The Gulf and U.S.-EU Relations

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Introduction

The conventional wisdom among Middle East analysts is that the United States and the countries of the European Union have more serious differences over the Arab-Israeli side of the Middle East problem than they have over Gulf issues. To be sure, Washington and Brussels (and the national capitals of Europe) have had serious differences over a number of Gulf issues, most recently the 2003 American war against Iraq. However, it is assumed by many that the U.S. and the EU share a basic common interest in the Gulf – a steady supply of oil at manageable prices – that in the end provides a common basis for action. Broad European cooperation in the 1990-91 Gulf War, under American leadership, is seen as the proof of that common interest. Whereas on Arab-Israeli questions the differences between the American approach, tilted heavily toward the accommodation of Israeli interests, and the European approach, more "even-handed," are seen as profound and perhaps, unbridgeable.

I believe that the opposite is the case. The fundamental American and European goal in the Arab-Israeli conflict is the same: a stable two-state solution broadly acceptable to Israelis and Palestinians that will remove this difficult issue from the international agenda. The two sides' tactics are different, to be sure, but in many ways complementary. The EU supports the institutions of Palestinian governance and cultivates good relations with Syria, the last "confrontation state." The U.S. is intimately involved in Israeli politics, and is the only outside power that can move the Israelis toward compromise. One can question the sincerity of some members of various American administrations in their commitment to a two-state solution, but the overall direction of American policy over the past decade, in Republican and Democratic administrations, is unmistakable.

It is true that the U.S. and the EU share an ultimate common interest in the Gulf as a source of energy. Any major disruption of the energy trade with the Gulf would be very harmful to them, and to the world economy. But now, and for the foreseeable future, there is no serious international threat to the free flow of Gulf oil and gas. There is no global Cold War that could bring conflict to the region. Saddam Hussein's regime, the prime disrupter of regional stability for 20 years, is no more. The Iranian government, while an ambitious regional player, does not seem set on regional conquest or military domination. Energy trade could be disrupted by domestic events in any of the major Gulf producers, to be sure. But the kinds of international action that could impede the free flow of Gulf energy to world markets – on the model of Iraq's invasion of Kuwait – seem very unlikely.

Thus, the common European-American interest in the Gulf is not really at risk. There is no need to cooperate to secure it. With the Cold War over, there is really no need to cooperate militarily against a larger global threat which might lead to regional cooperation in the Gulf. The increasing divergence between Washington and most of Europe over Gulf issues in the 1990's is testimony to this fact. Without a credible common threat, the divergent commercial interests of the U.S. and the EU will play a greater role in their Gulf policies, driving them apart. The increasing suspicion of Washington's intentions among European publics and in some European capitals will make security cooperation, if necessary, more difficult. Gulf issues will divide the two sides of the trans-Atlantic relationship more than they will unite them in the coming years.

Drifting Apart: The U.S. and the EU in the Gulf, 1991-2003

Almost immediately after the Gulf War of 1990-91, the sense of common purpose between the U.S. and the major European countries on Gulf issues began to dissipate. This was clearer on policy toward Iraq and Iran than toward the GCC states. All EU countries objected to some aspect of the American policy of "dual containment." France withdrew from the American-British military policy of patrolling the skies over southern Iraq by 1993 and over northern Iraq in 1997. By the mid-1990's Paris was urging a reconsideration of the sanctions on Iraq. French oil companies began to negotiate exploration deals with the Iraqi government, to be implemented upon the lifting of sanctions. When the Clinton Administration pursued a more confrontational policy toward Iraq over the U.N. weapons inspection crises in 1997 and 1998, France very publicly refused to support military action. French and German objections to the American war against Iraq in 2003 were the logical end result of the increasing divergence between Washington and the major Continental powers over Iraq.

