

The European Union and the Gulf Cooperation Council



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Contents

International Interests in the Gulf Region	1
Why the lack of involvement of the EU in the Gulf?	5
Trade and Investment	7
Why are negotiations taking so long?	9
FTA Benefits	11
Energy Issues	12
Security Challenges	14
Political Reform	17
Conclusion	19

Despite increased European foreign policy coordination and presence in most areas of the world the Gulf region and more specifically the countries of the Gulf Cooperation Council (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates) continue to represent an area of neglect. One need only compare policies towards the Gulf with policies towards the North African and Middle Eastern states included within the Euro-Mediterranean Partnership (EMP) to witness this deficit. Despite the shortcomings of the EMP this initiative represents a coordinated and embedded European strategy towards the southern Mediterranean that has not been extended to the countries of the Gulf Cooperation Council (GCC). This is all the more surprising given the fact that the Arabian Peninsula concentrates several pivotal issues of international concern, including energy security, Middle Eastern regional security, counter-terrorism and debates over Arab democratic reform. European weight in this region remains negligible, and the EU as a collective entity has failed to develop a comprehensive and coherent policy towards this crucial part of the Middle East. This neglect is explained by two European judgements: first, that the Gulf does not present the kind of acute geopolitical urgency that would merit paying the costs associated with a greater engagement in the region; second, that the EU has negligible capacity to affect social, economic or political change in the Gulf and that its interests are thus best served by stability-oriented caution. Such judgements might contain a healthy dose of realism; but the EU may also pay a price for its passivity in the Gulf.¹

International Interests in the Gulf Region

Historically, European involvement in the Gulf region was precluded by the perception that the region was a US sphere of influence. European states, except for the UK, do not have a history in the region, which they disregarded until the first oil crisis of 1973 revealed Europe's vulnerability through its dependence on oil and its geopolitical exposure to the negative spill-over of the Middle East conflict.²

Since the 1970s international involvement in the region has been dominated by the US in a drive initially to secure oil supply, and more recently to ensure security and stability by advocating political reform. To protect its interests in the region the US sought to ensure the stability of the oil producing countries by extending security guarantees to the Gulf states. Until the overthrow of the Shah in Iran the US adopted a twin-pillar policy, in an attempt to maintain regional stability by relying on Iran and Saudi Arabia. After the Iranian revolution support shifted towards Iraq until its invasion of Kuwait led to a dual containment policy vis-à-vis both Iran and Iraq. The last stage in this sequence has been that of regime change through the invasion of Iraq in 2003. The fear of instability from Iraq spreading throughout the region and the potential for internal unrest in the Gulf States led the US to press a reform agenda³, which has recently been diluted in an effort to form alliances against the rising pre-eminence of Iran. Instability in Iraq has served to strengthen, with the US's acquiescence, the hand of the authoritarian regimes in the region.

² Bichara Khader, 'Is there a role for Europe in Gulf Security?', *GCC-EU Research Bulletin 3* (October 2005).

³ Martin Indyk, 'US Policy Priorities in the Gulf: Challenges and Choices' in The Emirates Center for Strategic Studies and Research, *International Interests in the Gulf Region*, (Abu Dhabi: 2004), pp 103-130.

¹ The author wishes to thank Steffen Hertog, Matteo Legrenzi, and Jean Francois Seznec for their reviews of an earlier version of the paper, and diplomats and officials interviewed in Brussels in March 2007.

These strategies led to the signing of bilateral defence agreements and eventually the establishment of military bases in the region. Until the invasion of Kuwait the Gulf States, except Bahrain and Oman, had preferred to keep US forces 'over the horizon', but after the invasion they granted the US access to their bases and military facilities. From then on security was guaranteed by the forward deployment and maintenance of significant military force in the region. Although the US questioned the reliability of these access agreements, only in the case of Saudi Arabia did the US have officially to relinquish access in 2003,⁴ in response to objections raised by Islamist elements in the country. Despite their objections to the Iraq invasion, the other five states have maintained their access arrangements. To this day, the US remains the only country with military bases in the region.⁵

Perhaps because the region was seen as an American area of influence, Europe has not shown the will to adopt an independent policy. European foreign policy towards the region has maintained a low profile, focusing on economic negotiations to the detriment of political concerns.⁶ Initially relations were conducted on a bilateral basis, by individual European countries involved in military sales, infrastructure projects and trade, with collective EU relations emerging only more recently. The Arab Gulf states were part of the Euro-Arab Dialogue, launched in 1974, an initiative that collapsed in 1989 having achieved little.⁷ The Gulf states were an important focus of the dialogue given their role in the oil embargo that triggered the creation of the initiative. However, it was only later that a specifically GCC-oriented approach would emerge, in response to gaps in broader European policies towards

the Mediterranean and the Middle East – but even then the GCC was seen as no more than a secondary sub-category of the broader Middle East rather than a region meriting its own distinct approach and set of priorities.⁸

In 1989 the European Economic Community (EC) and the GCC signed a Cooperation Agreement under which they committed to enter into negotiations on a Free Trade Agreement (FTA) and for their foreign ministers to meet once a year at a Joint Council/ Ministerial Meeting. The Gulf states were interested in access to Europe's markets, especially for petrochemicals, and in trade concessions, comparable at least to those offered to Israel. Europe was interested in regional stability and the creation of a framework for energy imports from the Gulf.⁹ The agreement was not ambitious in scope and from the beginning was not pursued with urgency. Of determinant importance was the EU's decision to pursue the relationship on an inter-regional basis, which to this day has held back the depth of partnership.¹⁰ A regional approach was favoured due to, on the one hand, the pragmatic realisation of the lack of capacity to hold simultaneous bilateral negotiations with the different countries and, on the other, an effort inherent in the EU's external relations approach to encourage regional development. One EU official has observed that it was not in the interest of the EU to open up to smaller states like the UAE, its main interest being Saudi Arabia.

In 1995, the Commission suggested measures to strengthen EU-GCC relations, among them the establishment of a regular political dialogue.¹¹ One of the initiatives in the attempted re-launching of the relationship was the inclusion of 'decentralised cooperation'. This formed part of the EU's focus on civil society engagement and signalled three areas for cooperation: business, media, and higher education, on

⁴ Although not officially acknowledged, US forces were allowed to stage cross-border operations against Iraq at the early stage of the invasion.

⁵ Indyk (2004), op. cit.

⁶ Richard Youngs, *Europe and the Middle East: In the Shadow of 11 September*, Boulder: Lynne Rienner, 2006, chapter 6.

⁷ There seems to be in fact an attempt to revive the Euro-Arab Dialogue in some form on the part of the European Parliament as reflected in a recent report by its Committee on Foreign Affairs, 'On reforms in the Arab World: what strategy should the European Union adopt?', <http://www.europarl.europa.eu/sides/getDoc.do?type=REPORT&reference=A6-2007-0127&language=EN&mode=XML> (accessed 7 May 2007).

⁸ Gerd Nonneman, 'EU-GCC Relations: Dynamics, Patterns and Perspectives', *Journal of Social Affairs*, 2007, forthcoming.

⁹ Ibid.

¹⁰ Youngs (2006), op. cit.

¹¹ Roberto Aliboni, 'An Italian perspective on future EU-GCC relations', *GCC-EU Research Bulletin, Issue 1* (March 2005).

the basis of co-financing. Education was the only area that, at least initially, got off the ground, with a pilot phase for a regional universities cooperation project. But even this project was eventually abandoned, victim to miscommunication, decision-making problems and lack of follow-through by both parties. There also seems to have been some political concern in Europe over the EU's image in terms of wasteful and possibly corrupt expenditure.¹²

In the aftermath of 11 September 2001, attempts were made to inject greater momentum into EU relations with the region. There was a cautious attempt to support political reform dynamics – in part as a reflection of new security thinking, and in part as a response to the beginnings of political change in some countries in the region.¹³ The decision announced in 2002 to open a Commission delegation in Riyadh, a first and only for the region seemed to signal a further commitment to the region (although the office did not actually open until 2004). At the Joint Council that year it was also agreed that both parties would 'refocus their activities on a limited number of areas' in order to address difficulties encountered in the implementation of the cooperation agreement. The areas that would henceforth receive priority were to be the FTA and business and energy cooperation. Clauses on human rights and migration were inserted.

