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Impasse in Euro-Gulf Relations

Richard Youngs

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It is clear that the Arabian peninsula presents the EU with many crucial challenges of a geostrategic and economic nature. It is equally evident and widely acknowledged that the EU has so far not invested priority effort in the region commensurate with the magnitude of those challenges. The Gulf has long been something of a backwater of EU foreign policy. It has long appeared important but never really urgent in the eyes of European diplomats. But at the end of 2008 alarm bells rang when trade negotiations between the EU and Gulf Cooperation Council (GCC) collapsed.

The basic imbalances in EU-GCC relations have been well documented. No institutional framework exists of comparable density to the Euro-Mediterranean Partnership; both the EU and GCC are beset by inchoate divisions of policy competences; member states' bilateral policies prevail in the security domain; and the Gulf's own regional rivalries have complicated efforts to deepen ties. But one more substantive reason for the disappointing progress in EU-GCC relations is that the EU has been unable to resolve the tensions between its economic and political strategies in the Gulf. The EU's approach to economic questions has weakened its geopolitical presence; its approach to security issues dilutes efforts to promote the governance reforms needed for longer-term European strategic and economic interests. From this argument emerges a secondary sub-theme of more general and comparative resonance: the Gulf is a region where the relative decline in European presence and influence is painfully apparent.

Economic relations

The financial crisis has raised the Gulf's growing international profile. Prior to the deepening of the crisis at the end of 2008, GCC economies had tripled in size over the previous five years. Gulf support has been sought for the re-injection of short-term liquidity into European economies. The Abu Dhabi Investment Authority took a $6 billion stake in Barclays Bank.[1] And yet none of this has been sufficient to re-energise broader EU-GCC relations. The visit to the Gulf of British prime minister Gordon Brown, in November 2008, was driven by the financial crisis. Brown left the Gulf largely empty handed, as he had little to offer to GCC states. Saudi Arabia has pressed for an increased say in the IMF in return for cooperation on the crisis. In March 2009 the country announced that it was willing to pay additional capital to the IMF. But in Gulf eyes the G20 summit in April 2009 failed to address underlying structural reform of international institutions.

As the GCC's weight in international finance and economics has increased, European policies have failed to keep pace. GCC investment in the EU has now begun to decline. Despite the EU agreeing on a voluntary code of conduct on Sovereign Wealth Funds in February 2008, member states have operated very different screening processes for such investment, some of a highly restrictive nature.[2] Silvio Berlusconi caused consternation in the Gulf when he threatened to limit Saudi funds to a mere 4 per cent ownership of any single Italian entity. Gulf SWFs accounted for a third of the emergency financing made available by European governments in response to the crisis in the autumn of 2008. But after this injection, GCC states expressed anger at new restrictions being put in place and began to withdraw from European markets in favour of investing in recession-hit local economies in the Gulf.

[1] The Economist, 8 November 2008, p.45

[2] N. Biberovic, 'A common European approach to SWFs – continuity of the status quo?', GCC-EU Research Bulletin, 10 May 2008, Gulf Research centre, pp. 4-7

Trade talks between the EU-GCC have failed to keep pace with changes to the global economy. Negotiations for a free trade area began in 1989. After years of stagnation, GCC states pulled the plug on talks in December 2008. They complained about the EU's human rights clause, but also the lack of generosity in European trade positions. At the time of writing, efforts are being made to restart negotiations, but this episode is at the very least a sober warning. The EU has constantly argued that a key part of its overarching policy is to help further integrate the GCC states into global markets. In practice, it has contributed little to assisting such a process. For years European governments have blocked duty-free access for petrochemicals from the Gulf. The Association of Petroleum Producers in Europe has been a powerful lobby group against trade liberalisation. EU petrochemical imports from the GCC were a third lower in the mid-2000s than they had been in the 1980s.[3] The EU has finally moved on petrochemicals, but GCC states still complain about the trade provisions now on offer.

