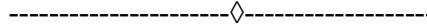




Gulf Research Meeting 2010

Cambridge University

July 7 - 10, 2010



Workshop 2

EU-GCC Relations

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Workshop description

Abstract:

The GCC and the EU are two significant global actors with enormous economic and financial weight. Although both regions have their limitations when it comes to 'hard' security matters, they enjoy high regional and global status as credible 'civilian' powers with economic and political influence. In a world where military power has shown its limitations, the need for multilateral management and multipolar leadership of global challenges at times of increasing global crisis, has never been so obvious.

Inter-regional cooperation is one level at which this can be achieved. GCC-EU relations can, therefore, be seen as an attempt at cooperating in managing global issues. But in addition to this global dimension, both parties gain mutual benefit from their strong regional interdependence. Beside mutually beneficial trade, investment and developmental relations, energy, Gulf and regional security are also enhanced through their close cooperation. However, while Europe has sought to develop its relations with the Mediterranean region, relations with the Gulf, beyond, i.e., the Mediterranean, remain below expectations. While the imperatives for a close and strong relationship are clear, the reality would seem to suggest that in some ways the GCC and the EU are growing apart, and the gap between them widening, at least at the institutional level.

GCC-EU Institutional cooperation:

The institutional relationship between the States of Gulf Cooperation Council (GCC) began with the signing of the Cooperation Agreement between the two sides in 1988. Although various bilateral relationships based on historical and colonial ties had preceded it, the Cooperation Agreement which followed contact between the two sides early in 1983 consequent on the creation of the GCC in 1981 institutionalised and formalised this special relationship.

Among other things, the Agreement provided for cooperation in a number of fields of interest to both parties including those of the economy, energy, industry, trade, services, agriculture, fisheries, investment, science, technology and the environment. Its principal aims were to improve economic relations between the two groups, intensify reciprocal trade and investment exchange, strengthen inter-regional interdependence, and initiate a close political dialogue. It was also intended to encourage GCC regional integration, contribute to strengthening stability in a region of strategic importance to Europe, secure European energy supplies, facilitate political dialogue, broaden cooperation in various economic and technical fields, including through strengthening the process of economic development and diversification of the GCC countries

Institutionally, the Agreement stipulated the establishment of an annual joint Council/Ministerial Meeting between the GCC states and EU foreign ministers as well as between senior officials at Joint Cooperation Committee (JCC).

Since 1988 there have been many rounds of meetings between both sides at both levels. However, cooperation between the two regions remains conspicuously limited and does not match the aspirations declared by both sides. One major obstacle to better relations has been the ongoing disagreement on the free trade agreement (FTA).

GCC-EU Trade and the Free Trade Agreement (FTA) negotiations:

Despite the lack of an FTA because of the deadlock in the negotiations, trade and economic exchange between both regions is, in fact, flourishing. The two parties are major trade partners. The GCC is currently the EU's fifth largest export market and the EU is the top trading partner for the GCC with a share of 18% of total GCC trade. In fact, EU-GCC trade exchange is of a much larger significance than the rest of the Middle East and North African Countries (MENA) - notwithstanding the privileged bilateral relations between some EU Mediterranean states and the MENA countries. 2007 figures show that GCC-EU volume of trade reached \$104,600bn. While GCC exports to the EU have been rising, imports from the EU make up one third of total GCC imports resulting in a large and a persistent trade balance in favour of the EU. Additionally, trade in services is also in favour of the EU, with GCC investment in the EU significantly higher than that of the EU in the GCC.

EU exports to GCC are diverse but largely dominated by machinery and transport materials, e.g. power generation plants, railway locomotives and aircraft as well as electrical machinery and mechanical appliances, a market in which Europe enjoys competitive advantage. Given the GCC states' demand for such sophisticated equipment to meet its development needs, this trend is expected to continue despite competition from other region especially from developing Asia, which is likely to take over from the EU as the largest exporter to the GCC in not too distant future.