In December 2003, the Commission and the High Representative for the Common Foreign and Security Policy (CFSP) issued a policy document, which stressed the need to broaden and deepen the EU-GCC dialogue, and link the EU-GCC and EU-Med frameworks.¹⁴ That same month, in a new European Security Strategy, reference was made to the need for a broader engagement with the Arab world. This was followed in June 2004 by the adoption of the *Strategic Partnership with the Mediterranean and the Middle*

East.¹⁵ This strategy incorporated the Gulf region into an overall Mediterranean and Middle Eastern framework and committed the EU to advance a partnership with the countries of the Gulf. It noted how EU relations with countries east of Jordan were less developed and how the economic and social characteristics of these countries called for instruments different to those of the Barcelona Process. It also suggested that the EU would consider 'bilateral political engagement' with individual Gulf states wishing to cooperate on reform issues – a potential shift of emphasis from the regional foundations upon which EU efforts had long been predicated but which has not materialised to any significant extent. In this new document the EU also committed itself to investing more resources to support reform efforts in the Gulf.

The partnership was presented as a strategic framework, circumventing what was judged by some governments to have been the ineffectual and overly low-profile, technical approach led by the Commission. It was based on an initial Franco-German proposal, forwarded as a response to the US proposal for a Greater Middle East Initiative.¹⁶ However, there was no consensus within the EU over what the Strategic Partnership should seek to deliver in practice. Sceptical states were reluctant to adopt any strategy that could be associated with the US vision of a regional security framework. Others were eager to protect the supremacy of the Mediterranean within the EU's ranking of priorities and to avoid burdening the EMP with the complexities inherent to the Gulf. These states detected – and rejected – attempts to bring Iraq, Yemen, and the GCC into the Barcelona Process through the back door.

Reflecting most states' lack of enthusiasm, the Strategic Partnership has achieved little in practice, remaining in the words of one diplomat, an essentially

¹² Gerd Nonneman, 'Back To The Future: EU And Gulf Regional Studies Gerd Nonneman', *GCC-EU Research Bulletin 4* (February 2006).

¹³ Youngs (2006), op. cit.

¹⁴ European Commission and Council of the European Union, 'Strengthening the EU's Partnership with the Arab World', 4 December 2003.

¹⁵ European Commission, 'Strengthening the Mediterranean Policy of the European Union: establishing a Euro-Mediterranean Partnership', COM (94) 427, 19 October 1994, p. 5; and, 'Interim Report on an "EU Strategic Partnership with the Mediterranean and the Middle East" '.

¹⁶ Youngs (2006), op. cit.

'hollow framework'. In familiar fashion, in its policies towards the Gulf the EU has attempted to walk a fine line between a modicum of transatlantic cooperation, on the one hand, and (what it judges to be) a different approach to that of the US; one that emphasises participation, cooperation and consultation with the governments involved. It also has frequently made the point of recognising the importance of addressing the Arab-Israeli conflict as an inseparable part of the overall framework of relations with the region.¹⁷ In any event, it seems that the fact that the US's push for political reform in the region has abated will further limit the little political leverage the EU might have had in the region.

At the same time, China, India, and Japan, are demonstrating increased interest in the region, with trade between the GCC and Asia having nearly tripled in the last five years. The GCC is becoming an increasingly important source of energy for the growing Asian economies, while countries such as India and China are becoming key investment markets for Gulf petrodollars.¹⁸ Asia has become the most important destination for exports from Saudi Arabia, Kuwait, and UAE. The added attraction of these countries as business partners is their lack of interference in domestic politics with discussions focusing on economics without reference to politics.

A first Asia-Middle East Dialogue was held in Singapore in 2005 with a second intergovernmental meeting scheduled to be held in Cairo late 2007. A big part of this increased focus on the East is due to China's mercantilist trade diplomacy which has increasingly been focused on the Gulf states. As noted by one analyst, 'The proactive and tightly coordinated Chinese approach stands in marked contrast to the dispersed and reactive policy of the EU towards the

GCC states'.¹⁹ China has become a major market for oil, and in April 2006, on the occasion of President Hu Jintao's first state visit to Saudi Arabia, several agreements for cooperation were signed, including on energy exploration and security. In 2004, China's state-owned oil company, Sinopec, signed a deal to explore for gas in Saudi Arabia, and in 2006 Saudi Aramco signed a US\$3.6 billion deal with Exxon Mobil and Sinopec for a joint oil refining and chemicals venture. In January 2006 King Abdullah visited Beijing and signed a Memorandum of Understanding for greater cooperation and investment in oil, natural gas and minerals. Saudi oil sales to China account for close to 17 percent of China's oil imports. Trade between the countries exceeded US\$15 billion in 2005.²⁰ China's market share in the Gulf states increased from 3.6 percent in 1994 to 8.3 percent in 2004.²¹ Trade between the UAE and China increased 31.5 percent to US\$14.2 billion in 2006, a trend which is expected to continue with a target of reaching US\$100 billion by 2015.²² An FTA is currently being negotiated between China and the GCC.

The GCC is India's second largest trading partner and is expected to overtake the US as largest trading partner. Indian exports to the GCC constitute about 3-4 percent of total exports, while imports from the GCC stand at 20 percent of the total. Trade with the UAE is especially significant.²³ India's market share in the GCC has almost doubled in the past ten years.²⁴ The GCC and India are expected to revive talks on an FTA at a third round of talks to take place in Mumbai in May 2007. In January 2006 Saudi Arabia and India

¹⁷ Bernard El-Ghoul, 'Towards a new political partnership between the EU and the GCC: The challenges of the new European Commission', *GCC-EU Research Bulletin 1* (March 2005).

¹⁸ N. Janardhan, 'Convert East-East Opportunity Into Strategy', *Arab News*, 12 March 2007, <http://www.arabnews.com/?page=6§ion=0&article=93515&d=12&m=3&y=2007> (Accessed on 13 March 2007).

¹⁹ Steffen Hertog, 'Perspectives of economic integration in the Arab countries', Study for the Committee of Foreign Affairs of the European Parliament, September 2006; p. 9.

²⁰ Hassan M. Fattah, 'Avoiding Political Talk, Saudis and Chinese build trade', *New York Times*, 23 April 2007, <http://www.nytimes.com/2006/04/23/world/asia/23saudi.html> (Accessed on 24 April 2007).

²¹ Jacques Heliot, 'France and the Arabian Gulf', *GCC-EU Research Bulletin 51* (July 2006).

²² 'UAE-China trade soars to \$14.2b', *Khaleej Times online*, 15 March 2007, http://www.khaleejtimes.com/DisplayArticleNew.asp?section=business&xfile=data/business/2007/march/business_march438.xml (Accessed on 16 March 2007).

²³ 'GCC, India to revive trade talks in May', *Khaleej Times online*, http://www.khaleejtimes.com/DisplayArticleNew.asp?section=business&xfile=data/business/2007/march/business_march776.xml (Accessed on 28 March 2007).

²⁴ Heliot (2006), op. cit.

agreed to develop a strategic energy partnership that seeks to increase the export of Saudi oil to India and promote joint investments by private and state-run firms in energy projects. Saudi Arabia accounts for a quarter of India's crude oil imports.²⁵ Current non-oil two-way trade stands at US\$25 billion.

Japan is also stepping up its engagement in the region through involvement in oil-related projects and increased investment in the region. Japan's Prime Minister Shinzo Abe recently visited the Gulf states, which provide 76 percent of Japan's oil demand. Two significant deals have been recently signed: one to store Saudi oil on the island of Okinawa in return for which Japan will gain preferential access in times of emergency; and a second for the Japan Bank for International Co-operation to lend US\$1 billion to the Abu Dhabi National Oil company in return for longer-term oil contracts. Since 2001 Japan has invested billions in transport, gas pipelines and petrochemical projects in the area, deals that signal Japan's desire to raise its influence in the region.²⁶ This economic relationship between the GCC States and Asia can only be expected to deepen with Asia's growing energy needs and increasing Gulf capital in search of investment.

Why the lack of involvement of the EU in the Gulf?

