

# **The EU-GCC Partnership: A New Way Forward for Interregional Cooperation**

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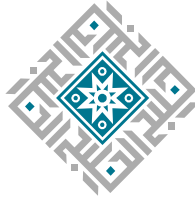
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## Introduction

For many practitioners and observers, the result of the contractual EU-GCC relation is a far cry from reasonable expectations. The relationship has neither progressed far enough for both parties to realize the full potential of interregional cooperation, nor has it served the strategic rationale for a close and mutually beneficial cooperation. It certainly does not reflect the historical, geopolitical and strategic considerations. Nor does it reflect the strong interdependence of the two regions and their many crucial links. It is; therefore, fair to say that there is a discontent, disillusionment and a negotiation fatigue among the signatories. The existing EU-GCC cooperation agreement of 1988 has essentially failed to either help shape the relationship or to spark any meaningful cooperation. It is evident that even economic cooperation (soft cooperation) between the GCC and the EU has not intensified, indeed, it has been at best static for most of the GCC states, and for some trade exchanges it has declined. This should be no surprise as the Cooperation Agreement is only based on non-preferential trading arrangements using Article 113 of the Treaty of Rome and complemented by a strong political element based on Article 235. In terms of trade, this effectively places the GCC at the bottom of the pyramid of privileges offered by the EU to its international trade partners.

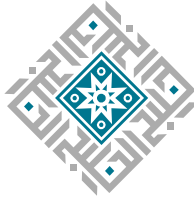
There are many reasons for the underdevelopment of the EU-GCC relationship, They range from the low starting point of the institutional dialogue, inexperience and a devotion to bilateral relations, institutional incompetence, inadequacy and mismatch, the sabotage of strong sartorial interests of the free trade talks, the external environment, to, above all, a stark lack of political will and absence of a strategic vision that has hindered the natural development of this relationship.

Furthermore, the EU enlargement will capture the Union's energy and attention, as it becomes even busier building the internal European house and assimilating the new members. It is expected that the EU, despite its will to engage in the area, will have less time to upgrade the EU-GCC relationship. Unlike the North African and Mediterranean states, the GCC states do not have someone to champion their cause inside the Union and there is no urgency for the EU to extend its cooperation.

The GCC member states, especially Saudi Arabia, which is playing a leading role in the regional group and in its international dialogue, will have to skillfully use their bilateral relations to obtain support from some EU member states to upgrade their relations to that of a real partnership.

### **The Foundation for the EU-GCC Partnership:**

At the outset, it is proposed that the GCC-EU relationship requires a new departure and a new launch. The platform should be substantially, if not



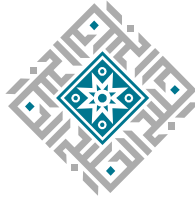
radically, different from the outmoded and somewhat redundant approach of trying to patch up or kick-start the existing model. This launch should be in a new EU-GCC Partnership that accords each party its due strategic weight, commensurate with their status, needs and aspirations. The partnership should overcome the negotiation impasse and the interlocutors' fatigue with the existing 'dialogue of the deaf'.

The strategic rationale and foundation for this partnership should be based on the strong regional interdependence, not least in energy and trade. It should, however, include the unfolding realities in the wake of the events of September 11, the regional realignment following the fight against terrorism, and post-Saddam Iraq, the threat of terrorism and the concern of this pro-Western regional group of being marginalized.

The underlining premise is that the two regions are mutually dependent on each other. This interdependence (asymmetrical as it may be) is bound to increase in the 21<sup>st</sup> century.

**Energy:** This is a classic case of interdependence where the GCC states account for 45% of global oil reserves and about 15% of natural gas reserves. Oil and gas production level is at present small compared to reserves, although the GCC states have the ability to substantially increase their production almost at will. The importance of the region is not limited to its oil reserves and production but also to the level of its oil trade and energy exports, which stands at above 40 percent of the total world trade in oil. Moreover, the importance of the GCC region is in its reserves to production ration (R/P ratio) as an indicator of potential future production and capacity expansion in the long term. With the combined GCC reserves to production ratio of over 100 years, higher than any other region in the world, the GCC region, in the light of projected increases in world demand for oil, is bound to be of crucial importance to oil consuming regions in the medium to long term. On the other hand, Europe is energy deficient, especially as its reserves have peaked or are expected to peak in the near future. Half the EU's energy is imported and two-thirds of the EU total energy imports are oil, a share that is expected to increase. Currently the GCC states provide around 15% of EU oil imports (Saudi Arabia 13%; Kuwait 2%). These states are expected to meet most of the projected increase in EU oil imports, but they will find themselves drawn to also meet increasing oil demand in the faster-growing region in Asia.

