

Italy and Saudi Arabia confronting the challenges of the XXI century

IAI RESEARCH PAPERS

Edited by
Silvia Colombo



Edizioni Nuova Cultura



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Istituto Affari Internazionali

IAI Research Papers

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Series Editor

Natalino Ronzitti

First published 2013 by Edizioni Nuova Cultura

For Istituto Affari Internazionali (IAI)

Via Angelo Brunetti 9 - I-00186 Roma

www.iai.it

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ISBN: 9788868121518

Cover: by the author

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List of Abbreviations

ARAMCO	Arabian American Oil Company
CASOC	Californian Arabian Standard Oil Company
CSC	Council of Saudi Chambers
ECFR	European Council of Fatwa and Research
EU	European Union
FDI	Foreign Direct Investment
FTA	Free Trade Agreement
GCC	Gulf Cooperation Council
GDP	Gross Domestic Product
HRDF	Human Resource Development Fund
IEA	International Energy Agency
KAICIID	King Abdullah bin Abdulaziz International Centre for Interrreligious and Intercultural Dialogue
KAUST	King Abdullah University for Science and Technology
KSA	Kingdom of Saudi Arabia
MENA	Middle East and North Africa
NICDP	National Industrial Clusters Development Programme
NOC	National Oil Company
OECD	Organization for Economic Cooperation and Development
OIC	Organisation of the Islamic Conference
OPEC	Organization of the Petroleum Exporting Countries
PIF	Public Investment Fund
SAMA	Saudi Monetary Agency
SIDF	Saudi Industrial Development Fund
SME	Medium-Sized Enterprise
SOCAL	Standard Oil of California
TNC	Transnational Company
UNCTAD	United Nations Conference for Trade and Development

Preface

Italy and Saudi Arabia are united by numerous and strong ties that have developed over the decades. In 1932, the two countries signed a Treaty of Friendship that constitutes the origin of their bilateral relations. The celebrations of the 80th anniversary of the establishment of Saudi-Italian diplomatic relations provide, therefore, an opportunity to assess the state of these relations, as well as to advance some proposals as to how the two countries' mutual cooperation and engagement in the regional and international arenas could be strengthened.

This book has a two-fold objective: the first is to commemorate the outstanding level of engagement between Italy and the Kingdom of Saudi Arabia in a number of domains. In this light, it sets forth the achievements and successes of the bilateral cooperation between two countries that aspire to play an active and constructive role not only as part of regional groupings, i.e. the European Union (EU) and the Gulf Cooperation Council (GCC), but also in the international arena. The second objective of the book is to advance our knowledge of the most promising areas of cooperation, the challenges facing such cooperation and the prospects for future mutual engagement. It is thus a celebrative/analytical book that combines solid scholarly analysis of the issues around which the Saudi-Italian bilateral relationship revolves with the first-hand experience and anecdotal knowledge of practitioners. Accordingly, the book is composed of both analytical and descriptive chapters, while all chapters offer insights into how the countries' bilateral relations could be enhanced in a number of sectors, from energy and trade to inter-parliamentary and inter-cultural dialogue.

The book is divided into eight chapters preceded by two sets of introductory remarks by the countries' foreign affairs ministers and followed by a short conclusion. The first chapter traces the complex history of Saudi-Italian diplomatic relations starting from their establishment in 1932. It underscores the ways in which these relations have grown in scope over the decades and have occupied a prominent role in both countries' gamut of external relations. A string of official visits, agreements and bilateral contacts at multiple levels has contributed to developing the cooperation that has flourished in many sectors. In this regard, trade, investment and energy relations have long occupied the central stage in Saudi-Italian bilat-

eral relations, and are assessed here in three different chapters looking at the evolution and prospects for trade and economic relations. These chapters examine in particular the impact of the financial and economic crisis on the Italian economy and its loss of competitiveness on the global stage, as well as the changes taking place in the demand-supply energy security nexus.