Despite the pretence, at least formally, of an Europeanised policy towards the Gulf States, a heavy dose of bilateralism persists. Some EU member states allude to their lack of historical presence in the region as reason for not wishing the EU to adopt too high a profile. The member states that do have a historical legacy, principally the UK, want greater support from EU cooperation but without relinquishing their bilateral, national room for manoeuvre. Where states (the UK, France, and Germany) have developed commercial links they are keen to protect these national links, despite any push for broader collective relations. Other countries with fewer links, such as Italy, have seen the region's lack of transparency as an obstacle to upgrading relations.²⁷

Within the Council, officials suggest that the Gulf has not generated high profile or dramatic policy challenges, sufficient to move EU policy into a higher gear. Commission officials refer to EU preoccupations with more pressing issues such as enlargement in explaining a disregard for the region. In short, a lack of political will, differing interests and structural difficulties have all militated against a deeper European involvement in the Gulf. In the last two years policy-makers have frequently suggested that the time is right to attach greater priority to the region. Saudi Arabia's increasingly assertive role in relation to the Arab-Israeli conflict (seen in the January 2007 Mecca agreement that under Saudi mediation paved the way for a Palestinian national unity government) and other regional issues (Lebanon, Iran, Iraq) has increased the premium on a more structured and strategic European engagement with the kingdom. But for many senior officials and ministers the Gulf still fails to register as

²⁵ 'Saudi and India sign strategic energy deal', *Gulf Daily News*, 28 January 2006, http://www.gulf-daily-news.com/1yr_arc_Articles.asp?Article=133787&Sn=BUSI&IssueID=28314&date=1/28/2006 (Accessed on 8 February 2006).

²⁶ David Pilling, 'Japan's Middle East rhetoric masks energy policy failure', *Financial Times*, 1 May 2007.

²⁷ Aliboni (2005), *op. cit.*

a priority. One political activist from the Gulf complained that for Javier Solana, for instance, the region continued to be 'a black hole'. Aside from broader issues of history and national interests the lack of progress can also be attributed to institutional obstacles on the part of both the EU and the GCC. In the EU overlapping competencies between the Council and Commission, and a lack of specific instruments or leverage that can be deployed effectively in the region undermines progress.

Part of the difficulty in strengthening relations on this regional basis stems from the historical pursuit of relations along bilateral lines. GCC countries have difficulties moving away from this pattern to a framework of dealing with the EU as a whole. GCC states prefer dealing with states on an individual basis for specific issues, especially since several member states have better diplomatic representation across the region than the Commission. Gulf states have not been 'socialised' into familiarity with the EU as such in the same way as Arab states within the EMP. Having technical negotiations on the FTA led by the Commission while the Council and presidency lead on political aspects (such as non-proliferation and human rights clauses) has led to confusion. The Gulf region also remains the area of the Middle East where the EU has the least leverage, and where standard EU forms of cooperation are less applicable. Economic and civil society structures do not lend themselves to standard forms of cooperation and the lack of economic inter-penetration militates against European leverage.²⁸ The region does not qualify for development aid and is not included in the EMP, reducing the scope for conditionality to be used. The EU's adoption of a regional approach neglects the social, political and economic differences among the six countries and ignores how these condition the EU's scope of action.

Additionally, some member states remain suspicious of the Commission, accusing it of wanting to extend its power beyond its technical and financial remit. They would like the Council to foster political relations

independently of the FTA. However, at present political issues are only discussed at the yearly Joint Council Ministerial Meetings, the yearly Regional directors meetings and the troika meeting at the margins of the UN Assembly; and, these forums are not conducive to the negotiation of sensitive political matters – participants admit that dialogue ends up being formalistic and unsubstantial. Some member states proposed the creation of smaller forums for discussions with the GCC, but other member states (despite, or perhaps because of their own reluctance to prioritise the Gulf) were suspicious of dialogue that would not include all EU governments.

The structure of the GCC as a regional inter-governmental organisation lacking supranational institutions is also an obstacle. The GCC secretariat has no independent negotiating competence comparable to the Commission's responsibility to negotiate the EU's external trade agreements. The GCC secretariat lacks the mandate to negotiate beyond a small set of economic issues and its president does not have the power to speak on behalf of all members. Deep seated differences and mistrust persist among GCC members. The GCC lacks a budget of its own, depending on specific allocations from the relevant Councils of Ministers.²⁹ This has led to frustration on both sides and has favoured the continuation of political negotiations along a bilateral track with member states, often through local ambassadors. There is little real decision-making at the regional level, as there are not defined bureaucratic lines of responsibility. The decision-making process lacks transparency.³⁰ Diplomacy in Gulf countries, where political positions of power are held by the same individuals for extended periods of time, has developed on the basis of regularity and personal relationships, a model hindered by the dual structure of relations with the EU and the rotation of EU officials. Negotiations with the Commission are always led, by convention, by

²⁸ Youngs (2006), op. cit.

²⁹ Nonneman (2007), op. cit.

³⁰ Abdulla Baabood, 'Dynamics and Determinants of the GCC States' Foreign Policy, with Special reference to the EU' in G. Nonneman (ed.), *Analyzing Middle East Foreign Policies*, New York: Routledge, 2005; p. 162.

the Saudi Deputy Finance Minister – regardless of whether he is best qualified to do so.³¹ Arguably, despite all its rhetoric of being more sensitive than other actors to the need not to impose models, the EU has been guilty of trying prematurely to shoehorn the Gulf into a mirror image of its own regional integration.

Due to all these difficulties, and despite a clear rationale for strengthened relations, both parties use the failure to conclude the FTA as justification for delaying any intensification of relations. The GCC sees the signing of the FTA as a basic test of the EU's willingness to commit to the region. As said, the oil-rich states of the Gulf do not receive the large amounts of development assistance that accord the EU some leverage in other parts of the world (although the GCC will benefit from a small new Commission budget line that will support cooperation in energy, education, science and technology, and the environment in high-income countries).³² This lack of mainstream development aid makes progress on trade more important as a basis for political engagement. Those member states – the UK, Denmark, and the Netherlands – pushing for intensified relations express frustration at the Commission's inability to conclude the agreement. A number of other member states have argued that free trade is not important as a foundation for a deeper geopolitical presence and that a more political engagement should be pursued more directly through the Council. The GCC states themselves reject what they see as an effort further to postpone the FTA.

Trade and Investment

It is not surprising that EU-GCC relations have for a very long time focused primarily on the conclusion of a free trade agreement, as this is the area in which the EU enjoys the clearest supranational mandate to negotiate on behalf of its member countries. As stated above, during the 1990s European policy in the Gulf was based on the 1989 Cooperation Agreement between the EC and the GCC. Its stated aim was to strengthen relations, broaden economic and technical cooperation and contribute to peace and stability in the region through the economic development and diversification of the GCC countries. It established annual joint ministerial councils and provided for cooperation in energy, industry, trade and services, agriculture, fisheries, investment, science, technology, and the environment. The cooperation agreement revealed a strong trade bias and included a provision for establishing a free trade area. Despite its provision for cooperation outside the FTA in the fields listed above, relations between the two blocks have been hamstrung by failure to conclude the FTA. After 17 years of negotiations the FTA has yet to be signed, and cooperation in other areas remains limited.

In contrast to the US's approach of seeking cooperation with individual states, the EU decided to pursue trade enhancement and liberalisation on an inter-regional basis. This decision is judged to have been mistaken by many analysts, who point to the difficulties inherent in reaching and agreement with Saudi Arabia. The decision meant that until the GCC itself established a full customs union it was hard to proceed with significant economic cooperation and liberalisation. In the late 1990s the GCC stated that it would set up a customs union by 2005, the date later being brought forward to 2003, with a transitional period of three years. Negotiations for the FTA were thus re-launched in 2002 and the Council issued its new negotiation directives for what was now to be a comprehensive FTA, including issues such as services, investment and public procurement, rather than simply a goods-only agreement.

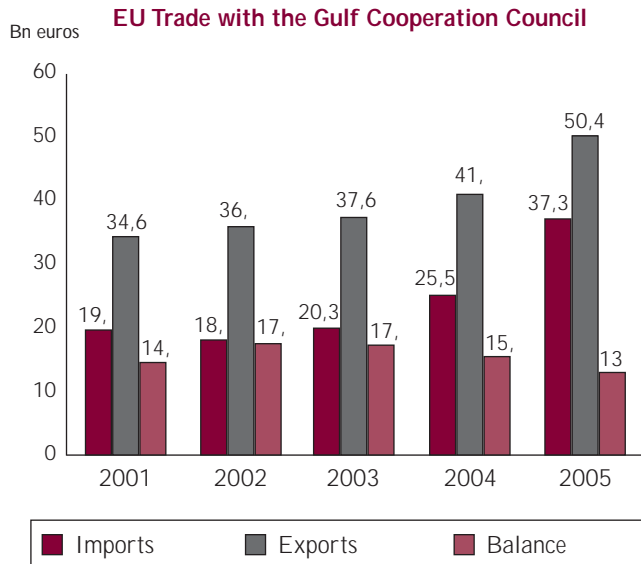
³¹ Nonneman (2007), op. cit.