European policy-makers place the blame for the failure to conclude an FTA on GCC states. In addition to the human rights clause, a second block on the FTA is that Gulf states refuse to commit to removing all duties on exports to European markets. The EU has long sought to reduce Gulf states' differential pricing of gas exports; barriers to European companies' access to the GCC services sector; and the lack of transparency in GCC government procurement regulations. Despite Saudi Arabia's December 2005 WTO accession, obstacles remain on investment, procurement and services. This has been a growing source of complaint from the Commission. The GCC secretariat lacks the power to negotiate on behalf of its members on many new trade questions, such as services, investments and procurement. One European diplomat in the region suggests that GCC opposition to the human rights clause is a 'smokescreen' hiding the reluctance in particular of Saudi Arabia to commit to genuine free trade and move away from heavy subsidisation of the economy.

In all this, European disappointment is justified. But EU obstruction and short-sightedness must also assume a share of the blame. The EU insists that concessions be reciprocal despite the fact that - aside from oil - there are only a small number of GCC products 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.[4] Gulf states argue that the EU's offer in overall terms is not far-reaching enough to merit their fully discarding export duties. The EU refuses to accept any conditions that do not match those offered to the US. Responding to criticisms the GCC secretariat points to equal frustration in dealing with the EU. In December 2008 the French presidency agreed to drop the requirement that the GCC remove export duties – a position that had to be reversed after consultations had taken place with the Commission and other member states. Of considerable importance to the Gulf, the EU has also refused to reciprocate the GCC's liberalisation of visa requirements.

Despite the FTA deadlock, trade between the EU and GCC has grown. The EU runs a significant trade surplus with the GCC. Trade between the two sides has risen steadily to well over double 2000 levels. The GCC is commercially more dependent on the EU than vice versa. The EU is the GCC's major source of imports, with one third of the GCC's imports coming from the EU. Around 12 percent of the GCC's exports are destined for the EU, making the latter its second biggest export market after Japan. In turn, the GCC is the EU's fifth largest export market and its seventh largest source of imports. Despite the absence of a free trade agreement, prior to the crisis European investors had been taking more of an interest in the Gulf.

Another key factor is that the EU's insistence on negotiating trade liberalisation on a region-to-region basis has militated against advances in free trade and economic cooperation. Indeed, the prospect of a

[3] A. Babood, EU-GCC Relations: A Study in Inter-regional Cooperation, Gulf Research Centre, 2006, p. 162, p. 182.

[4] A. Aziz Abu Hamad Aluwaisheg, 'The EU-GCC Free Trade Area Negotiations: the Home Stretch or First Base?', *GCC-EU Research Bulletin 2*, 2005

region-to-region free trade area only became realistic from 2003 when the GCC became a customs union. Policy-makers continue to justify this regional approach on three grounds. First, that the EU does not have enough capacity to negotiate bilaterally with all GCC states. Second, that it is part of the EU's inherent and distinctive international identity that models of regional integration similar to its own should be promoted. Third, little would be gained by advancing with the smaller GCC states when only Saudi Arabia really counts as an economic and geopolitical ally.

None of these arguments is fully convincing. The fact that the Commission has only one delegation to the GCC, a small mission opened in Riyadh in 2004, increasingly looks like a mistaken policy choice. So does the willingness to allow relations to be held hostage to differences with Saudi Arabia, as other states in the region become more significant players in their own right. 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 for action. Some form of 'graduated regionalism' would be opportune, allowing a degree of bilateralism as, for example, under the European Neighbourhood Policy.

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. European diplomats acknowledge that GCC states are looking for greater flexibility but lament that the EU's preference for regionalism appears seared into its DNA. The EU's region-building strictures also sit uneasily with the fact that intra-European relations with the Gulf are more competitive than collaborative. The EU is beginning to suggest bilateral cooperation in some sectors. But it insists that the core trade issues must be addressed on a regional basis. This is in contrast to the US's success in concluding free trade agreements with Bahrain and Oman.