In recent years, however, other sectors of cooperation have emerged as the most promising in light of both countries' political and cultural power. Saudi Arabia and Italy are indeed endowed with, and can capitalise on, soft power which derives from their roles as cultural hub in their respective regions. In this light they are seen as natural partners on a number of issues ranging from inter-cultural and inter-faith dialogue to inter-parliamentary cooperation.

A third and final set of chapters deals with the impact on Saudi-Italian bilateral relations of the tremendous changes which have occurred as a result of the so-called "Arab Spring". The transformative nature of the transitions underway in the Mediterranean poses new challenges and opportunities for both Saudi Arabia and Italy in their common neighbourhood, and has also changed the terms of the equation of their bilateral relations. Bearing in mind the on-going and long-term character of these processes, some reflections are offered here, which underscore the flexible and adaptive nature of Saudi-Italian relations.

This book is the result of the intellectual activity of a group of scholars led by the International Affairs Institute (IAI), which has benefited from the generous contribution and proactive support of the Royal Embassy of Saudi Arabia in Rome. Ambassador Saleh Mohammad Al Ghamdi's commitment to this project has been instrumental in allowing it to see the light. His unwavering support is acknowledged and greatly appreciated. Special thanks are also due to Ms Veronica Moriconi from the Royal Embassy of Saudi Arabia in Rome for her constant engagement with IAI and the authors, without which it would not have been possible to produce this book.

S. C.
Rome, September 2013

Opening remark

Prince Saud Al Faisal

It is indeed a pleasure for me to write this introduction to a book dealing with topics that focus on the relationship between two countries with an active role at both regional and international levels. The Kingdom of Saudi Arabia and the Republic of Italy are celebrating in these days the 80th anniversary of the establishment of bilateral relations between the two countries. The fact that Italy was one of the first western states to recognize the Kingdom in 1932 is still indelibly recorded in the historical memory of the Kingdom's government and people. Such recognition of the establishment of the diplomatic relations was then crowned by the opening of the Italian Consulate in Jeddah in 1933. After that date, reciprocal visits between political leaders from both countries followed one another and have continued up to this time.

The salient feature of the Saudi-Italian relationship is not only its historical depth, but its continuity and solidity. The relations between the two states have not witnessed any tension or interruption during eight decades. The friendship and the mutual interests between the two countries are the basic pillars of Saudi-Italian relations. The Kingdom of Saudi Arabia is one of Italy's main energy suppliers; there are also a great number of Italian companies working in the Kingdom. The volume of trade between the two states in 2012 reached about 35 billion Saudi Riyals. Italy receives an increasing number of Saudi tourists who visit Italy to enjoy the nature and culture of the Republic of Italy; likewise, the Saudi holy places receive Muslim pilgrims coming from Italy every year. The Saudi-Italian relations have also registered a growth in the field of higher education, as witnessed by the increasing number of Saudi students coming to Italy to undertake higher education.

Saudi-Italian relations are not limited to the bilateral aspect only. Indeed, through the Gulf Cooperation Council and the European Union, the relationship between the two countries has been consolidated in the fields of economic and technical cooperation, as well as in the joint effort to achieve a greater convergence on issues concerning the

Middle Eastern region, and above all the Palestinian question, as well as the security of the Gulf area.

I hope that the chapters and the topics of this book will positively contribute to the consolidation of the historical and strong relations that exist between the governments and peoples of the two friendly countries.

Prince Saud Al Faisal bin Abdulaziz Al Saud
Minister of Foreign Affairs of the Kingdom of Saudi Arabia
Riyadh, September 2013

Opening remark

Emma Bonino

As Italy and Saudi Arabia are celebrating in Rome the 80th anniversary of the bilateral diplomatic ties through this creative format of an Italo-Saudi Forum, I accept with pleasure the invitation to write a few words on the relations between our two countries: we are being called upon to shoulder convergent responsibility for the wealth, prosperity and stabilisation of our common region: the “extended Mediterranean”.

Italy and Saudi Arabia really have a lot in common and there are profound reasons for us to find it natural, and even opportune, to further tighten our bonds, and that means looking beyond the numbers, beyond the known fact that Italy is the Kingdom’s top European trade partner, with a 11 billion Euro turnover in 2012.