The size of the EU as a destination for energy imports gives it significant influence on the international energy markets. Its influence is greatest in the economies of those energy exporters for whom the EU represents the pre-eminent market. In the case of the GCC, the EU is the closest destination for GCC oil exports and the largest importer of GCC oil after Asia. The EU imports over a quarter of the GCC states' energy exports. Oil dominates the GCC's economy and its importance, as a revenue earner for the Gulf governments, cannot be overlooked. Nearly all GCC governments are dependent on oil income



and the stability of the oil markets. The GCC states are, therefore, equally dependent on the EU market. The EU energy dependence on Gulf oil, while it could be viewed as having an adverse impact on security of supply, is also something of a double-edged sword. The status of the EU as a trade partner, the dependence of the GCC states on oil revenues and the GCC need for EU support for Gulf security reinforces the interdependence between the two regions.

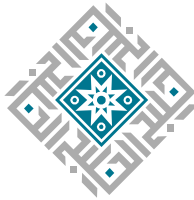
**Geo-Politics and Gulf Security:** security of oil supplies is closely inter-linked with Gulf security and internal stability. Historically the Gulf came under European dominance initiated by the Portuguese and the Dutch, followed by the French and the British. Indeed, for most of the twentieth century 'Pax Britannica' reigned supreme in the Gulf, until the final British withdrawal from the region in the early 1970s to be replaced by 'Pax Americana'. Since then the Gulf region has witnessed three major wars with much devastation. Today, we are still living through the repercussions and the uncertainty of the last war and the fall of the Iraqi regime. Indeed, since 9/11 the Gulf region has become a focus of attention in the fight against terrorism and weapons of mass destruction, especially under the current neo-con-influenced US administration. Since then, the US, the only remaining superpower, has initiated regime change in Afghanistan and Iraq, threatened other regional states like Iran and Syria, and is trying to meddle in the domestic affairs of the pro-western, GCC states. There is a danger that the hawkish US foreign policy doctrine on the fight against terrorism could be perceived as a fight against Islam and the clash of civilization could become a self fulfilling prophesy.

On the other hand, the unresolved Palestinian/Arab-Israeli conflict is still festering in the background, putting much pressure on the GCC states' regimes and their population and feeding more into the anti-western feeling in the area. Globalization with all its ramifications is presenting a new challenge to the region, which has become even more connected to the international system because of oil.

Gulf security is also threatened by internal instability. Population increase in the region has outstripped economic growth, resulting in more restive populations calling for economic, social and political reforms, abandoning the existing social contract and challenging the prevailing ruling systems.

The realities of Gulf and Middle East geo-politics requires the cooperation of all concerned and Europe cannot afford to distance itself from this vital and strategic region. Indeed, such testing times require that both regions remain engaged at the highest level to ensure peace, stability and security in the region, not least for oil supplies.

**Trade:** The EU and the GCC are not only two major regional trading blocs but both have contributed to the volume and growth of international trade. The EU is the world's largest trade partner, accounting for over a fifth of all exports in 1999, and, following completion of the "internal single market" in 1992, one of

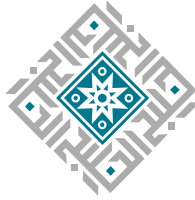


the world's most open markets. Its two main trading partners, the US and Japan, represent around 16 percent and 9 percent respectively. With 320 million citizens, it is now also the biggest single market in the world and will be still bigger (around 500 million) this summer after the 10 candidate countries from Central Europe and the Mediterranean have become members. EU imports from third countries correspond to 18 percent of the world total. This is slightly less than the US share (21 percent) and almost three times the amount of Japanese imports (6.5 percent). The EU is also one of the most important sources of foreign direct investment, although its share of investment in the GCC has declined over recent years. The EU is, thus, the closest developed region to the GCC for trade, investment, technology and know-how.

On the other hand, the GCC states' economies are still developing and are more trade dependent. Their aggregate foreign trade was \$181.5 billion in 1999, made up of exports of \$96.8 billion and imports of \$84.8 billion that made up over 68 percent of their GDP, which stood at \$226.5 in the same year. Their GDP per capita, although higher than other Arab states, remains low compared to EU member states, and is vulnerable to changes in the oil price. The GCC countries have always followed the route of a free trade environment and as they are becoming more integrated with the international system, they are progressively eliminating remaining tariffs originally intended to protect domestic investors. The region, for example, attracts a big share of world imports (higher than Africa), given its small population of 28.9 million (1998 figures).