As Europe prevaricates, interest and competition has intensified from other countries. Trade between the GCC and Asia tripled between 2002 and 2007. Asia has become the most important destination for exports from Saudi Arabia, Kuwait and UAE. China's market share in the Gulf states increased from 3.6 percent in 1994 to 8.3 percent in 2004.[5] A first Asia-Middle East Dialogue was held in Singapore in 2005 with a second intergovernmental conference held in Cairo at the end of 2007. China's mercantilist trade diplomacy has been far more proactive and tightly coordinated in targeting the Gulf than has EU trade policy.[6] The GCC is India's second largest trading partner and is expected to overtake the US as largest trading partner. India's market share in the GCC has almost doubled in the past ten years. In 2008 the GCC signed free trade deals with Singapore and the European Free Trade Area (EFTA), while negotiations for similar agreements advanced with India, China, Japan, Pakistan, Australia, New Zealand and Turkey. There must be few other places in the world where in economic terms the EU has quite so clearly been left behind.

Energy

The Gulf remains pivotal to European energy interests. In 2005, 31.7 per cent of EU oil imports and 26.8 per cent of EU gas imports came from the Middle East. A far lower share (under 20 per cent) of US oil and gas imports come from the Middle East. The Middle East's share of world oil production is predicted to increase from 30 per cent in 2001 to 49.2 per cent in 2030; its share of gas production from 9 to 23.9 per cent over the same period.[7]

Notwithstanding such trends, the EU's energy strategies appear less well developed in the Gulf than in some other producer regions. No systematic and

[5] J. Heliot, 'France and the Arabian Gulf', *GCC-EU Research Bulletin 51*, 2006

[6] S. Hertog, 'Perspectives of economic integration in the Arab countries', Study for the Committee of Foreign Affairs of the European Parliament, September 2006. p. 9

[7] For figures see Commission of the European Communities, 'European Energy and Transport Trends to 2030' – Update 2007, Brussels: European Commission, 2007, p. 27

productive energy dialogue has been established between the EU and the GCC. The GCC's benign role within international markets was seen to render separate initiatives on energy unnecessary, while these states' levels of wealth made a development-driven EU presence redundant.[8] In addition, there is already the International Energy Forum, with its secretariat in Riyadh, fostering dialogue between producer and consumer states.

The Commission has proposed extending the structure of both the ENP Energy Treaty and the Euro-Med Common Energy House to the GCC states, as well as offering the latter the kind of energy agreement offered to Algeria and Egypt. However, the continued impasse in trade negotiations between the EU and the GCC undercuts the prospects for other aspects of policy cooperation. The EU has proposed a Memorandum of Understanding on energy cooperation; the GCC states have rejected the idea, insisting that an FTA is the precursor to deepening other areas of cooperation. A long-standing bi-annual EU-GCC energy experts' meeting has been diminished rather than expanded in recent years, with officials of a lower level than was previously the case presiding on both sides. The Commission has sought to deepen energy cooperation at the bilateral level with individual GCC states, but here the potential is limited to technical issues such as reducing flaring and energy-efficient product development.

The British government has long argued that the EU dimension of energy policy towards Saudi Arabia is unlikely to play a primary role, as the real key is how Saudi actions relate to broader international market structures. Saudi Arabia's importance takes it beyond the standard regional frameworks typically promoted by the EU.

In the energy sphere the EU is also being displaced by Asia. In 1980, two thirds of the region's oil went to Europe and the United States; by 2004 this share had declined to one third. 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 $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 per cent of China's oil imports.

In January 2006 Saudi Arabia and India 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.[9] Japan has secured two significant deals recently: 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 $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.

[8] A. Baabood and G. Edwards, 'Reinforcing Ambivalence: The Interaction of Gulf States and the European Union', *European Foreign Affairs Review* 12/3, 2007, pp. 537–54

[9] 'Saudi and India sign strategic energy deal', *Gulf Daily News,* 28 January 2006.