Both countries are facing the challenges of a “globalisation-driven” modernity, resulting from rapid economic development that came at a crucial transitional juncture with the international financial and sovereign debt crises of last years. The two societies still stand essentially on the institution of the family: the driving force behind socialisation, the source of social cohesion and the producer of welfare.

Italy is a very active member of the United Nations, a founding member of the European Union, part of G8 and NATO; Saudi Arabia is more and more present in UN institutions, an influential member of the Arab League, the Gulf Cooperation Council and of the G20. As Italians and Europeans we are happy to see a player of that weight to increasingly take stance on major international issues. Good world governance implies direct commitment by States and broader participation. We agree on the critical issues of world economic governance, particularly on the need to coordinate national policies and develop adequate international financial architectures based on transparency, respondent to the legitimate aspirations of emerging nations and pro-growth .

Fruitful harmony on political terrain has led to a marked change of pace in economic collaboration. We agree therefore that business and the private sector are authentic protagonists, and we expect at the same time, and for the immediate and near future, major benefits also at governmental level. Indeed, a part of this Forum is devoted to explore the

yet unexpressed potential of our relations by encouraging the so called “doing business together”. But we devoted no lesser attention to people to people contacts and to the younger generations. I would like to cite two of many possible examples: the signature during this remarkable Forum of two Memoranda on cultural cooperation and mutualisation of political analysis; and the decision to place university, training and research collaboration at the top of the list of common priorities. Those axis represent the wealth of knowledge to be mined by future generations – in a word: “the oil of the future”.

As we are going to celebrate the 80th anniversary of diplomatic relations – eight decades with no major problem as correctly says my homologue Prince Saud Al Faisal – it is worth concluding this introduction with a note on the future. All the major Italian business groups know their Saudi counterparts and colleagues well. The two governments are doing their part to improve the business climate so that businesses maintain their efforts to effectively build up on their business contacts. Cooperation and investment sectors need to be broadened beyond the time-tested areas of petrochemicals and construction. Italy has rightly now launched an ambitious programme of foreign investments attraction. New economic frontiers need to be explored, such as the “green economy”, information technology, and the knowledge economy. Tourism, archaeology, preservation and valorisation of heritage, effective or market friendly formula of cultural sponsorship must be encouraged.

Above all, a fertile terrain is that where two civil societies meet, beginning with the most important undertakings: student exchanges, university and technical-administrative training courses, and cooperation in the most advanced science and technology projects, not to mention cooperation in the field of defence and security.

We need to know each other better and speak to each other frankly, like friends do, to build peace and prosperity together.

Emma Bonino
Minister of Foreign Affairs of the Republic of Italy
Rome, September 2013

1.

History of an 80-Year-Long friendship: Italy - Saudi Arabia 1932 – 2012

Matteo Pizzigallo

KING ABDUL AZIZ IBN SAUD AND THE TREATY WITH ITALY

On 10 February 1932, in the Royal Palace of Jeddah, the Saudi Foreign Minister, Emir Faisal, and the Italian Consul, Guido Sollazzo, signed the Treaty of Friendship between Italy and the Kingdom of Nejd and Hejaz and its Dependencies which, from 22 September 1932, would take the current denomination of Kingdom of Saudi Arabia. The Treaty of Friendship was complemented by a trade agreement, signed on the same day. This marked the beginning of an enduring friendship and of promising (not only) diplomatic relations between Italy and the new, great Arab state, finally reunited by the legendary King Abdul Aziz Ibn Saud.

“With flags flying”, wrote Consul Sollazzo in his report on the signing of the Treaty to the Ministry of Foreign Affairs dated 17 February 1932, “Italy is about to take a more active part in the life of this country, which fervently aspires to improve its cultural and economic assets. Italy’s unambiguous, loyal policies towards this State, combined with a spirit of deep comprehension of the history of these peoples, will be able, with time and perseverance, to achieve those results that others, who were here before us and were better equipped than us, strove in vain to achieve, being driven by selfishness and hegemonic plans alone”. The diplomacy of friendship with Italy was part of Ibn Saud’s wider, far-sighted plan to set up relations with the official and unofficial representatives of several countries. The intent was to strengthen the independence and autonomy of his young kingdom by restraining, as far as possible, the “hegemonic plans” of Britain, which had long been active in the strategic area of the Persian Gulf in an attempt to gain exclusive political influence in the region. At the same time, having launched a programme to modernise the country and better exploit its natural resources, Ibn Saud was trying to replace – or, at least, to complement

– the invasive, self-interested presence of the British with that of other Western countries with the necessary financial means, and technical knowledge and competence.