EU-GCC trade, of around 50 billion Euros, remains significant to both regions, as the EU is indisputably the principal trade partner for the GCC. Importing around 29 billion Euros, the GCC states are Europe's foremost Arab partners, comprising over 40 percent of total EU trade with the Arab world. The GCC is the EU's sixth largest export market and the EU is the largest supplier of GCC imports, supplying over a third of the total. Similarly, the EU is the third most important market for GCC exports of around 22 billion Euros. The trade balance of around 7 billion Euros, which has remained stable since the mid 1980s, is in favor of the EU.

**Regional Integration:** The EU is a successful attempt at regional integration. The transformation of the European Community (EC) into a single actor (union) has been the declared aim of the member states. Successive treaties, such as the Maastricht Treaty of 1993 or the Amsterdam Treaty in 1997 have marked new stages in the process of creating an 'ever-closer union among the people of Europe'. The European Union has reached an advanced stage in its integrational development, and includes an Economic and Monetary Union (EMU) with a single currency, a nascent common foreign and security policy (CFSP) with areas of joint action, and, since Nice 2000, has a putative security and defense policy with the potential, at least, of undertaking some humanitarian, rescue and peacekeeping tasks as well as taking on the role of combat forces in crisis management, including peacemaking. Following the war in Iraq, the EU announced its first-ever security doctrine which underlines the union's belief in



using diplomacy and the United Nations to fight off new threats but included "last resort" military action to combat terrorism, weapons of mass destruction and failed states. Combined with ongoing discussions on a new EU constitution and the expected nomination of the EU's first fully-fledged foreign minister, the doctrine marks the coming of age of a more assertive and self-confident Europe.

Although there is no precise resemblance between the GCC and the EU, the GCC as a regional organization has survived the test of time and still represents the most successful attempt, relatively speaking, at regional integration in the Arab world. The GCC, despite its slow pace, has effectively created a free trade area between its member states with a common external tariff in 2003. It is also heading towards a custom union and a common market in 2007 and a common currency 2010. The GCC thus offers not only a single interlocutor but also fits into the EU policy of supporting regional integration. It is only natural for the GCC, as a pro-Western, regional group with strategic importance to Europe and the world and with many links with the EU, to expect to be recognized and to be accorded the right status. A Partnership with the EU would not only signal a strong support for this regional group but would also encourage further regional integration and give it the confidence to consider even the enlargement of the GCC itself.

#### **Pillars of EU-GCC Partnership:**

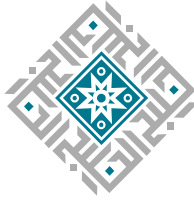
The new EU-GCC partnership should be based on several pillars and programmes:

#### **(1) Political and Strategic Dialogue:**

The EU-GCC political and strategic dialogue on international and regional issues has acquired dramatic urgency in the wake of the events of 9/11. It is still a fact that despite the EU's efforts at developing its foreign and security policy, the US remains the ultimate guarantor of Gulf security and it is the only remaining superpower that can effectively project power and guarantee security in the region. However, long-term Gulf security and stability is best achieved by good governance and cooperation within the Gulf States themselves and their neighbors, on one hand, and the with outside powers with strategic interest in the region on another. The EU and the GCC political and strategic dialogue should concentrate on:

Creating a Gulf Regional Framework for Cooperation (GRFC) between the GCC states and their neighbors Iran, Iraq and Yemen. The GRFC is aimed, among other things, at ensuring that the Gulf region and the Arabian Peninsula remains an island of peace and stability where inter-state conflicts are resolved by peaceful means. Economic cooperation between the regional states should enhance mutual trust and make wars and armed conflicts unthinkable. The US, the EU and even Russia, all have a strategic interest in the region and they should act as facilitators for the establishment of this framework and as observers of its proceedings. The GRFC could benefit from the experience of the





Organization for Security and Co-operation in Europe (OCSE) and the Euro-Mediterranean Partnership (EMP) as well the overall EU experience in confidence building and regional integration. The EU, as well as the US, should make their military assistance and the future sales of weapons systems to the region conditional upon achieving such cooperation.