On the other hand, EU imports from GCC are mainly fuels and derivatives (70% of total EU imports from the region in 2006). While GCC crude oil exports to the EU are largely duty free, they are, nonetheless, subjected to indirect Carbon tax. It is an established fact that the GCC states have been trying to diversify their economies from reliance on one commodity, oil. They choose to concentrate on products where they have competitive advantage and are mainly oil and gas based. However, to their irritation, GCC refined petroleum products; petrochemical and aluminium exports to the EU have been subjected to duty charges reaching 6 percent. It is worth noting that the GCC states have so far only benefited from preferential access to the EU market under the Generalised System of Preferences (GSP)- the lowest in the pyramid of trade preferences offered by the EU to its trading partners.

The 1988 framework Cooperation Agreement contained a commitment from both sides to enter into negotiations on a Free Trade Agreement (FTA). FTA talks were initiated in 1990 but soon reached a standstill due to numerous disputes and disagreements over market access and human rights. Revival was attempted in 1995 following the Barcelona Declaration with the countries of the Mediterranean - from which the GCC were excluded- which foresaw decentralized cooperation and regular political dialogue but yielded only scant results. In 1999, EU-GCC negotiations regained momentum after the GCC's announcement of their intention

to create a customs union (which entered into force in January 2003). In the aftermath of September 11, 2001, attempts were made to re-inject greater momentum in to the relationship and negotiations were resumed in 2002 following the Commission announcement that it was to open its first delegation in Riyadh. FTA negotiations were re-launched with a new, wider mandate that included trade in services and investment. The agreement would provide for progressive and reciprocal liberalisation of trade in goods and services, aiming to ensure a comparable level of market access opportunities, taking account of GCC countries' level of development. Negotiations cover: market access for goods and services, common rules and disciplines for intellectual property rights, competition, dispute settlement, rules of origin, human rights, illegal immigration, and terrorism.

In 2004, the EU came up with its “Strategic Partnership with the Mediterranean and the Middle East” which focused on the countries of North Africa and the Middle East, including the countries of the GCC, Yemen, Iraq and Iran. It was to be based on bilateral engagement with individual, reform-oriented states. However, any hopes of a revived momentum were dashed along with the negative outcome of the US “New Middle East Initiative” after the Iraq invasion. However, the ‘Global Europe’ framework Policy launched in 2006 by the then Trade Commissioner, Peter Mandelson, was aimed at emerging trade powers and energy producers, using preferential trading arrangement as the main policy tools linked the GCC agreement and agreements with Russia as an element in the EU’s energy security policy.

Negotiations accelerated during 2007 and there was much hope that the a conclusion will be accomplished during the French Presidency in 2008, which was keen on reaching an agreement with the GCC states which would be seen as further success given its successful launch of the Union of the Mediterranean. Indeed, Paris was eager to establish a policy link between the two tracks of the Mediterranean and the GCC, where at least the latter would be encouraged to investment some of its oil wealth in the former. This muted idea was considered as an important contribution to the EU strategy for Arab regional cooperation and MENA region stability and prosperity. However, no formal link was considered between the Mediterranean and the GCC tracks beyond offering the GCC states an observer status with non-voting rights at the Euro-Mediterranean Parliamentary Assembly (EMPA).

However, it would appear that despite President Sarkozy’s political drive and given that most of the contentious technical issues in the FTA were resolved, several unresolved trade disputes and political obstacles were able to derail the negotiations. The problems include what is known as WTO+ like liberalization of the service and investment sector in the GCC, government procurement, export duties and the sensitive issue of human rights. The GCC side, feeling that they have gone a long way in offering concessions, considered that the EU was still dragging its feet on the FTA negotiations. With no clear end in sight, the GCC decided in the latter part of 2008 to suspend the trade talks and the FTA negotiations are now halted.

The failure in reaching an FTA, which became accepted as a prelude to cooperation in other areas under the 1988 agreement, has, in fact, precluded the establishment of a vigorous GCC-EU relationship commensurate with the strategic importance of both regions.

Protracted free trade negotiations have obscured both sides' visions and have prevented them from cooperation in other sectors which came in the 1988 Agreement. One obvious sector which makes the strong link between the two regions is that of energy. As Europe tries to manage its energy security, the GCC states, with their enormous energy resources can play an important part in any future EU energy strategy. Equally European know-how and investments in this sector is of crucial importance to the GCC states. It was clear that cooperation in this sector is rather limited despite its importance. In addition, both sides have been severely affected by the turbulence in the energy sector. The rapid rise and fall in prices has had serious domestic consequences in both Europe and the GCC. For the latter, the importance of energy exports in their total revenues has inevitably had an adverse knock-on effect on their development plans as well as investment consequences for Europe. Those difficulties have also been compounded for some with the financial crisis at the end of 2008-early 2009.