If anything, EU differences from the American approach toward Iran were even greater during this period. Unlike Iraqi policy, where Great Britain supported and participated in military actions against Saddam Hussein, the EU states were united in preferring a "critical dialogue" with Iran over the American policy of containment. That policy involved frequent visits to Iran by European foreign ministers, concessions on the repayment of Iran's debts and encouragement of EU-Iran trade. In contrast, the U.S. severed all trade and investment relations with Iran in 1995, preventing the American oil company Conoco from investing in the Iranian energy sector. Despite Washington's adoption of the Iran-Libya Sanctions Act, setting out sanctions against foreign companies doing business with Iran (or Libya), the French oil company Total took Conoco's place in the deal. There were a few bumps in the road of "critical dialogue." Ayatallah Khomeini's fatwa against Salman Rushdie remained a difficult issue into the early 1990's. The EU countries all temporarily withdrew their ambassadors from Teheran in the mid-1990 after German courts found evidence of high-level Iranian involvement in the 1993 assassination of four Iranian Kurdish leaders in Germany. However, overall the EU as a whole exhibited much more willingness to engage Teheran than did Washington.[1]

[1] For an account of U.S.-EU differences on the Gulf during this period, see Simon Serfaty, "Bridging the Gulf Across the Atlantic: Europe and the United States in the Persian Gulf," *Middle East Journal*, Vol. 52, No. 3 (Summer 1998).

These specific differences reflected increasing wariness in many EU capitals (with the notable exception of London) of the dominant American position in the Gulf region. Although no specific issues regarding the GCC states emerged as major bones of contention between the EU and the U.S. during this period that was the result of the increasing monopolization by the United States of both security and commercial relations with the GCC states. Washington made it clear that it needed no partners in its management of the Arab side of the Gulf.

U.S.-EU Commercial Rivalry in the GCC

In the post-Iraq War period, we should expect a sharp increase in the sense of commercial rivalry between the United States and the EU. That rivalry is already well in progress regarding Iraq and Iran, as was discussed above. The American decision to exclude companies from countries not in the Iraq War coalition from bidding on major reconstruction projects in Iraq is simply the most recent evidence of that rivalry. (It should be noted, however, that the Bush Administration policy very specifically encourages companies from EU members who were in the coalition – Great Britain, Spain, Italy, among others – to join in Iraqi reconstruction. This not only rewards those EU governments who supported American policy, but also introduces potential divisions into the one area where the EU has achieved the greatest degree of solidarity, economics.)

This commercial rivalry, so clear on Iran and Iraq, has become more prominent in the GCC states in recent years. This is particularly true for Saudi Arabia. For decades U.S. companies had preferential access to any big contract in the Saudi market. Only when, for political reasons, the U.S. chose not to compete could, for example, British Aerospace secure the enormous Al-Yamamah military aircraft deal with Riyadh in the 1980's. But in the aftermath of September 11, with the new tensions in relations between Saudi Arabia and the U.S., there seems to be a conscious decision in Saudi Arabia to broaden its economic relations and in some American companies to rethink the value of major investments in Saudi Arabia.

The most obvious indication of this re-thinking in Riyadh is the course, during 2003, of the "Saudi gas deal." The "Saudi gas deal" had its origins in a 1998 meeting between Crown Prince Abdallah with the CEO's of the major American energy companies. The Crown Prince invited the companies to propose ideas for partnering with Saudi Arabia in the energy sector. Out of this initiative came three multi-billion dollar proposals to develop Saudi natural gas reserves, two headed by ExxonMobil and one by Royal Dutch/Shell. But the momentum slowed as the Saudis and the companies dickered over terms, prices and profit margins. Saudi ARAMCO and the Saudi Oil Ministry, not anxious to give up their exclusive control over the Saudi energy sector were not enthusiastic supporters of the projects. After September 11, there was speculation – denied by all involved – that the political tensions in Saudi-American relations added another obstacle to the deal. One of the Exxon/Mobil proposals, a $5 billion project in the Red Sea, the most technically difficult of the three projects, was quietly dropped in January 2003.[2] In early June 2003 Saudi Oil Minister Ali Nuaimi informed ExxonMobil that its $15 billion proposal for the largest of the three mega projects had been cancelled.[3] Agreement on the third proposal, for development of gas resources in the Empty Quarter, the only one of the three headed by a non-American company, was reached in July 2003. Royal Dutch/Shell will have 40% of that project, Total will have 30% and Saudi Aramco will have 30%. The American company originally involved in that project, Conoco/Phillips, dropped out.[4]