Governance

If the EU has struggled to retain influence in the economic and energy spheres, neither has its broader political role flourished. Governance reforms have not proceeded far in the Gulf. Of course, not all trends are entirely negative. Saudi Arabia's reform process has allowed the holding of municipal elections, the creation of a National Organisation for Human Rights, an increased deliberative role for the Shura Council and several rounds of a reform-oriented National Dialogue. Political debate has become freer and differing positions within the ruling family itself are debated more openly.[10] In February 2009 King Abdullah demoted two powerful conservative religious figures and named the kingdom's first ever woman minister. Less conservative forms of Islamic jurisprudence have been incorporated into legal reforms. In April 2009 the National Society for Human Rights was able to publish a highly critical report of rights abuses.

In Kuwait, after the death of Sheikh Jabir in January 2006, members of the ruling family and the opposition in parliament blocked direct succession of the Crown Prince in favour of Sheikh Sabah, demonstrating that succession was no longer an internal family matter. Elections held in 2006 were freer than on previous occasions, and women were allowed to stand as candidates – although none were elected and Islamists emerged as the biggest gainers from the poll. The Sabah family retains all key posts in government, including energy and foreign affairs, but a new spirit of open debate has taken root.

Despite its poor overall score on most transparency indexes, the Middle East has eased some market regulations in order to encourage private sector investment. Public sector reform has been undertaken in several of the GCC states, most successfully in the United Arab Emirates, where the public sector workforce of Abu Dhabi was cut from 64,000 to 11,000.[11] In some states an incipient middle class has become more independent of the state than assumed by state rentier theory.

GCC states are striving to use their energy revenues to wean their economies away from natural resource dependency and, in recent years, have commissioned projects worth $1.3 trillion aimed at economic diversification. These efforts have already met with some success - in less than eight years, GCC non-hydrocarbon exports have more than doubled.[12] The Saudi government has made tangible progress in diversifying the economy in recent years. Exports of non-oil based products increased at a rate of 20 per cent annually between 2000-2006 and inward investment of gross fixed capital formation has soared from 1 per cent for much of the 1990s to 32.1 per cent in 2006.[13]

However, despite some small advances, governance problems continue to intensify. While many producer countries appear to have learned the harsh lessons of the oil booms of the 1970s and have established oil stabilisation funds in an attempt to curb inflation and the worst effects of the 'resource curse', there is still a lack of information regarding the use of state finances available for public consumption. There is also a glaring lack of transparency in the use of funds provided by the GCC states to less developed countries in the region. Debate can only take place within relatively limited parameters. In March 2009 the Kuwaiti parliament was dissolved after criticism of the regime became too strong.

In Bahrain, Oman, Saudi Arabia and the United Arab Emirates, there have been efforts to improve the standards of the judiciary in commercial law, but this has not been translated to other areas of legislation that affect civil liberties. Market liberalisation and

10 A. Hamzawy, 'The Saudi Labyrinth: Evaluating the Current Political Opening', *Carnegie Working Paper*, Washington, D.C.: Carnegie Endowment for International Peace, 2006, p. 6.

11 N. Janardhan, 'Economic Diversification and Knowledge Economy in the Gulf', Paper Presented at the Gulf Studies Conference, Exeter University, 3 July 2008

12 S. Hertog, 'EU-GCC relations in the Era of the Second Oil Boom', Munich: CAP Working Paper, December 2007, p. 7

13 'Saudi Arabia's Economic Liberalisation', ISN ETH Zurich , 12 December 2007

increased efficiency of the region is being led from the top-down. In certain cases where democratic institutions have been granted tangible powers, such as in Kuwait, there has been a tendency to move towards protectionism.

The demand for reform now clearly outweighs its supply. The prospects for future turbulence are high, especially if the current period of low energy prices endures for any significant amount of time. Saudi Arabia's population is expected to double by 2025, while 30 per cent of its citizens between 16 and 25 are currently unemployed.[14]

The EU has made little impact on political reform. Little governance-related leverage resulted from Saudi Arabia's WTO entry. Conditionality has been judged a non-starter in the region. The EU has not pursued formal dialogue with civil society organisations in the Gulf. The Commission dropped attempts at 'decentralised' civil society aid programmes in the Gulf after 2002, insisting that these were making no progress and creating tension with regimes. The most the EU has been willing to do is to fund World Bank and United Nations Development Programme projects on resource revenue transparency. An EU human rights working group in Saudi Arabia is struggling to convince the regime to appoint an interlocutor. Several member states have argued that the EU should dilute its human rights clause in order to help unblock FTA and energy cooperation talks.