³² 'Establishing a financing instrument for cooperation with industrialised and other high-income countries and territories', Council Regulation (EC) No 1934/2006 of 21 December 2006.

In the seventeen years since the EC-GCC Co-operation Agreement came into force, trade between the two blocs has grown steadily, and the EU currently maintains a significant trade surplus with the GCC. In the 1980s the trade balance with the GCC was negative, with EU imports accounting for around €41 billion and exports for €13 billion. Trade between the two sides reached a record level in 2005, exceeding €87 billion, close to double the 2000 levels.³³ GCC imports from the EU accounted for nearly €51 billion, a third of the region's total imports. Currently, the GCC is the EU's fifth largest export market and its seventh largest source of imports. Exports are dominated by machinery and transport materials, while a large proportion (65 percent) of imports are commodity based. The EU is the GCC's major trade partner. The EU is the region's largest source of imports, with the main imports including machinery such as power generation equipment, vehicles, and Airbus aircraft. Around 12 percent of the GCC's exports are destined to the EU, making it its second biggest export market after Japan.

Gulf Cooperation Council major Share of export partners in 2005 (€ million)			EU in total imports of GCC states (2005)	
World	269440	100%	Bahrain	22,70%
Japan	54836	20%	Kuwait	34,00%
EU	33138	12%	Oman	24,70%
Korea	30481	11%	Qatar	41,00%
USA	26790	10%	Saudi Arabia	34,90%
China	14641	5%	UAE	33,80%

Source: Hertog (2006), 'Perspectives of economic integration in the Arab countries'.



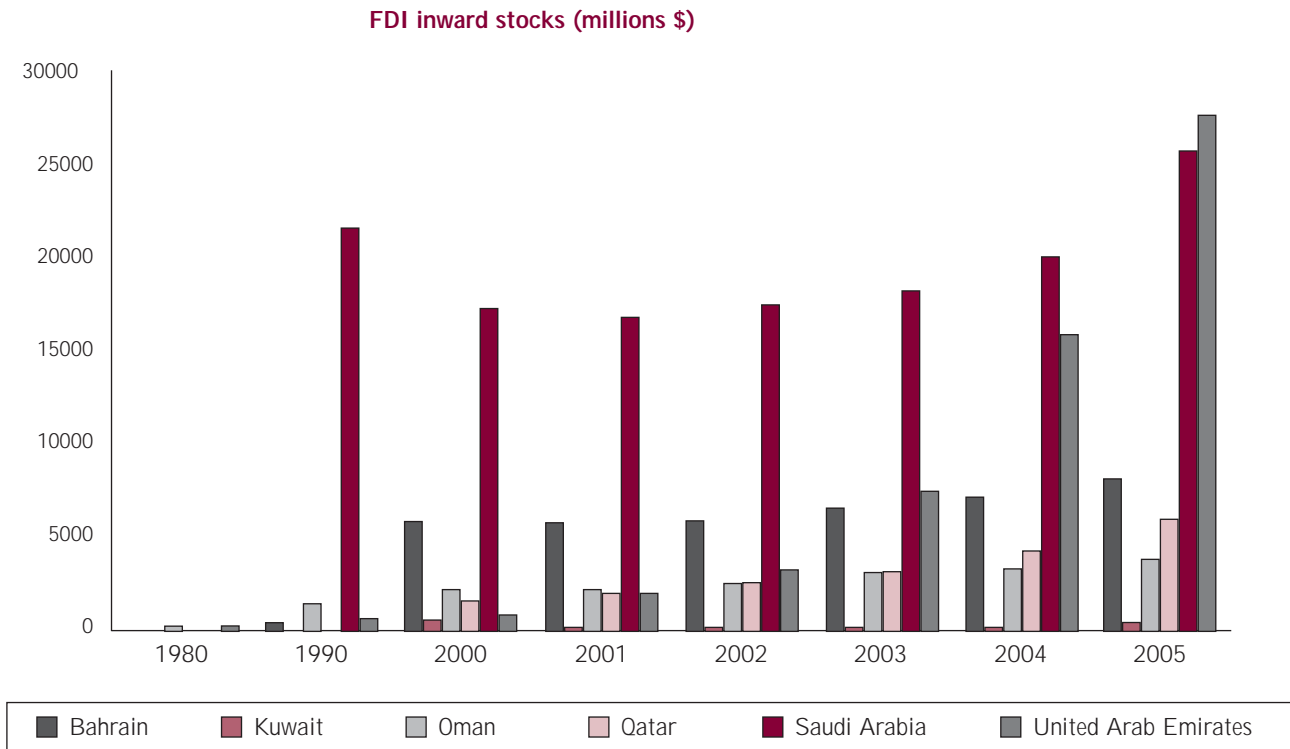
Source: DG Trade Statistics

Recent Foreign Direct Investment (FDI) levels are still modest compared to investment flows to other regions, but have increased rapidly since 2000. The last three years have seen heightened international interest in the Gulf economies, as institutional investors and industrial players are slowly moving into markets that have seen a progressive erosion of national privileges and investment restrictions since the late 1990s. There seems to be an increased level of confidence that GCC countries are managing the recent oil boom better than during the 1970s price hike, which led to an import and service boom, but an outflow of capital.³⁴

The extent of capital currently accumulating in the Gulf is remarkable. Europe has benefited from the changing pattern of overseas asset allocation of GCC public and private sectors post-9/11, as significant funds have been invested in European stocks, real estate and European heavy industry (especially refinery, oil and petrochemicals deals by SABIC and IPIC). This reflects geo-economic shifts away from the US and increased interdependence with Europe.

³³ Bernard Savage, 'The EU and the GCC: a growing partnership', *GCC-EU Research Bulletin 1* (March 2005); Abdel Aziz Abu Hamad Aluwaisheg, 'The EU-GCC Free Trade Area Negotiations: the Home Stretch or First Base?'; Rodney Wilson, 'Evaluating the impact of the FTA on the overall GCC-EU relationship'; Emilie Rutledge, 'Quantifying the GCC'S expected economic gains', *GCC-EU Research Bulletin 2* (June 2005).

³⁴ Hertog (2006), op. cit., p.10.



Source: United Nations Conference on Trade and Development (UNCTAD)

Why are negotiations taking so long?

FTA negotiations have been hampered from the beginning by bureaucratic inertia and by a lack of experience in bloc-to-bloc trade negotiations. The comprehensive nature of the intended FTA has also lengthened the negotiation process. Many of the issues that need to be addressed are beyond the kind of liberalisation measures the GCC has dealt with in the past, especially since some GCC states were not members of the World Trade Organisation (WTO) when negotiations started with the European Union. They consequently have found it hard to reach common positions and the GCC secretariat lacks the power to negotiate on behalf of all such new trade questions. EU negotiators complain that agreement can be reached on a certain issue at the political level, but then fails to be implemented from within inchoate Gulf bureaucracies. The GCC secretariat does not have the administrative capabilities nor sufficient delegated

powers from the member countries to issue common rules for customs procedures, progressively dismantle internal customs controls and negotiate with external actors on behalf of member countries.³⁵

Although the GCC has been relatively successful in terms of trade integration, creating labour and capital mobility, and setting common regulatory standards, at the political and administrative level fundamental problems persist. The 2003 customs union is still not fully implemented, as GCC members request exceptions and bilateral agreements with the US undermine the coherence of its external tariff regime. Non-tariff trade barriers are significant and national administrations often are slow in implementing long-agreed liberalisation and standardisation measures. The 2010 target for GCC monetary union looks likely to be postponed and political tensions between Saudi Arabia and its neighbours, particularly Qatar, continue to hamper progress.³⁶

³⁵ Giacomo Luciani and Felix Neugart (eds.), *The EU and the GCC: A New Partnership*, Florence: Bertelsmann Stiftung, Center for Applied Policy Research and The Mediterranean Programme, The Robert Schuman Centre for Advanced Studies, European University Institute, February 2005; p. 27

³⁶ Hertog (2006), p.14.