Thus, the Treaty of Friendship, solemnly ratified in the presence of Prince Faisal in Rome on 22 April 1932, could also favour Italy's future trade penetration of Saudi Arabia. That was the Saudi prince's first visit to Italy, which he reached onboard the steamship *Crispi* (after the departure from Massawa, the ship had purposely stopped in Jeddah to embark him). Accompanied by Consul Sollazzo, Prince Faisal reached Naples on 18 April; the next day, he left for Rome, where he received a warm welcome and stayed until the evening of 24 April, when he set off for Turin and Milan. On 28 April, Prince Faisal left for Switzerland, and later continued his journey, visiting France and England. Having been informed by his son Faisal of the warm welcome he had received in Italy, on 30 April, King Ibn Saud expressed his deep appreciation to the Italian authorities: "I wish to maintain, at all costs, the friendship of Italy, because this friendship is very precious".

A few months later, the Italian foreign minister elevated Jeddah to the rank of Legation, headed by the Plenipotentiary Minister, Ottavio De Peppo, who was to remain in office there for about one and a half years as of 25 September 1932. De Peppo had the opportunity to meet King Ibn Saud for the first time on 15 April 1933. The king, whose usual residence was in Riyadh, had travelled to Jeddah to receive in audience the diplomatic and consular corps accredited to Saudi Arabia. It was a brief meeting, however the Italian diplomat was positively impressed by Ibn Saud's strong personality: curiously enough, the car the king used in the streets of Jeddah was a brand-new *Isotta-Fraschini* that his son Faisal had bought during his journey to Italy. On 19 April 1933, in his report to the Ministry following the meeting with the king, De Peppo wrote: "Ibn Saud is undoubtedly a very strong, intact personality – which you feel very clearly when you approach him even for only a few moments. From time to time his face brightens up in a kind, almost sweet smile, a spontaneous mark of his nature of a straightforward man".

The new Italian diplomatic representative, Giovanni Persico, had a much longer meeting with the king in a private audience the king gave him in Jeddah on 11 April 1934, in which they examined a few major political issues. The political situation was, in fact, quite delicate: because of problems related to the borders of Asir and of the contended ownership of Najran, a threatening conflict had just broken

out between Saudi Arabia and Yemen which could have put the Italian diplomacy in an embarrassing position, since Italy had long been on good terms (although for different reasons) with both countries. The conflict, however, ended rather soon on 20 May 1934 with the signing of the Treaty of Muslim Friendship and Arab Brotherhood. With Yemen recognising Saudi sovereignty over Asir and Najran, an end was put to disputes over territorial issues and borders. As already mentioned, on 11 April 1934, diplomat Giovanni Persico was received by King Ibn Saud at the Royal Palace of Jeddah. “In the royal hall – wrote Persico in his report to the Italian Foreign Ministry – Ibn Saud moves towards me. His Majesty is a man aged about 57, still at the height of his physical and intellectual capacities – he is the pure Arab. After the ritual courtesies, Ibn Saud talked to me about Italy and his strong liking and friendship for our country. Fifty years ago, in Baghdad, his father had met the Italian consul, with whom he had excellent relationships, and had talked to him – then a young man – about the character of Italians. I replied to His Majesty that my Country nourishes the same feelings of friendship for the Arab Muslim Kingdom”.