In the UK, all political reform projects have now been subsumed under the UK's framework for counter-terrorist policy. All political aid projects must now have a counter-terrorist rationale. The UK-Saudi Two Kingdoms Dialogue has also veered towards a greater focus on 'de-radicalisation'. With the UK's Arab reform team wound-up, the in-house assessment was that reform projects had remained elitist and not succeeded in reaching out to reformist areas of the general population. The UK and most other states are disinclined to bring up human rights issues in diplomatic engagement. In Saudi Arabia the Dutch embassy is the only European representation with a small human rights training budget.

One member state diplomat encapsulates a common sentiment in suggesting that Gulf states are authoritarian but largely 'well run'. Despite ubiquitous rhetoric on the desirability of engaging with Islamists and recognising the latter as legitimate political actors, officials express concern over the impact on energy interests of Islamists' rise in GCC states – pointing in particular to their strong showing in Saudi Arabia's first municipal elections. Civil society figures in the region judge that the EU is simply not genuine in relation to political reform.

Politics versus economics

The nature of the EU's economic policies has undercut the prospects for a much-needed deepening of security engagement. Such engagement is increasingly necessary. Apart from the priority attached to counter-terrorism, the EU has stressed the need to engage with the GCC in partnership on the Arab-Israeli conflict. Saudi Arabia's increasingly assertive role in relation to the Arab-Israeli conflict and other regional issues (Lebanon, Iran, Iraq) has increased the premium on a more structured and strategic European engagement with the kingdom.

EU-GCC political dialogue has gradually become more formal and regularised. But in strategic terms most member states conceive the GCC as a secondary sub-category of the broader Middle East rather than a region meriting its own distinct approach and set of priorities.[15] The Strategic Partnership has remained

14 N. Janardhan, 'Economic Diversification and Knowledge Economy in the Gulf', Paper delivered at the Gulf Studies Conference, Exeter University, July 2008

15 G. Nonneman, 'EU-GCC Relations: Dynamics, Patterns and Perspectives', *Journal Of Social Affairs*, 2007.

hollow and devoid of political substance. It was supposed to allow for a degree of bilateralism, but this has not flourished. GCC states complained that there was nothing 'strategic' about it. It is now moribund.

It is clear that the failure to conclude the FTA has weakened the EU's political and security presence in the Gulf. The GCC sees the signing of the FTA as a prerequisite to deepening broader political relations. GCC states have routinely lamented that the EU has failed to support their desire for a broader geopolitical partnership. France in particular has pushed for a more strategic European presence and even raised the prospect of incorporating the Gulf into the Euro-Mediterranean Partnership; but it has not been the keenest of member states in offering more generous trade terms. One member state diplomat in Riyadh observes: we are still treating Saudi Arabia merely as an energy supplier rather than the important geostrategic player it now is across a range of issues.

It is clear that protectionists in the EU have used the issue of the human rights clause as a convenient cover; if the EU's economic and strategic offer to the GCC were more generous it is possible that the clause would not have become a sticking point. Diplomats recognise that the GCC's decision to suspend talks cannot be separated from the way in which the financial crisis has altered the balance of power. At root the current impasse is about a more assertive Gulf wanting better terms in its relations with Europe.

The Saudi government in particular is keen for the EU to buy into its regional agenda, for example on Iran, as a quid pro quo for deeper energy cooperation. Saudi officials also suggest that other areas of cooperation have not been helped by the EU's failure to censure Israel's actions in Palestine. Some European officials complain, conversely, that dialogue is already far too dominated by efforts to coordinate positions on Palestine and that this invariably displaces all debate and cooperation on other issues. The EU has also been unable to fashion a regional link between the GCC and Iraq, so vital for security aims.