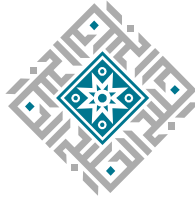
- The EU and the GCC could develop a vision and a plan, working closely with the US, to end the occupation of Iraq, ensure its territorial integrity and help create a free representative government in the country. Both parties should also help in the future reconstruction of Iraq and reduction and or elimination of debt.
- The two parties should develop a shared political common ground and come up with plans and initiatives for supporting and working towards peace in particular in the Middle East, the Mediterranean, central Asia and the Horn of Africa. Both parties should make extra efforts, along with the US, to bring an end to the Palestinian plight, the creation of a viable Palestinian state along side Israel, and a just resolution of the Arab-Israeli conflict. They should also cooperate in making the region free of weapons of mass destruction.
- The parties should also extend their cooperation in the fight against terrorism, money laundering, international crime and drug trafficking.
- For the GCC, engaging the EU in Gulf security arrangements would help it to counter balance US dominance. The EU, on the other hand, would get the opportunity to project its interest in the region supplementing and moderating US efforts but not supplanting it.

## **(2) Good Governance and Human Rights:**

Although the GCC governments have been undertaking reform for sometime the pace has been gradual and slow. The post 9/11 US policy of implanting western-style democracies in the Middle East threatens the Gulf regimes and the Arab public views it with suspicion. The EU and the GCC could develop a dialogue and cooperation for progressively implementing the needed economic, social and political reforms in the region, as well as human rights, without the sluggish pace or the associated threat of imposing democracy by fiat or regime change.

- The principles of liberty, democracy, tolerance, respect for different cultures, human rights and the rule of law should form the cornerstone of EU and GCC relations.
- The EU could help the GCC states in building a vibrant civil society, civil law, NGO's and civil institutions that could enhance the democratic process and ensure its viability.



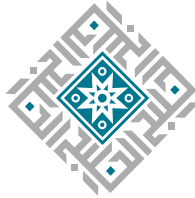


- The EU experience in electoral design and implementation, constitutional reform and regional integration could be useful for the GCC states at both the national and regional levels.
- The EU could also offer support for reform of the legal and law enforcement systems and both parties could collaborate in judicial training and penal reform including training for judges, lawyers, as well as police and military personnel, in human rights issues and civil-military and community-police relations.
- Both parties should encourage and support closer relations between their respective civil societies to identify common grounds and reduce mutual distrust and increase cultural affinity. This should include, for example, Parliamentarians, young leaders, academics, journalists, other professionals, women associations and NGOs.
- The EU should consider the inclusion of some GCC initiatives among the portfolio of the European Initiative for Democracy and Human Rights (EIDHR).
- The GCC could also think of developing the GCC Consultative (Shura) Council to a fully-fledged elected assembly and to give it the necessary parliamentary powers. The EU could help with its European parliamentary experience. The benefits could trickle down to the national Shura councils.

### **(3) A High-Level Energy Dialogue and Environmental Cooperation:**

Although the energy market is global in nature, a high-level EU-GCC regional dialogue on energy could go a long way towards improving the security of EU oil supplies and GCC states oil revenues. A regional dialogue must also address oil taxation and global environmental concerns. The dialogue should be based on the following mandate:

- The EU and the GCC should agree on ways to address the physical security of the oil supply through establishing guidelines for investments, production-levels, stockpiling, liquidation and transportation as well as emergency procedures.
- Both parties should address oil price levels and stability, which affects both parties' economic security as well as future investments and the environment.
- The EU and the GCC, working together with other interested parties such as OPEC, the IEA and the new Saudi-based Permanent Secretariat to the Energy Forum, could work on making the oil market more transparent and more efficient.

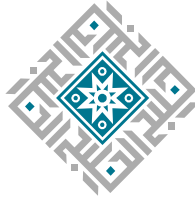


- The energy dialogue should also encourage vertical integration and joint ventures in both directions. This would go a long way to enhancing oil supply security.
- As gas is increasingly becoming the energy of choice in Europe the EU could benefit by helping to transport GCC gas into the EU through the Mediterranean countries and connecting it to the European grid. This would also help regional integration between the GCC, the neighboring states and Europe.
- Both parties should work to protect the global environment and minimize the effect of energy production and consumption on the environment under the guidelines of the Kyoto Protocol.
- The EU-and the GCC should also address the issue of oil taxation in Europe and find a viable solution. Perhaps some of these taxes could be used for supporting joint ventures between the two regions that would be environmentally friendly or helping further regional integration.

#### **(4) Economic Partnership:**

Since the signing of the cooperation agreement the two parties have been negotiating a free trade agreement (FTA), accompanied by much delay and procrastination. From the experience gained from the free trade negotiations the two parties should have the basis to create a free trade zone, further enhancing the prospects for increased trade, joint ventures, technological and industrial cooperation and investments.