THE BEGINNING OF A STRONG FRIENDSHIP

Through the resolution of controversies with Yemen, Saudi Arabia consolidated its leading position in the Arab peninsula and was able to plan its future in a different way. After the wars that had been necessary to unify and defend his kingdom, Ibn Saud could at last open the period of peace needed for the development and modernisation of the country. In this framework, on 5 June 1934, the Saudi Foreign Undersecretary, Fuad Hamza, met Persico. Hamza called for greater collaboration in economic and trade matters between the two countries. Fuad Hamza discussed the issue again with Italian authorities during his mission to Rome on 10 September 1934, which was followed eight months later – at the end of May – by the important visit to Italy of a Saudi delegation led by the Crown Prince Saud. The Rome talks with the Saudi delegation were also the first step towards greater collaboration in the area of pilot training, which culminated in a mission of the Italian Air Force to Jeddah.

Unfortunately, in 1935 the Saudis' encouraging openings appeared to be doomed to failure, despite the excellent political relations between the two countries that were constantly supported by the far-

sighted Italian diplomats accredited to Jeddah (who, having realised the enormous potential of the new Arab state, had repeatedly put forward effective, practical proposals). In 1935, the Italian government was concentrated exclusively on accomplishing an ephemeral imperial dream, which was to take up a huge amount of financial – mainly public – resources: first the conquest of Ethiopia and then its exploitation in the following years, starting with the building of a road network. After only a few years of peace, World War II struck the fragile, defenceless Italian Eastern Africa, shattering the imperial dream and putting an end to the grandiose, costly programmes of development and modernisation which were still in their early stages. In the early months of 1941, the British troops coming from Kenya launched their final offensive, which led to the liberation of Ethiopia and the restoration of its legitimate sovereign.

At the outbreak of World War II, Saudi Arabia declared its neutrality, but the conflict soon began to cause growing difficulties. Soon after Rashid Ali al-Gaylani's nationalist revolt in Iraq (openly supported by the Italians) and the spreading of the war fronts, the British authorities began to pressure the Saudi authorities into breaking their relations with Italy for security reasons, requiring the immediate closure of Italian diplomatic offices in Jeddah. Thus, after ensuring that the Legation of Turkey would take care of Italian interests in Saudi Arabia, on the morning of 8 February, the Italian diplomat, Luigi Sillitti (who had taken over from Giovanni Persico four years earlier) left Jeddah, heading for Riyadh to meet King Ibn Saud who wanted to greet him personally. The meeting took place on 15 February in the presence of the Crown Prince and the influential politician, Yussuf Yassin. Recalling the decades of friendship, King Ibn Saud told Sillitti that the pleasure of meeting the representative of the Italian government was not cancelled by the reasons and circumstances related to the constant pressure of the British, which he was not able to resist. In the meantime, on 19 February 1942, the Italian foreign minister wired his ambassador in Ankara, asking him to thank the Turkish government for agreeing to take care of Italy's interests in Saudi Arabia, stressing that "the diplomatic relations between Italy and Saudi Arabia should be seen as being interrupted rather than broken".

RETURNING TO JEDDAH

On 4 November 1947, at the royal palace of Jeddah, the new diplomat representing the newly-born Italian Republic, Filippo Zappi, presented his credentials to Crown Prince Saud. Remembering the last, sad encounter with Sillitti on the eve of his forced departure, the latter warmly expressed his personal appreciation for the re-opening of the Italian Legation and relations between the two countries following the five-year interruption.

Many things had changed in Riyadh since the last meeting. The intrusive British experience was now declining: its place was being taken by the ever-growing American economic influence linked to the exploitation of oil fields, which had been discovered within the area of the concession given to Standard Oil of California (Socal) in 1938. Socal merged with Texaco, forming the Californian Arabian Standard Oil Company (Casoc) whose name changed to the current Arabian American Oil Company (Aramco) in 1944. In 1948, Aramco came to include Standard Oil of New Jersey (Exon-Esso) and Standard Oil of New York (Socony-Mobil), with a view to completing and consolidating the American multinationals' presence in the Gulf area, replacing the declining British imperialism. The new scenario was immediately clear to the Italian diplomat who, in one of his first reports to the Ministry of Foreign Affairs dated 5 January 1948, wrote: "With the exception of a few works for which Egypt's cooperation has been requested, all the other works have been assigned to the Americans and are guaranteed by the share on the income that Aramco has to pay on a yearly basis. The Government does not seem to worry, because they believe that, unlike other Western powers, the United States has no territorial ambitions in the Near East".

