution of these actors should not be limited to investing in the diversification of the national economy, but should

support long-term planning, including support for innovation and capacity-building along the entire value chain, including at government level, as well as programmes to train the workforce, also in collaboration with international cooperation actors.

- **Given RoC's extreme vulnerability to the impacts of climate change,** particularly in the form of natural disasters such as floods, **Italy should support the adoption of climate adaptation policies in the country that can systematically address the loss and damage to the territory caused by climate change and its future costs.** According to a recent study by the Global Center on Adaptation, financial flows for climate adaptation to Africa need to increase tenfold to over USD 100 billion per year by 2035 to build real resilience against the growing impacts of climate change. Without these investments, it is estimated that the continent could lose up to USD 6 trillion in economic benefits by 2035. It is therefore necessary, also on the Italian side, to do a precise job of identifying the most impacted areas, and to bring into play financial flows that make available the necessary resources for the implementation of adaptation initiatives and projects. Moreover, **climate change adaptation policies should be part of a broader framework of a long-term strategy** that can codify the country's commitments, in terms of policies and objectives towards the achievement of the Paris Agreement goals.
    - The link between climate and food systems is of paramount importance here, as was also emphasised by Prime Minister Meloni's speech at COP28 in Dubai. For this reason, it is necessary to insist that the ICF provide for interventions in this central area, both from the point of view of crop technologies and capacity building. This is central for a country like Congo where less than 10% of the fertile land is cultivated, and the agricultural sector struggles to create added value, basically remaining at subsistence level.
    - In the framework of Italy's co-financing to the Adaptation Fund (AF) - more than 71 million euros from 2015 to 2022 - , its Mattei Plan for Africa and the resources to be allocated to the African continent in the framework of the ICF, the Italian government, through the Ministry of the Environment and Energy Security (MASE), could initiate in the Republic of Congo a synergy with the AF on the model of what has been initiated in Ethiopia. As a matter of fact, in addition to direct financing, the MASE works with the Fund Secretariat to enhance the AF's projects through its bilateral cooperation programmes. This is what has been initiated in Ethiopia, where in the context of bilateral cooperation with the Ethiopian Ministry of Environment, Forests and Climate Change, in 2018 the Ministry allocated USD 4.2 million to the three-year *Climate Smart Integrated Rural Development Project* in the Pastoralist area of Ethiopia, as a complementary initiative to the AF's Climate Smart Integrated Rural Development project, with the objective of

facilitating the adaptation of rural populations to climate change through an integrated approach to water, agriculture and natural resource management. This is also a potentially replicable model in Congo, where the AF is already working with the World Food Programme and the Congolese Ministry of Tourism and Environment on strengthening the climate change adaptation capacities of vulnerable communities, particularly by promoting food security through, for example, the introduction of sustainable farming practices. This is on the condition that the MASE strengthens its bilateral relations with the Ministry of Environment and Sustainable Development of the Republic of Congo, which does not currently figure among its partners, but with whom relations could deepen in the framework of the broader Italian focus on Africa defined by the Mattei Plan.

- Given Italy's growing position in Africa, and its desire to assert itself as an increasingly relevant player even with respect to the European projection on the continent, **Italy should take a leading role in the framework of European engagement in Congo** along the lines set out in the **2021-2027 Multi-annual Indicative Programme for EU-Congo Cooperation** – all the more so given the announced African focus of the ICF. The programme is built around the desire to contribute to the fight against climate change, the protection of biodiversity and the sustainable management of natural resources as a strategic interest.
- Finally, Italy should **actively support the Congolese government in identifying a model for reforming its taxation system** that can replace the country's dependence on the sale of hydrocarbons with an income and expenditures system hinged on sustainable, lasting, and effective *welfare*.

THE ITALIAN CLIMATE CHANGE THINK TANK

This Policy Briefing has been edited by:
**Lorena Stella Martini**, Policy Advisor Foreign Policy, ECCO
lorenastella.martini@eccoclimate.org
**Giulia Signorelli**, Researcher Decarbonisation, ECCO
giulia.signorelli@eccoclimate.org

The views expressed in this Policy Briefing are solely those of ECCO think tank, the author of the research.

For interviews or more information on the use and dissemination of the content of this briefing, please contact:

**Andrea Ghianda**, Head of Communication, ECCO

andrea.ghianda@eccoclimate.org

+39 3396466985

www.eccoclimate.org

Publication Date:
22 January 2024