While commercial considerations were undoubtedly paramount in the failure of the Saudis and the American companies to come to terms, there are important political implications in the way that this occurred. First, it is clear that European companies were more willing to accept the terms offered by the Saudis than were American companies. This signals the greater willingness of these companies to take risks to get a foothold in the Saudi energy market and develop long-term stakes in Saudi Arabia. Second, the failure of American companies to take similar risks indicates a lower priority for Saudi Arabia in their plans. Third, the absence of major American companies from the Saudi gas fields means the loss of a potentially important economic link between the two countries. If the deals had gone through, major American energy companies would have invested billions in the Saudi economy and revived the major American commercial role in the Kingdom's energy sector that American companies had held up until the Saudi takeover of ARAMCO in the 1970's. They would have revived the role of American energy companies as an important domestic American constituency supporting the Saudi-American relationship. The energy companies, the main proponents of close Saudi-American ties from the 1930's through the 1970's, largely abandoned that political role with the Saudi takeover of ARAMCO. The failure of such a large and high-profile initiative in the Saudi-American relationship is symbolic of the changes that are occurring in the relationship since September 11, even if the failure was not directly caused by the September 11 political fallout. Conversely, the investments to be made in Saudi Arabia by Shell and Total will provide a new commercial link between Riyadh and three EU capitals.

There were other signals during 2003 that the EU was taking a more aggressive position on encouraging economic relations with Saudi Arabia, while United States companies were pulling back. In August 2003 Saudi and EU negotiators signed a trade agreement which will facilitate European investment in the Saudi infrastructure, end the Saudi practice of selling natural gas at below-market rates to domestic businesses, and smooth the way to Saudi accession to the WTO.[5] (The EU is already Saudi Arabia's largest trading partner.) Negotiations on a similar trade deal between Saudi Arabia and the U.S. have not reached a conclusion, though there were reports of progress during 2003. In September

[2] Jasim Ali, "New Saudi gas initiatives need to be attractive," _Gulf News_, July 6, 2003.
[3] Peter Behr, "Saudi Arabia Scuttles $15 Billion Natural Gas Project," _Washington Post_, June 5, 2003.
[4] _al-Hayat_, July 17, 2003, pp. 1, 6; _Petroleum Intelligence Weekly_, July 21, 2003.
[5] Tobias Buck, "EU Deal Likely to Smooth Saudi WTO Entry," _Financial Times_, August 31, 2003.

2003 Citibank announced an end to its management contract with the Saudi-American Bank (Samba), leading Moody's Investors' Services to announce a review to possibly downgrade the bank's investment rating. Both Citigroup and Samba said the end of the management relationship was a natural result of Samba's development, and Citigroup did maintain its 20% ownership share of Samba. Last year Citigroup, which had held 48% of Samba's shares, sold 28%.[6]

With the fall of the value of the dollar in 2003, speculation grew that OPEC might consider a change in its policy of pricing oil in dollars. Any change to pricing oil transactions in a basket of world currencies rather than in dollars would strengthen the role of the euro in its effort to rival the dollar as a reserve currency and a global unit of account. Outgoing OPEC Secretary General Alvaro Silva raised this possibility in an interview at the beginning of December 2003. Saudi Oil Minister, Ali Naimi denied that Saudi Arabia supported such a move, though he did say that the weak dollar justified higher oil prices.[7] Any signal that Saudi Arabia was considering a change in oil pricing from dollars to a currency basket would be a major blow to the dollar's dominant position in the world economy and a sign of a serious split between the countries.

There were no signals of a major shift in the position of the EU and the U.S. in terms of commercial rivalry in the smaller GCC states during 2003. Kuwait continues to want to bring American and European (along with Russian and Chinese) energy companies into areas along its border with Iraq, the "Plan Kuwait" initiative. This is clearly aimed at tying the economic interests of as many great powers as possible into the security of that border. The Kuwaiti parliament has however objected to re-opening the country's energy sector to foreign investment, and the future of Plan Kuwait remains uncertain.[8] During the second quarter of 2003, both Emirates Airlines and Qatar Airlines announced major aircraft purchases from Airbus, the European conglomerate, rather than the American aircraft producer, Boeing.[9] One can imagine that, ten years ago, Washington's political influence in Doha and Abu Dhabi could have pushed these national airlines to "buy American." (Emirates Air did announce a much smaller leasing deal for some Boeing jets.). It would however be a mistake to read too much into these commercial decisions. The international market in passenger jets has shifted steadily toward Airbus in the last few years, so the Gulf airlines are following market trends. It is interesting to note that, as the Saudi gas deal was collapsing in the summer of 2003, Conoco/Phillips, one of the American energy companies pulling out of the Saudi venture, committed itself to a $5 billion natural gas project in Qatar.[10] In October 2003 Exxon/Mobil signed deals