As for the new republican and democratic Italy of the post-war period, the country, having gradually recovered from the crushing defeat and having abandoned (more or less willingly) its colonial dream, was now able to approach the Arab countries (above all, those that had recently become independent) as a reliable partner. Its action was inspired by the diplomacy of friendship as a model of relations in the name of peace, respect for peoples' self-determination and cooperation. In some respects, relations with Saudi Arabia reflected the diplomacy of friendship model that had been devised and implemented with mutual satisfaction. It should be stressed that King Ibn Saud expressed his wish

to meet the new diplomatic representative of Italy immediately since, in the king's words, Italy was a country towards which Saudi Arabia had always "nourished feelings of sincere friendship".

Thus in the early afternoon of 31 January 1948, after a four-hour flight, Filippo Zappi landed at Riyadh airport and was immediately received in audience at the Royal Palace by Ibn Saud, who welcomed him with great warmth. After the royal audience, Zappi was visited in his home by a Court officer, who brought him a gift from the king – a Bedouin sword with a chiselled gold sheath together with a traditional Saudi dress, which the Italian diplomat wore as a mark of courtesy at the dinner party thrown in his honour at the Royal Palace the same evening, in the presence of the king and the crown prince. In his report to the Ministry dated 11 February 1948, Zappi wrote: "I was pleasantly impressed and deeply touched by the many attentions and great kindness shown by the king. These are partly due to the wish to consolidate the friendship with Italy and partly to the wish to forget that distant 1942!". Back in Jeddah, Zappi carried on work to raise favour for the Italian Aramco workers' claims as well as to promote the presence of Italian companies in the country. He returned to Italy in August 1949.

His successor as head of the Italian Legation in Jeddah, Ugo Turcato, presented his credentials to King Ibn Saud on 17 November 1949 in the course of a solemn ceremony in the presence of the king who attended in order to stress the ancient ties of friendship with Italy. In responding to Turcato's salute with sincere warmth, the king wished for "greater collaboration between the two peoples, including Italy's contribution to the modernisation of Saudi Arabia." The greater economic cooperation called for by the king, and which the Italian diplomats had long been striving for, was neither simple nor easy to achieve: at the time, the Saudi Arabian market was *de facto* monopolised by a handful of large American corporations operating in the sectors of public works, transport and services, while Italian companies – weaker and often lacking the necessary financial resources – struggled to compete. Intensifying and consolidating diplomatic relations was easier, however. As a consequence of Turcato's constant encouragement, the Saudi foreign minister finally appointed Muwaffaq al-Alusi as special envoy and plenipotentiary minister to Rome. He presented his credentials to the Italian President of the Republic Luigi Einaudi in March 1951.

THE RELAUNCHING OF DIPLOMATIC RELATIONS

At dawn on 15 April 1952, for the second time after 20 years, Emir Faisal got off the *Esperia* at the port in Naples, where he was welcomed by the highest civil and military authorities. In the evening of the same day, the prince set off for Milan, where he met the President of the Republic Einaudi. Over the following days Faisal visited a few industrial plants in Milan, Turin and other cities in the north of Italy. On 25 April he reached Rome, where he met the Prime Minister, Alcide De Gasperi. During their confidential meeting, which was minuted by De Gasperi himself, Prince Faisal asked the Italian prime minister to consider approaching the British Foreign Secretary Anthony Eden in order to try and settle the contrast between Egypt and the United Kingdom over Sudan, which was a cause of great concern for Arab diplomats. However, in the controversy over Sudan, which was to escalate in the following months, it was too late for mediation. At dawn on 23 July 1952, the “Free Officers” entered Cairo and seized power, opening up a new phase in the history of Egypt.