From a GCC perspective negotiations are somewhat unbalanced given the bloc's limited size relative to the EU. The EU insists that concessions be reciprocal despite the fact that – aside from oil – there are only a small number of GCC products, such as aluminium and petrochemicals, that could be exported in significant quantities to the EU compared to the thousands of European products that the FTA agreement will make more competitive in GCC markets.³⁷ Another complaint commonly heard from the GCC side is that the EU regularly adds new items to the negotiations. There was tension in 2005 when the requirement was added to sign human rights and migration clauses. Gulf states perceived the EU's insistence on raising governance and human rights issues as a distraction, despite these clauses being an obligatory part of all the EU's comprehensive agreements with third parties.³⁸ The GCC states see these issues as irrelevant to economic negotiations, especially when one of the first political clauses proposed by the EU was related to illegal labour migration, an aspect not likely to be relevant to the Gulf states.

The more specific stumbling blocks towards the conclusion of the FTA have persisted for many years. The EU has focused on Gulf states' differential pricing of gas exports; European companies' access to the GCC services sector; the lack of transparency in GCC government procurement regulations; and rules of origin provisions for goods coming through the Gulf region. The GCC accuses the EU of protectionism in the petrochemicals sector (that European petrochemical companies, in turn, argue that this is warranted, in order to offset GCC 'subsidisation' of domestic industries).³⁹ Some issues have been resolved, assisted by Saudi Arabia's December 2005 WTO accession. But obstacles remain on investment, procurement, and services. Several moments of optimism have come and gone in recent years, when the FTA's conclusion was

said to be imminent only for agreement to once more prove elusive. As many of its predecessors, the 2007 German presidency has set a conclusion of the EU-GCC FTA as one of its foreign policy aims.

While the EU requires the GCC to comply with its governance regulations on transparency and openness, these are delicate issues for the GCC countries to the extent that they touch on the core structure of their political systems and societies. In the GCC state contracts are not usually allocated through open tenders, but rather result from a consensual, informal process often related to the patronage-based distribution of resources. In this sense, GCC regimes' caution on some specifics of the FTA talks is related to their strategies for holding at bay political reform within their own societies. Bilateral FTAs signed by Bahrain and Oman with the US have also not helped negotiations, both because these agreements have undermined cooperation within the GCC itself and because the EU refuses to accept any conditions that do not match those offered to the US. Meanwhile, the GCC's trade with China, India, and other Asian states has increased exponentially. Most observers from the Gulf assert that the EU's own inflexibility has paved the way for Asian states to increase their role in the region, and that few people today look to the EU as a primary economic partner for the future.

³⁷ Abdel Aziz Abu Hamad Aluwaisheg, 'The EU-GCC Free Trade Area Negotiations: the Home Stretch or First Base?', *GCC-EU Research Bulletin 2* (June 2005)

³⁸ Nonneman (2007), op.cit.

³⁹ Christian Koch, 'European Energy and Gulf Security', *European View*, Volume 4, November 2006.

FTA Benefits

As stated by a Commission Trade Officer, 'Concluding a Free Trade Agreement with the Gulf countries will be a significant step in deepening the relationship between the two regions, in the economic and trade fields but more generally in setting up solid, preferential links. It will be the first "region to region" Free Trade Agreement.'⁴⁰ From an EU perspective, a major benefit will be equal access to the GCC service sector and the opening up of the GCC's lucrative public procurement contracts to EU companies which are likely to enjoy comparative advantages over GCC companies. The FTA would be a positive step towards a rule-based framework, which would improve the perception of certainty in trading conditions and potentially lead to increased FDI in the region. Nevertheless, the impact on bureaucratic practices should not be over-estimated, especially if rigorous follow up mechanisms are not put in place. Additionally, the impact is likely to differ between countries, with such measures having a greater impact on Kuwait and Saudi Arabia than on the UAE and Qatar, which are already reasonably open.

More generally, the EU's stated aim is to consolidate the GCC's own regional economic integration process, in order to foster peace, stability and prosperity in the region.⁴¹ In this sense, overall levels of intra-regional trade within the Gulf, and between the region and its neighbours, are already significant enough that governments will be adverse to any politically motivated interruption of commerce. In addition, increasing levels of cross-border investment will create a strong interest in stability and cooperation in the private sectors of the countries of origin and among the governments of receiving countries. The private sector is playing an increasing role and is much more independent from state contracts than before.

⁴⁰ Lore Genand, 'A view of the FTA from an EU perspective', *GCC-EU Research Bulletin 2* (June 2005).

⁴¹ Emilie Rutledge, 'Quantifying the GCC's Expected Economic Gains', *GCC-EU Research Bulletin 2* (June 2005).

Increased business and administration exchanges will also lead to the creation of networks of cooperation and lobbies for inter-governmental coordination. Capital investment in neighbouring countries will contribute to the integration of service and capital markets.⁴² The Gulf's emerging role as a dominant economic hub needs to be reflected in European efforts. Finally, the EU has an incentive to integrate Gulf countries into the global economy by encouraging and supporting their economic diversification so as to reduce incentives to maximise oil revenue.⁴³

Freer access to the EU market will be beneficial for GCC businesses in general despite the fact that the substantial trade deficit that the GCC has with the EU is unlikely to be reduced by the FTA. The most immediate benefits will be for the petrochemicals and aluminium industries. Exports of oil and gas from the GCC to the EU are not subject to tariffs, although the GCC states complain about the high consumer taxes imposed by EU states on petroleum at the point of sale. These taxes are unlikely to be reduced, as they fall outside the remit of the EU trade commissioner Peter Mandelson; also, they are a significant source of national government revenue, and are favoured by the environmentalist lobby.⁴⁴ The GCC will benefit from securing more FDI, which will bring with it access to new technologies. On the other hand there could be some transition costs as opening up the GCC economies to stronger EU competition could initially prove harmful to GCC companies.⁴⁵

⁴² Hertog (2006), *op. cit.*, p.15.

⁴³ G. Luciani, 'Eurogulf: An EU-GCC Dialogue for Energy Stability and Sustainability', Executive Summary and Policy Paper 2005.

⁴⁴ Wilson (2005), *op. cit.*; and, Rutledge (2005), *op. cit.*

⁴⁵ *Ibid.*

Energy Issues

The policy area that would seem most firmly to place the Gulf on the EU's geopolitical map is that of energy security. Increases in oil prices after 2003, combined with Russia's growing assertiveness in the use of its energy-based power, have placed energy security at the top of the EU's foreign policy agenda. Despite this changing context, it is not clear what impact the EU's new concerns over energy security will have on its policies in the Gulf. The series of EU papers published on energy since late 2005 have focused overwhelmingly on domestic energy policy (completion of the internal market in energy, and the development of renewable energy sources, among others), or on external policy dimensions targeted primarily at the question of how to deal with Russia.⁴⁶ The external relations element of EU energy policy is not well defined and in the area of energy policy the EU does not enjoy strong competence over member states. After some internal debate, the EU decided not to reduce its free trade demands in exchange for progress on energy cooperation – a decision lamented by diplomats charged with an energy remit, who had insufficient sway to ensure priority be attached to a broader geostrategic focus on energy security.

Nevertheless, the 'energy dialogue' between the EU and GCC has gathered pace and small scale cooperation projects have begun, including the Commission initiative for a technical energy centre in Saudi Arabia. A Memorandum of Understanding (MoU) on energy was discussed at the 2006 EU-GCC joint council meeting, which should be similar to the bilateral MoUs that have been signed with Ukraine, Azerbaijan and Kazakhstan. These agreements refer to the adoption of the EU acquis, transparency, reciprocity and instruments for cooperation – although these remain non-binding political commitments. The EU's incipient approach to energy security appears heavily based on incorporating regulatory cooperation within formal

contractual agreements. Hence, the Commission has proposed that the EU work towards an 'Energy Treaty' between the EU and members of the European Neighbourhood Policy (ENP), which could subsequently be extended to the Gulf and Central Asia. Some officials have raised the possibility of moving to bilateral energy agreements with individual GCC member states.