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[6] James Drummond and Gary Silverman, "Samba in Credit Rating Review," _Financial Times_, September 25, 2003.
[7] Simon Romero, "OPEC Holds Steady on Output, At Least For Now," _New York Times_, December 5, 2003.
[8] _Petroleum Intelligence Weekly_, December 1, 2003, p. 1, 4.
[9] "Qatar Deal Makes Airbus's Week," BBC News, June 19, 2003; Rasha Owais, "Emirates Signs $19b. Deal for 71 Aircraft," _Gulf News_, June 17, 2003.
[10] "Qatar, US Firm Confirm LNG Deal," Reuters, July 13, 2003.

with the Qatari company Rasgas that will more than double Qatari exports of natural gas over the next seven years.[11]

Commercial trends are not simply the reflection of politics. Sometimes they have more to do with dollars (and euros) and cents than with foreign policy. American companies' participation in the "Saudi gas deal" fell apart more because of business differences than because of 9-11., it is notable however that the EU as a political body and European energy companies seem much more anxious to complete deals with Saudi Arabia than do the United States government and American energy companies.

Gulf Security and the U.S.-EU Relationship

The EU is an increasingly unified economic bloc, acting as a single actor on the world economic stage. It is an important economic competitor of the United States in the Gulf region as a whole and in the GCC states. The same cannot be said of the EU in the security realm, for two reasons. First, the EU is not a unified actor on security issues. The splits among the major European capitals on the Iraq war were simply the most recent example of the lack of a common understanding of security interests within the EU. Second, none of the EU states, either individually or together, can match the United States as a provider of security to the GCC states. In a crisis, now and for the foreseeable future, only Washington has the forces, the bases and the strategic lift to defend the GCC against possible outside threats. A close defense relationship with the United States can create its own problems in terms of domestic security, as Saudi Arabia has found out and as the smaller GCC states might find out. In terms of defense against regional threats however, the EU cannot provide what the U.S. can provide. For that reason, the EU is not now a strategic competitor in the Gulf. Washington will do what it can to prevent it from emerging as a strategic competitor, in the Gulf or elsewhere. Given the obstacles in place to a coordinated EU security policy with the military strength to challenge the United States, it seems unlikely that the U.S. will have to do much in that regard.

The core of EU foreign policy divisions in recent years, evident most clearly in the Iraq War, is the different perceptions of Great Britain and France on how to deal with the enormous power of the United States.[12] London sees a close link with Washington as the best way to influence the use of American power. Paris sees the need for more classic, balance-of-power actions to restrain American excesses. Other EU capitals add their weight to one side or the other, depending upon circumstances and the vagaries of their own domestic politics. As long as the two most important military powers in the EU have profoundly different visions of how to deal with the United States, in the Gulf or elsewhere, the hope that the EU could be a strategic competitor of the United States is a pipe dream.

[11] *Petroleum Intelligence Weekly*, October 27, 2003, pp. 1, 3, 4.

[12] An excellent account of the divergent views of London and Paris on security issues and the trans-Atlantic relationship can be found in Jolyon Howorth, "France, Britain and the Euro-Atlantic Crisis," *Survival*, Vol. 45, No. 4 (Winter 2003-04).

Washington and in particular this Bush Administration, shed no tears over this fact. As early as 1992 Paul Wolfowitz, then serving in the first Bush Administration, drafted a strategic planning document that set out the major American security goal in the post-Cold War world as the prevention of the development of any potential security rival. The public outcry over this document (more over the directness of its language than its content, I believe) led President George H. W. Bush to disown it. The ideas that it embodies however, clearly guide the current administration of President George W. Bush. I do not find the fact that the dominant world power seeks to prevent the emergence of challengers unusual. It has been the stance of every great power in history, with the possible exception of a declining Great Britain in the first half of the 20th century. The United States is simply acting as other great powers have done before. Presumably it will, over time, be as unsuccessful as previous great powers have been at preventing the development of great power rivals. For the foreseeable future however, the United States will be unchallenged as the dominant outside power in the Gulf.