Political and security dimension:

Although the GCC and the EU seem to have developed a close political dialogue and a common understanding on a number of regional and global issues, it would seem that this political dimension was not enough on its own to either push for a conclusion of the FTA, or to re-invigorate their special relationship especially under the current global economic and financial crisis, which necessitates close international cooperation.

Gulf security which is important to both sides has also remained outside the EU-GCC framework and any cooperation has been limited to political announcements and declaration or to bilateral arrangements between individual members of each group. The EU is not a military power and is no position to substitute the role of the United States (US) as a security guarantor. Some efforts have been made under the Istanbul Initiative to increase Gulf interest in NATO. At the same time, the EU's evolving security agenda could be a useful tool in supplementing but not supplanting the US in shoring up Gulf security and could provide a constructive alternative to an overall reliance on the US.

The Political dialogue between the two regions has so far been rather declaratory in nature on commonly agreed positions lacking any substantive outcome to deal with the critical security issues.

The suspension of the FTA talks may call for a time of reflection on this relationship with its economic and political dimensions. The time maybe right for, rather than resume the same style of relations which has so far yielded scant results, to upgrade the relationship to a more comprehensive and a strategic one.

A comprehensive strategic relation which encompasses economic and political issues and which goes beyond the FTA, but could be helped by its conclusion, is perhaps what is needed. It is rather striking that the EU has subjected the Gulf to a 'benign neglect' and hardly come up with an initiative directly dealing with its relationship

with the GCC and the GCC has only been partly mentioned in other EU initiatives as an add-on or as a side point.

The workshop will deliberate the GCC-EU relations on view of the above while taking into account regional and global issues affecting the relationship.

Structure:

There are a number of issues specific to the GCC and the EU as well as there are also a number of global issues that have a particular relevance to the relationship which this workshop will discuss and address in depth. Through a number of themes, this workshop seeks to highlight the former while locating the relationship firmly into the wider regional and global context.

The aim is to have papers from both the EU and Gulf perspective for the following themes.

- (i) Given the suspension of negotiations on the GCC-EU free trade agreement, the economic and commercial relationship needs to be re-examined. Given the length of time so far taken by the negotiations, quite what advantages to each side are there in either pursuing the agreement or in allowing it to lapse?
- (ii) While the GCC is a sub-region of the Arab world, EU relations with the entire region, specifically through its Mediterranean policies and its different Mediterranean initiatives culminating in forming a Union for the Mediterranean, is not without relevance to the GCC. How does the GCC view this special relations with the Mediterranean of which it has been so far excluded and what linkages, if any, are, in fact, possible between the two tracks?
- (iii) The current global financial crisis has raised important questions *inter alia* about the role of the Gulf Sovereign Wealth Funds. What has been their impact in terms of Europe's financial well-being so far?
- (iv) One of the factors that have continuously bedevilled GCC-EU negotiations has been European demands over human rights and democratization and Gulf claims of unwarranted interference. Given the EU's inaction over breaches of the former and limited reforms towards the latter, quite how significant are such factors in the overall political relationship between the EU, its members and the Gulf states?
- (v) Given (iii), it would be valuable to look more deeply behind the political relationship to explore how Europe and the Gulf perceive each other. Inevitably there will be variations between the states, some with long historical ties, others with little or limited contact. Cultural as well as political factors need to be taken into account in seeking to provide critical insight into the background to the current relationship.
- (vi) Given the significance of energy exports to the Gulf States, Europe's obvious susceptibility to interruptions of its oil and gas imports, and the growing demands of China and India, a better understanding of the energy relationship is necessary.
- (vii) Energy may well be a critical element in the security relationship between Europe and the Gulf. Europe's own efforts to establish a

meaningful/acknowledged Security and Defence Policy have been largely ignored or dismissed. NATO since the Istanbul Initiative has sought to establish a role. Individual European Member States have retained or seeking to expand their role. An examination of the EU/NATO/Gulf states nexus on security that takes in the new/different actors at different levels is necessary.

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