The EU currently gets 22 percent of its oil imports from the Gulf, but predictions are that Europe's dependence on Gulf oil is set to deepen during the next two decades. Oil reserves in the GCC are exploited less intensively than elsewhere so that their share of global production is less than half their share of global reserves. Saudi Arabia remains the only state in the world with sufficient surplus capacity to temper global price fluctuations. As oil production from the GCC increases in importance its potential as a source of energy for the EU will increase.⁴⁷ Gas supplies from the Gulf will also be important in the objective of diversifying gas supplies away from Russia. Qatar has emerged as the world's largest liquefied natural gas (LNG) exporter, attracting large investments from a number of European companies. The delivery of the first LNG from Qatar to Belgium took place in March 2007 under a 20-year long contract for the supply of over two million tonnes of LNG per annum (Mta).⁴⁸

Some EU officials suggest that the Gulf region has not to date been a priority for energy policy mainly because the nature of that relationship has been unproblematic. The willingness of Gulf suppliers to support stable markets and prices and their eschewal of supply disruptions has – in many policy-makers' judgement – rendered unnecessary any more formalised or geopolitical approach to energy cooperation with the GCC. Any deeper EU energy relations have been left to ad hoc bilateral or company-to-company arrangements. The Gulf is an important supplier to

⁴⁷ Ibid.

⁴⁸ 'RasGas makes first delivery of LNG to Belgium', The Peninsula 2 April 2007, http://www.thepeninsulaqatar.com/Display_news.asp?section=business_news&month=april2007&file=business_news200704_0231428.xml (Accessed 3 April 2007).

⁴⁶ Koch (November 2006), op. cit.

some member states, but less so to others; German officials, in particular, are keen to point out that their energy imports from the region are modest, a disingenuous statement given the global character of oil markets and the fungible nature of oil. Furthermore, the GCC itself has limited competence on energy matters and exhibits significant internal differences on this question between its member states. Broader multilateral forums such as the International Energy Forum are judged to provide the necessary interaction, with sceptical voices in Europe arguing that more targeted energy initiatives at the EU level would be of little value.

GCC states complain that they are treated by the EU only as sources of energy, when the GCC seeks a broader strategic partnership to offset US power, especially in relation to the Arab-Israel conflict.⁴⁹ Some European officials complain, conversely, that dialogue is already far too dominated by efforts to coordinate positions on Palestine and that this issue invariably displaces all debate and cooperation on energy. Senior officials admit that so far there has been no debate on how the EU's new energy strategy would impact on such high political dimensions of European relations with the Gulf monarchies.

The EU needs to recognise that the long term security of oil and gas exports and markets is of crucial importance for Gulf regimes. This has foreign policy implications in terms of their foreign economic policy and in terms of maintaining Gulf security and outside powers' goodwill.⁵⁰ At a time when Europeans are demanding access to upstream investment for their energy companies it is ironic to note that these companies would certainly not be interested in investing in the unused capacity that has been so useful in cushioning importing states from any disruption in supplies or prices.⁵¹

The energy imperative is invariably cited as the major factor militating against support for democratic reform. Some analysts, however, argue that the 'oil versus democracy' relationship is more complex than most commonly assumed. Questioning the standard line that the rentier states of the Gulf are robustly protected from democratic dynamics, it has been suggested that in fact the wealth brought by oil and gas has made the region's population more confident in pushing for change. The implication is that the stalling of reform, rather than reform itself, could be the most potent trigger of the kind of instability that would threaten European energy interests.

However, if such complexity requires careful and detailed deliberation on long-term approaches to energy security, there has been little such strategising guiding EU policy. One well-placed senior official observes that only the UK and France are even interested in domestic political developments within the Gulf, other states being 'happy to just keep buying the oil.' And the UK's decision not to investigate kickback allegations related to its Al Yamamah follow-on defence deal hardly increases the credibility of EU strictures on governance standards. Remarkably there has so far been no CFSP discussion on the foreign policy impact of energy challenges related to the Gulf. One critic argues that EU policy sees energy in a too compartmentalised way, separate from broader Gulf security issues; and separate from any effort to understand the way in which Gulf states and societies are changing.⁵²

⁴⁹ G. Nonneman, 'EU-GCC Relations: Dynamics, Patterns and Perspectives', GRC Working Paper, June 2006, p.20.

⁵⁰ Abdulla Baabood, op. cit., in Gerd Nonneman (2005), op. cit. .p. 152.

⁵¹ Eurogulf.

⁵² Koch (November 2006), op.cit.

Security Challenges

Outside the economic domain, the region's security environment has witnessed significant changes. The GCC states have been unable or unwilling to forge a unified defence and security policy. Defence mobilisation is not made easier by the ethos of the rentier state and government weariness towards the military. There is no military service in the Gulf, as demands on the population could in turn lead to demands for participation. Suspicion of the military still exists among rulers who remember the prevalence of coups in the broader Arab region in the 1950s and 1960s. Aside from these domestic political constraints, a unified approach is also hampered by mistrust and problems of cooperation. The smaller states resent Saudi hegemony and often follow policies designed to thwart Saudi Arabia's power. Although GCC states spend heavily on modern, high-tech equipment, little has been done in real terms to promote collective defence. Each of the Gulf states maintains its own procurement policies, without coordination to promote capabilities or economies of scale (even at the intra state level). Each state has attempted to keep some room for manoeuvre by diversifying their external agreements and procurement.⁵³

Gulf states prioritise threats to domestic regime security. Their core foreign policy goal is regime security, which is the paradigm through which policy is defined. Foreign policy is driven by domestic security concerns and the fear of sectarian violence spilling over is part of this fear. These concerns are more potent than classic balance of power ones. Alliances are driven by concern over domestic regime security. The most significant achievements so far have been the creation of the joint 15,000 Peninsula Shield Force in 1982; the commitment in 1997 to link states with a military communication network for early warning; and, the formation of a Joint Defence Council, endorsed

in 2001.⁵⁴ Even these small achievements have started to unravel, with the GCC states announcing in January 2006 the dismantling of their joint Peninsula Shield Force. The main reason for this was the growing rift between Qatar and Saudi Arabia, as well as the existence of defence pacts with the US, UK, and France, and the prioritising of internal security. Troops will still be available in an emergency and the administrative command will remain.⁵⁵

The United States has acted as 'security guarantor' in the Gulf since the 1970s. Initially, there was an attempt to keep US forces 'over the horizon' in order to avoid alienating domestic populations. However, after Iraq's 1991 invasion of Kuwait the six countries concluded security arrangements with the US and there was a policy change which involved extensive forward-basing and regular military engagements, sometimes escalating into large-scale deployments.⁵⁶ All states except Saudi Arabia turned the security arrangements into formal defence pacts. GCC states rely on these security alliances with the US, but they remain uncertain about US reliability. The US invaded Iraq in spite of their protests and GCC states are fearful that a US attack on Iran could lead all of them to war. Domestic public opinion also complicates security cooperation with the US. It is debateable whether the US can continue to act as security arbiter in the region, given its tarnished image and over-stretched resources. Events in Iraq have encouraged a re-evaluation of the situation. Possible options going forward could be a return to an over-the-horizon presence, or burden-sharing with other actors. But, for now there seem to be no viable alternatives to US security guarantees.⁵⁷

In terms of security issues, Europe cannot and would not provide security guarantees along the lines of the US. At best, the EU could do more in the field of

⁵³ Babood, *op. cit.*, p. 156.

⁵⁴ *Ibid.*

⁵⁵ Foreign Report on GCC Peninsula Shield, *Jane's*, January 19 2006.

⁵⁶ Babood, *op. cit.* p.156

⁵⁷ Saleh Al-Mani, 'The Search for an Optimal Gulf Security Regime', *GCC-EU Research Bulletin* 5 (July 2006).

confidence building (especially with regards to Iran) and the facilitation of dialogue frameworks. The EU still enjoys certain ‘civilian power’ credibility, which the US lacks. After 9/11 new proposals were forthcoming in the security domain. The European Security Strategy and other initiatives such as the North Atlantic Treaty Organisation (NATO) Istanbul Cooperation Initiative (ICI) seemed to signal the beginning of an European attempt to define a security role in the Gulf region. A new mandate was agreed to negotiate a counter-terrorism agreement with the GCC; an EU-GCC workshop was convened on terrorism; and the notion of supporting a Gulf regional security forum gained currency.