This does not mean however that European states are irrelevant to the Gulf security situation or to American strategic dominance there. Washington wants European (if not EU) support, even partnership, in its "management" of Gulf security. Having Great Britain, Spain and Italy supporting the Iraq War was an important public relations element of the Bush Administration's public relations' strategy for gaining support for the war in the United States. The British military contribution was significant, both during the war and in the occupation. It is for this reason that the United States is opening up the bidding process for contracts to be funded by American aid to Iraq to members of the coalition, not simply to American companies. (This step also aims to punish those states that did not join the coalition and to prevent the emergence of a unified EU position on the Iraq question.) Contrast this policy to the use of American foreign aid in other countries, where bidding is normally limited to local and American companies, excluding all third country bidders. Washington would like to secure broader European support for the occupation and would like to see EU member states (particularly France and Germany) forgive debts that Iraq owes them. At a minimum, Washington would like to have Paris' vote on the U.N Security Council to give international legitimacy to its actions.

So European leaders, if not the EU, do play an important strategic role in the Gulf, not as competitors to the United States (though some might want to be), but as actors who can either help or hinder American plans. It is in this regard that the Bush Administration faces problems with its Gulf strategy. It is pleased that the EU is not a strategic competitor and reserves itself the right to act unilaterally (not only in the Gulf) if it sees fit. That very unilateral assertiveness makes it less likely however that Washington will receive the assistance from European states that it seeks, on important political and strategic issues. This is true for two reasons:

- First, as was mentioned in the introduction to this paper, the core European interest in the Gulf, the free flow of oil, is not really at risk. The United States will guarantee that whether France, Germany or any other EU state cooperates with it or not. Why, then, should EU states accept a junior partner status, at best, with Washington in the Gulf, a position that brings its own negative baggage, for the few economic gains that might bring (some slice of Iraqi contracts)? Their major interests are already secured. Why kowtow to the United States to secure minor benefits?

- Second, American unilateralism and assertiveness during the Iraq War was profoundly unpopular in EU countries. A Eurobarometer poll taken in October 2003 found that 68% of EU citizens continued to believe that the military intervention was not justified. Even in the two countries that contributed troops, Spain and Great Britain, majorities agreed with that sentiment (79% in Spain and 51% in Britain). Only 14% believe that the United States should manage the transition to a new Iraqi government; 66% prefer that the United Nations take that role.[13] To the extent that American policy in the Gulf and elsewhere, continues to alienate European publics, democratic governments in the EU countries will find it harder to support Washington.

The EU cannot be a strategic challenger to the United States in the Gulf region for years, if not decades, to come. It is neither unified enough nor does it have the military resources to do so but the United States cannot have its cake and eat it for too long as regards European cooperation in its Gulf policy. Both national interest and European domestic political realities will make it harder for Washington to attract the support of European governments for a junior partnership in the Gulf. Without giving the Europeans a real decision-making role on Gulf strategy issues that this Bush Administration does not want to do, it is hard to see why any European leader would long pay the price of playing Sancho Panza to an American Don Quixote in the Gulf.

Conclusion: Is U.S.-EU Rivalry in the Gulf Inevitable?

The current trajectory of American and EU positions on the Gulf is for increasing competitiveness in the commercial realm and for continued differences in strategic visions of the region. Given the realities of power and domestic politics on both sides of the Atlantic, it is hard to see how the increasing gap between the United States and most European countries on Gulf issues can be bridged.

Even within the ongoing commercial competition it is not however inevitable that U.S.-EU relations need be conflictual on strategic issues in the Gulf. Jon Alterman, director of the Middle East program at the Center of Strategic and

[13] Eurobarometer poll results found at:
. See pp. 5, 13, 43.http://europa.eu.int/comm/external_relations/iraq/doc/fl151_iraq_full_report.pdf

International Studies in Washington, suggests that there can be a common agenda on the reconstruction of Iraq and on advancing the cause of political reform in the Gulf region. He argues that a common agenda on these questions can be based on similar interests and values in both the U.S. and the EU states, though it would require compromises on both sides of the equation.[14] Indications of possible cooperation over Iraqi debt relief, raised by the trip of former Secretary of State James A. Baker, III to Paris and Berlin in late December 2003, demonstrate that there could still be room for more U.S.-EU coordination on the Gulf. The obstacles to such coordination still remain considerable.

[14] Jon Alterman, "The Promise of Partnership: U.S.-EU Coordination in the Middle East," American Institute for Contemporary German Studies, Johns Hopkins University, Policy Report #10, 2003, . http://www.aicgs.org/publications/PDF/mideast.pdf