- The EU-GCC FTA should be viewed as a means to the much broader aim of integrating the GCC into the wider EMP and beyond to Europe and the globalized world economy.
- As all GCC states, except Saudi Arabia, are members of the WTO the EU-GCC economic partnership could facilitate Saudi entry into the organization and it could find solutions to the outstanding problems associated with its accession. The FTA, which is going to be linked to the WTO framework, would strengthen the GCC institutionally and transform it into a sizable market that would be open to international competition and communication, eventually promoting economic reform and social change.
- The free trade area that covers all goods and services would increase trade exchange, enhance regional intra-industry integration and encourage cross investments and joint ventures. The two partners could also establish cooperation in the enforcement of patent law and intellectual property rights, which would encourage investment and joint ventures. They should also find the appropriate instrument to regulate and protect cross investments.

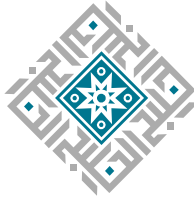


- The economic partnership should involve the private sector by establishing a business dialogue to foster business contacts and encourage economic exchange and share experience, especially in areas such as small and medium scale industries.
- The GCC states could benefit from EU experience in areas like custom union and common markets, as well as from technical advice and assistance in areas like standards, corporate governance, legal frameworks, banking regulations, rating and surveillance, central banking, other financial intermediaries as well as other administrative rules and procedures.
- The GCC states should start thinking about the role of the Secretariat General by enabling it to have its own resources and funding and the EU experience could lend a helping hand in this regard.
- The EU, with its vast experience, could help the GCC states in enhancing the integration of the Gulf financial markets and, subsequently, with those of the EMP, Europe and global markets in order to facilitate the financing of investment projects in the Gulf, the Mediterranean and other industrializing countries of common interests.
- GCC Central banks could also benefit from the experience of the European Central Bank (ECB) in single currency and monetary union.
- The EU banking sector could assist in the opening up of the GCC banking services to European banks and other intermediaries, taking into account the rules of the WTO.

#### **(5) Social and Human Cooperation:**

Social and human cooperation including education, development of human resources, promotion of understanding between the different cultures and an exchange at the level of civil society are as important as other pillars of cooperation. The two parties should attribute the greatest importance to this pillar as mutual understanding can be greatly enhanced by human exchanges and a dialogue between cultures. There is no better proof than the events of recent times that confirm the importance of cooperation in this field.

- The EU and the GCC should establish a wide range of cooperation between their peoples, not only in the world of politics and economics but also in culture, religion, education, the media, as well as between trades unions and public and private enterprises and NGOs.
- Both parties should also recognize the challenges posed by current political and social trends, which include terrorism and anti-western feeling in the



region, and should work together to eliminate not only the symptoms but also the core cause of such trends. They should at all costs avoid a clash between their cultures and civilizations.

- The EU and the GCC should work on establishing dialogues between cultures and civilizations by such means as: dialogue between faiths, religions and religious and social institutions, encouraging greater interaction between the media of the EU and the GCC states; involvement of cities and regions in the partnership like twinning of cities in the Gulf and Europe, cultural exchange programmes and sponsored performances and co-productions.
- Moves to strengthen human resource development such as training lecturers and teachers and more cooperation between universities, exchange of students (Erasmus-type) and, especially, sending more GCC students to European universities, including offering financial support, twinning arrangements between GCC and EU universities, and exchange of lecturers where applicable, create European and Gulf study centers in the two regions' respective universities, set up subsidiaries of European universities in the region and cooperate in distance learning and vocational training.
- The two parties should work on initiatives to cooperate in health care training and management, including the training of doctors, midwives, nurses and hospital technicians and managers.
- The EU and the GCC should also work on specific programmes for women, training and development.

#### **(6) Budget and Funding:**

An issue that has bedeviled the EU-GCC dialogue is that of lack of finance and funding for joint projects.

- As the EU opts for joint funding for projects with the GCC it is suggested that as part of the partnership a budget is allocated for partnership programmes, funded jointly by both parties, divided between the different pillars of cooperation.
- The budget, which should be an integral part of the partnership programme, should be managed and executed by the European Commission and the Secretariat General to ease decision-making and quick implementation of projects. Some of the oil taxes discussed earlier could also be used to finance joint projects and initiatives that have failed in the past to gain financial support from both regions despite their importance.
- The GCC Secretariat General, which lacks its own funding and financial independence, could also be supported by these taxes to enable it to start playing a role in financing and funding some joint inter-regional projects.



In conclusion, there is much to gain from EU-GCC cooperation and very little to lose, but it requires a political will from both sides. It will also depend on the GCC states' ability to put this Partnership on the top of the large agenda of the EU and the EU ability to recognize the strategic importance of this relationship.