Bilaterally, France and the UK have defence agreements in place with several GCC countries. Germany conducts training for Iraqi security personnel with the support and cooperation of the United Arab Emirates. France and Qatar recently signed an accord to cooperate in the areas of judicial cooperation, crisis management, drug smuggling, money laundering, and terrorism, and have regularly engaged in large-scale military exercises. Some EU member states are also major defence equipment exporters to the region.⁵⁸ Since the 1990s arms sales to the region from the UK, France, Italy, and Germany have significantly increased, in part thanks to the pro-Israeli lobby in the US successfully restricting American arms sales to the region. Most recently, a US arms-sale package to Saudi Arabia and other Gulf states estimated at between US\$5 and US\$10 billion has been delayed because of objections from Israel.⁵⁹

In December 2005, Britain signed an agreement with Saudi Arabia to supply 72 Eurofighter Typhoon combat aircrafts to replace Tornado planes and others currently in service with the Saudi Air Force. The deal is said to be worth €60 billion, and includes training, spare parts and refurbishment follow on contracts. The

deal follows in the footsteps of the controversial UK-Saudi Al Yamamah II deal, which is coming to a close.⁶⁰ France seems to have lost the most, as it failed to sell its Rafale Mirage. In July 2004 Britain’s Serious Fraud Office began an investigation into British Aerospace concerning payments made in relation to the Al Yamamah deal to recipients in Saudi Arabia. The investigation was discontinued for ‘public interest’ reasons – namely, its effect on security relations between the UK and Saudi Arabia – but most probably because it would have put the new deal in jeopardy.

Against this background, the EU has failed to move beyond the ad hoc bilateral activities of its member states and map out any coherent strategic plan commensurate with the Gulf’s geopolitical importance. One Brussels diplomat acknowledged that despite the post-9/11 efforts, there was ‘still no EU policy’ in the Gulf.

The Istanbul Cooperation Initiative agreed at the June 2004 Istanbul Summit meeting, calls for NATO’s cooperation with the GCC countries in 12 areas, including counter-terrorism, border security, disaster preparedness, civil emergency planning, training, and education. Excluded from NATO’s Mediterranean Dialogue during the 1990s, the GCC is for the first time to be offered a separate security initiative. This initiative was pushed in particular by the UK, but its scope was reined back by southern EU states who insisted on NATO retaining a preferential and more institutionalised Mediterranean Dialogue – with French and Spanish post-Iraq ambivalence towards NATO also cutting across the effort to deepen security cooperation in the Gulf. The ICI included a commitment to improve ‘security governance’ in the Gulf, which would involve cooperation on defence reform and civilian oversight of security forces, albeit without the formal acceptance by all partners of the

⁵⁸ Koch (November 2006), op. cit.

⁵⁹ David S. Cloud and Helene Cooper, ‘Israel’s Protests Are Said to Stall Gulf Arms Sale’ New York Times, 5 April 2007, <http://select.nytimes.com/search/restricted/article?res=F40F10FA3D5B0C768CDDAD0894DF404482> (Accessed 11 April 2007).

⁶⁰ Ian Davis and Emma Mayhew, ‘What Happens When a White Elephant Meets a Paper Tiger? The Prospective Sale of Eurofighter Typhoon Aircraft to Saudi Arabia and the EU Code of Conduct on Arms Exports’, Occasional Papers on International Security Policy, 49, British American Security Information Council, December 2005.

principle of democratic control of armed forces as applied in the Partnership for Peace (PfP) framework in Eastern Europe.⁶¹ Four out of six GCC countries have so far adhered to the initiative.

The ICI is designed to follow the model of the Partnership for Peace, which was aimed at former members of the Warsaw Pact and implemented in the 1990s. Nevertheless, it is highly doubtful that NATO's experience in Eastern Europe will be useful in building a partnership with GCC countries. The approach assumes that partner countries are in favour of modernising their security apparatuses along Western lines. However, the rulers of the GCC states favour an extremely gradual model of reform, which, moreover, is driven domestically. It is problematic to believe that this can be supported from outside.⁶² A significant gap between policy commitment and actual implementation besets the ICI.

The security sector is seen as a key aspect of sovereignty and is unlikely to be reformed fundamentally. The risks to GCC regimes inherent in setting up effective standing armies outweigh any benefits in military efficiency. The separation between the regular army and national guard and other separate units, such as tribal levies, exists for important domestic political reasons. A careful management of the security sector has allowed Gulf states to be among the few Middle East countries that have not had a revolution in the last 70 years. Monarchical regimes have many reasons to fear professional armies. Procurement in GCC states is as much a foreign-policy tool as it is an instrument of defence policy. The ICI is driven by a fundamental misunderstanding of the rationale behind the current organisational structure of the GCC armed forces and security services. What NATO does not acknowledge is that the security services in these countries are set up like they are (separation between national guard and military) for a very important reason, namely to maintain the domestic balance of power. There are also

very good reasons as to why defence budgeting, the transparency of which is one of the objectives of the ICI, is opaque in the Gulf: it provides one of the main sources of patronage for influential members of the royal families.⁶³

Incompatible expectations and agendas among the actors on each side are likely to prevent the ICI from succeeding. GCC regimes are happy to cooperate as long as they are not required to make any significant reforms. NATO acknowledges the limited military value of the initiative while expecting it to have more of a political reform potential than is actually feasible. GCC countries have also expressed uneasiness at being lumped together with Mediterranean countries – as expressed in the idea that the NATO Training Cooperation Initiative launched at the Riga Summit in 2006 may include the development of a common training facility for both Mediterranean Dialogue and ICI countries. The prize of eventual NATO membership is explicitly not available to the GCC states. There might be some room for collaboration but only if this is handled more discretely than has so far been the case. Discretion is particularly necessary, since many people in the region directly equate NATO with the US, which has an obvious negative connotation. The initiative could even precipitate some negative domestic consequences if the Islamist opposition moved to exploit the situation.⁶⁴ From the GCC perspective, NATO rather needs to play a more central role in Iraq's return to stability.

In terms of Europe's and NATO's future role in the security arena, three main options have been raised. The first would focus on 'soft power' and collaboration through information networking, and the creation of a web of cooperation initiatives. The focus would be on confidence building and would avoid imposing political preconditions. A second option would see the development of institutional links between NATO and the GCC and engagement on more specific targeted areas of cooperation. The final option would entail

⁶¹ Youngs (2006), op. cit.

⁶² Matteo Legrenzi, 'NATO in the Gulf: Who Is Doing a Favor for Whom?', *Middle East Policy*, 14:1, Spring 2007; p.6.

⁶³ Ibid.

⁶⁴ Legrenzi (2007), op. cit., pp. 8-19.

developing cooperative initiatives with countries outside the ICI. In the long term this option would aim to create a regional security forum along the lines of the Association of South East Asian Nations (ASEAN) Regional Security Forum.⁶⁵

Political Reform

One area where the EU has been particularly circumspect is in its support for political reform and human rights issues in the Gulf. In all states in the region debate over democratic reform has surfaced, and most regimes have allowed at least modest liberalisation measures.⁶⁶ GCC governments' main concern is regime security. So far, political liberalisation has been led from above, often in response to underlying domestic pressures such as unemployment and an unsustainable rentier state dynamic. The EU and national European governments offer rhetorical support for such reform and a modest set of governance, women's rights, media and parliamentary training programmes have been supported by the UK, the Netherlands and Germany in Kuwait, Oman, and Bahrain. However, in private EU officials at both the Commission and Council still fret about the possible consequences of carefully controlled processes of political opening leading to a genuine democratisation that allowed Islamists to assume power. GCC states have blocked the creation of formal human rights dialogue with the European Union; EU civil society initiatives have been discontinued; and governance projects have been rejected.

Gulf states have resisted offering an opening for the EU to cooperate and prompt political reform, since their interest in a broader strategic partnership clearly

excludes any scrutiny of their domestic political situation. The EU has by its own admission struggled to find access points to support low key civic projects in the same way as it does in other regions. There has been little European criticism of reversals to tentative processes of reform. In practice, the promised move away from the regional approach as a means of 'rewarding' more reformist states has not materialised, perhaps because the EU has little to reward them with. As one diplomat explained, for the EU the unity and stability of the GCC was seen as more important in security terms than the prospect of increasing leverage over reforms in individual states. EU officials are still minded to argue (whether correctly or not) that the US is pushing coercively for regime change in the Gulf, but the EU will at most provide 'advice' at the request of incumbent regimes (rather than democratic reformers, apparently), while asserting that economic development will eventually lead to political reform.

The EU could also be accused of a lack of nuance in the understanding of the different pressures that beset each country. While Bahrain is a relatively brittle regime under a lot of social pressure, and Kuwait is more democratic than any of its neighbours, there is little domestic pressure and few participatory structures in the remaining four states. There might be some scope for bottom-up engagement in Bahrain and Kuwait, while external assistance in the other cases would not accomplish much. In the other states, corporatist initiatives have led to the creation of state-licensed 'interest groups', which could be cautiously engaged with, while carefully avoiding legitimising cosmetic political openings and taking care not to crowd out real bottom-up movements that are not formally organised.