Compared to other areas of EU foreign policy, the degree of Europeanisation remains limited in the Gulf. There has been little CFSP discussion on the foreign policy impact of energy challenges related to the Gulf. A number of member states express unease with the Commission seeking to fashion a lead role for itself on the back of its trade role. Several governments admit to trying to rein back the Commission. GCC representatives acknowledge that they still focus their diplomatic efforts overwhelmingly on the three big member states.

Without mainstream development aid available to the EU as leverage, trade is much more important as a pivot for European influence. Those member states – the UK, Denmark and the Netherlands – pushing for intensified relations express frustration at the Commission's inability to conclude the FTA. But Germany, France and southern member states have still not picked up the message from GCC partners and continue to argue that the EU can continue to adopt a defensive position on trade interests while pursuing political interests on a separate track. Such thinking is contrary to the basic philosophy set out by the EU in most other regions in the world and is particularly flawed in the Gulf.

Despite rhetoric to the contrary, in practice most member states remain to be convinced that further concessions should be made on trade as a basis from which to enhance security presence. Most member states remain reluctant to adopt any strategy that could be associated with the US vision of a regional security framework. Others are 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 have rebuffed attempts to bring Iraq, Yemen and the GCC into the Barcelona Process and create a single Middle East policy.[16]

An inverse disjuncture is that the nature of security engagement between the two regions undercuts

[16] A. Echagüe, *The European Union and the Gulf Cooperation Council*, FRIDE working paper, 2007

prospects for the type of governance reform needed to further the EU's long-term interests. The standard argument is that the EU's insistence on human rights clauses is holding up economic relations to no concrete gain for European interests. But this is *not* where the EU errs. Rather it errs in still not being sufficiently aware of the link between energy and security interests, on the one hand, and economic governance reform, on the other hand.

Military cooperation has deepened with Gulf regimes. The practice of tying arms sales to defence agreements has intensified.[17] In 2006 Gulf states benefited from new arms deals totalling $13 billion from the UK and $10 billion from France (along with 11 billion worth of deals from the United States).[18] British Aerospace then signed a £40 billion follow-on deal from its al-Yamamah contract. In 2008 France agreed a further € 12 billion of arms sales and nuclear technology transfers, as well as a deal to establish a permanent French military base in the UAE. Most of Qatar's military equipment is now French.[19] Spain and Germany also agreed military cooperation with the UAE in 2008. The EU's Stability Instrument now funds cooperation on maritime and border security in the Gulf, empowering regimes' security forces more effectively to deal with such challenges. The UAE is to be the first country to deploy the US's advanced air-defence system. Both European and US military aid seems to be more about placating GCC fears over Iran than addressing the roots of 'soft security' challenges within the Gulf itself.

Such deals clearly shore up the position of incumbent elites. The counter-terrorist orientation of the EU's political reform focus ensures that governance initiatives are relatively status quo in nature. Autarchy is often justified in the name of security concerns. In the wake of terrorist attacks in Saudi Arabia in 2003 and 2004 the Saudi regime clamped down harder on radical groups. While not abandoning its historic alliance with Wahabbism, the al Saud family did appear chastened in a way it had not been by 9/11. Deradicalisation policies now advance, and have been widely praised.[20] One diplomat captures the highly benign view held by member states, in asserting that the Saudi royal family has now 'dealt' with terrorism.

But at the same time European officials acknowledge that the opaque nature of internal royal family politics in states such as Saudi Arabia has become a serious problem to the extent that more 'radical' wings of these families are able to frustrate relations with European governments. The personalised nature of government can paralyse effective decision-making. Limited institutional capacity in all Gulf states does not bode well for sustained success in counter-terrorism. Despite the gains made, some fear that al-Qaeda is regrouping, in particular in Yemen's tribal areas.

The same narrowness of approach persists also in energy policy. Across the Gulf it appears that authoritarian regimes still keep energy policies oriented towards cooperation with the West against domestic opposition. The Kuwaiti regime does battle against a parliament that has blocked energy sector liberalisation. The Saudi royal family has continued its pivotal role in dampening oil price fluctuations, after 9/11 and to some extent during the rise in energy prices between 2003 and summer 2008. The Saudi government spent well over $1 billion to strengthen security at its production facilities after attacks on the latter in 2003.

However, resentment has grown over government failures to deliver adequate wealth distribution and effective economic policy for long-term growth, as well as over the lack of transparency in the allocation of resources. A source of popular anger is precisely the fact that oil revenues often flow directly into royal budgets, with no accountability. The Saudi regime

[17] E. Stephens, *GCC states and the European Union: Military and Economic Relations*, Gulf Research Centre, 2004, p. 118

[18] Gulf Research Centre, *The GCC Yearbook 2006,* Dubai: Gulf Research Centre, 2006.

[19] A. Babood and G. Edwards 'Sovereign Releuctance: The Interaction of Gulf States and the European Union', in C. Koch (ed) *Broadening the Horizon: EU-GCC Relations and Security Issues*, Gulf Research Centre, 2008, p. 41

[20] C. Boucek, *Saudi Arabia's soft counter-terrorism strategy: prevention, rehabilitation and aftercare*, Washington DC, Carnegie Endowment for International Peace Working Paper, 2008.

scaled back its National Gas Initiative because it feared the political consequences of any significant market opening.[21] Similarly, Saudi Arabia won an exemption for the energy sector when it joined the World Trade Organisation in December 2005, because the government realised that its continuing control over this sector was crucial to its political leverage both domestically and internationally.

In Kuwait, the regime has come under greater pressure to explain and justify its use of increased revenues. While Islamists continue to oppose opening energy contracts to IOCs, opposition platforms are increasingly organised around pressure for the more transparent and efficient use of oil revenues, as a means of assisting stability and moderation. It was the Kuwaiti parliament, for instance, that put the regime under increasing pressure to release more accurate and transparent information on the state of the country's oil reserves.[22] As oil prices have fallen below the level required for GCC budgets to break even, such political dissatisfaction is set to deepen. The EU has failed to help integrate Gulf countries into the global economy by encouraging and supporting their economic diversification so as to reduce incentives to maximise oil revenue.[23]

The British government launched a new initiative on Gulf oil when oil prices exceeded $100; but the focus was on reducing prices not longer term structural and geopolitical problems; consequently, the urgency behind such reassessment on energy policy subsided as oil prices fell back. This despite diplomats acknowledging the problems presented by the unpredictability of decision-making in Saudi and the increasing reliance on King Abdullah for any clear policy decisions.

[21] I. Rutledge, *Addicted to Oil: America's Relentless Drive for Energy Security*, London: I.B. Tauris, 2006, p. 190.

[22] G. Luciani, 'Arab States: Oil Resources and Transparency', *Arab Reform Bulletin* 6/2, Washington, D.C.: Carnegie Endowment for International Peace, March 2008, p. 7.

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

Conclusions

Tensions between economic and political policies exist in many regions. Indeed, this provides one of the most enduring challenges to European foreign policy. In the Gulf such tensions have proven especially difficult to reconcile. It is natural that the EU is focused on how its immediate interests are affected by some very trying economic and political concerns in the Gulf. But it does need to think more creatively about how these relate to each other over the longer term. Inflexible economic policies have been an obstacle to political objectives. Short-term thinking on strategic challenges has in turn failed to advance economic objectives. As economic and strategic challenges have deepened in recent years, if anything the disjuncture is becoming wider. Rectifying this will help advance European interests in a more sustainable manner. It will also better enable the EU to respond to Gulf complaints and interests. Improvements in EU-Gulf relations will require the same kind of changes needed elsewhere: more coherence, more long term strategic planning, more unity between member states, more flexibility, better local knowledge. To this familiar list of suggestions must be added one that is most acutely needed in the Gulf: the EU's mind-set still needs to recognise that leaving relations with the GCC on the back-burner is no longer adequate.

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