Many policy-makers lament that it is harder to press for political reform in the absence of a broader political relationship. A political dialogue does take place at the Joint Council meetings, but excludes domestic reform issues, rather focusing on regional issues, the non-proliferation clause and the issue of Weapons of Mass Destruction. Eventually this forum,

⁶⁵ Carlo Masala, 'Rising expectation', *NATO Review*, Winter 2005, <http://www.nato.int/docu/review/2005/issue4/english/art1.html>

⁶⁶ 'Political Change in the Gulf States: Beyond Cosmetic Reform?', *Democracy Backgrounder*, FRIDE.

as well as the annual regional directors meeting, may provide a framework in which to broach reform issues, but for the moment it is up to the heads of mission and local ambassadors in their more regular meetings to raise human rights issues at their discretion. In fact, any pressure on these issues has come from individual member states, often in private rather than public.⁶⁷ Arguably, public pressures could be counterproductive at the current stage with coordination of informal pressures perhaps being more useful.

Member states' bilateral aid has amounted to a few ad hoc projects. Many civil society programmes, such as education exchanges, had to be prematurely stopped – with support for government-led educational reform an increasing alternative priority. The British government provided support for a project on 'participatory democracy' in Bahrain, which included training for prospective female parliamentary candidates; improved campaigning techniques for women activists in Kuwait; public sector training and capacity-building for the attorney general's office in Oman; transparency in accounting standards in the Omani civil service; a programme for Arab Women Parliamentarians, ran in Kuwait, Oman and Bahrain; work in the Gulf states under the OECD-UNDP good governance initiative; strengthening the role of women in local councils across the region; and the drafting of a more liberal law governing the creation of civil society organisations in Bahrain. The German development ministry embarked on a wide ranging programme in the region, including technical support for elections; women's roles in development; combating female genital mutilation; providing social care housing for women; support for social development funds; the training of television journalists; and technical advice and support to anti-corruption and auditing committees. Sweden invested €300,000 in a programme of parliamentary training for women, bringing Gulf women into programmes coordinated from Cairo, in order to circumvent restrictions on directly funding relatively rich GCC states from development aid.⁶⁸

The difficulty in justifying aid resources going to relatively rich GCC countries is part of the problem, such that any project would have to be co-financed and thus require the recipient governments' participation. Bahrain and Saudi Arabia are included as states eligible for European Initiative for Democracy and Human Rights (EIDHR) funding for 2006 in the Campaign on Fostering a Culture of Human Rights. Earlier attempts to begin EIDHR micro-projects were unsuccessful due to a lack of local civil society capacity and the fact that European Non-Governmental Organisation (NGOs) themselves found it virtually impossible to work in this region. The inclusion of the GCC states for eligibility under the Instrument for Cooperation with Industrialised and other High Income Countries is unlikely to have much effect as the allocation is small (€2 million per annum) and is focused on the Mundus Erasmus programme and promoting awareness of the EU.

On the other hand, some pressure can also derive from non-political factors such as economic reform demands required to comply with WTO membership, or FTAs with both the US and EU. These require greater transparency, which could eventually temper regimes' absolute power. The opening of Gulf economies will make it difficult to resist pressures to reduce subsidies, and the strain on less competitive sectors could generate grievances that might ultimately lead to political demands.⁶⁹

⁶⁷ Nonneman (2007), *op. cit.*

⁶⁸ Youngs (2006), *op. cit.*

⁶⁹ Nonneman (2007), *op. cit.*

Conclusion

The Arabian Peninsula is one of the areas of the world where European foreign policies remain the least Europeanised. Narrow sectoral trade concerns (on both sides) have for nearly two decades been allowed to prevent the signing of a free trade agreement that all states recognise would provide the essential first step towards a broader partnership between the EU and GCC. The nature of Gulf politics has allowed little scope for the kind of economic and social bottom-up engagement which is the EU's signature trademark in international relations; and, the EU has not understood how to respond or successfully design an alternative strategic approach. Despite a change in rhetoric and a handful of new reform projects, since 9/11 the EU has struggled to gain meaningful traction on economic and political change in the Gulf. Indeed, the Gulf has been the part of the Middle East where EU approaches have changed least from alliance-building with autocratic regimes seen as bulwarks against radical Islam.

The Gulf is a region where a strategic rationale, in terms of energy, economics, and security converges with a normative case for supporting nascent domestic efforts towards political reform; but, in the absence of a major crisis the GCC looks likely to continue to be an area of neglect, lacking a comprehensive and coherent European policy. The lack of European leverage to effect change limits its role to the low-level technical approach favoured by the Commission. The Strategic Partnership is unlikely to be imbued with significant substance in the foreseeable future. Nevertheless, there is more that can be done in the area of technocratic capacity building, and a concerted effort on promoting economic integration could eventually lead to the deepening of a relationship for which a framework for political interaction is already in place.

Europe has greater credibility and economic influence in the region than any other economic bloc, and its expertise in coordinating regulatory reforms in different states is well recognised. There is room for

technical cooperation in the implementation of the Customs Union and cooperation with the European Central Bank on Gulf monetary union issues could set a good precedent. EU institutions have considerable experience in legal and regulatory reform, and could help in building standards and capacities. For this purpose the EU needs to build up a cadre of regional experts, who must not try to simply export EU models. Mutual secondments to administrative bodies could help, as would twinning programs between national and supranational European institutions, on the one hand, and Gulf institutions, on the other. Europe could also play a role in terms of technical cooperation and capacity-building in the area of cross-border projects, and it could emphasise the benefits of regional economic integration. In this context, targeted bureaucratic reform and standardisation would be a priority. The scope of current FDI, which has grown despite administrative obstacles, indicates how large the gains in a more liberalised regional environment could be. In working towards regulatory reform, it will however be important not to apply an EU-centric 'one size fits all' model. Procedures need to be adjusted to given levels of development, and often limited regulatory convergence suffices to guarantee globally accepted standards.⁷⁰ The conclusion of a free trade agreement will be an essential foundation for further institutional cooperation.

The informal nature of politics in the Gulf will make it difficult for the EU to assist with anything but technical issues in areas such as education, health, or welfare, and, at the most, judicial training and penal reform. In an effort to assist indigenous efforts of political liberalisation, the EU could also offer to share the European experience in terms of electoral principles or procedures and constitutional reform with governments embarking on such processes.⁷¹ EU electoral observer missions could also help to limit, or at the very least record, irregularities.⁷²

⁷⁰ Hertog, *op.cit.*

⁷¹ Luciani and Neugart (2005), *op. cit.*, p. 25.

⁷² Opposition candidates to the recent parliamentary elections in Bahrain (November 2006) stated in interviews that they would have welcomed an EU observer mission as irregularities were rampant.

While such practical steps forward can be envisaged, these still depend on greater European political will. In contrast to emerging international actors like China, the EU's focus in the Gulf has been negligible. The Gulf is a key geo-economic region in which the EU has been hardly present as a collective actor. Member states and EU institutions still harbour serious misgivings about investing significant effort in the Gulf, despite all the reasons that point towards the need for stronger

engagement. This is a curious judgement given events in recent years. The EU's relations in the Gulf seemed for many years to run according to the maxim that, 'if it is not broken, do not fix it.' In light of post-9/11 strategic developments, the deterioration of the post-Iraq Middle Eastern security environment, tightening energy markets, pressure for political reform and increased competition in the Gulf from rising powers, this logic must now be recognised as insufficient.

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Despite increased European foreign policy coordination and presence in most areas of the world the Gulf region and more specifically the countries of the Gulf Cooperation Council (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates) continue to represent an area of neglect.

European weight in this region remains negligible, and the EU as a collective entity has failed to develop a comprehensive and coherent policy towards this crucial part of the Middle East. This neglect is explained by two European judgements: first, that the Gulf does not present the kind of acute geopolitical urgency that would merit paying the costs associated with a greater engagement in the region; second, that the EU has negligible capacity to affect social, economic or political change in the Gulf and that its interests are thus best served by stability-oriented caution. Such judgements might contain a healthy dose of realism; but the EU may also pay a price for its passivity in the Gulf.

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