On 3 February 1953, Giuseppe Capece Galeota (who had taken over from Turcato as head of the Legation) went to Riyadh to present his credentials as plenipotentiary minister to King Ibn Saud who, once again, had expressed the wish to receive the new Italian representative in person. The ceremony took place in a warm, friendly atmosphere, and Capece Galeota was the last diplomat to see the king: a few months later, in his residence in Taif – the city famous for its roses – the much-loved, legendary King Ibn Saud, the founder of the united kingdom whose throne is still held by his descendants, passed away on the morning of 9 November 1953. Even though the sad news of the king’s death was not at all unexpected, as the king had been ill for a long time, it generated deep emotion across the Arab world, in which the Saudi king was generally known as a man of high moral and political standing.

After Ibn Saud’s solemn funeral, which took place before a huge crowd in Riyadh following the austere Wahhabi rite, the late king’s 50-year old son Saud ascended the throne, while Faisal became the crown prince. Capece Galeota, who had had the opportunity of meeting the new king in Jeddah, reported to the foreign minister his feeling that Saud would give further momentum (supported, among other things, by the growing revenues from the oil industry) to the development and modernisation of the country. This involved opening up to new, reliable foreign partners who could work side by side or in cooperation with the

American companies that were already operating in the country. In this perspective, considering the good relations existing between the two countries, it seemed possible to favour the introduction of a few major Italian companies. "The time seems favourable", wrote Capece Galeota in his confidential report to the Ministry on 22 December 1953. "If we could introduce one of our major companies, that would be the first step towards our further, worthy economic penetration. To this aim, however, our commercial and industrial managers should turn up here without further ado. If we are not daring enough to take advantage of some of the chances that are opening up to us, all the positions will be taken by other countries".

However, the time was not yet ripe. Italian capitalism, which had grown thanks to government contracts, had neither the desire nor the ability to internationalise or to compete with foreign competitors on the promising, though extremely tough, Arab markets. Things only changed in the late 1950s, thanks to the daring initiatives of the state-owned companies of the ENI-AGIP group in several countries including Morocco, Iran and Egypt. As far as Saudi Arabia is concerned, in the spring of 1957, AGIP sent a technical mission to explore some areas in the Riyadh province. The results of the technical assessment were not encouraging and the project was temporarily abandoned, also because of other problems concerning ENI's over-exposure in Iran.

The project was only resumed about ten years later, on 21 December 1967, when AGIP was given a concession to explore a desert area in the southeast of the country. But, once again the outcome of the search for oil was not positive. In the meantime, the international political scenario had been shaken by the 'Six-Day' Arab-Israeli war which was to open a deep chasm in the Middle East and worsen the condition of Palestinians, who were still desperately searching for a fair solution. Indeed, in spite of an ad hoc UN resolution ruling that Israel should evacuate the 'Occupied Territories', the many negotiations carried out from 1967 onwards constantly failed to achieve any permanent solution shared by both parties.

In 1971, Algeria nationalised its methane fields and, the year after, Iraq nationalised the plants of the Iraq Petroleum Company, which had been the bulwark of the oil cartel corporations since the 1920s. Other countries, including Saudi Arabia, followed the trend of partial nationalisation in order to take hold, once again, of their oil resources and control over the country's oil production. Thus, OPEC countries

– Arab countries in particular – saw their economic and political influence grow remarkably on the international scene. At the same time, tension was growing between Egypt (supported by Syria) and Israel. The situation came to a head in 1973 with the fourth Arab-Israeli war, the so-called Yom-Kippur war. Its devastating effects would change the history of oil for good, leaving a deep mark on all those directly or indirectly involved. Oil-producing countries decided to raise the level of the conflict with some consumer countries (which they – rightly or wrongly – perceived as Israel’s supporters) using oil as a weapon to hit the Western economic system.

THE SEVENTIES

On 7 February 1973, Italian Foreign Minister Giuseppe Medici travelled to Riyadh, where he was received by King Faisal (who had ascended to the throne in 1964) and signed the first agreement for cultural, technical and scientific cooperation. A few months later, on 8 June, Faisal visited Rome for the third time, accompanied by the defence minister, Prince Sultan. Here, he had high-level talks with the President of the Republic, Giovanni Leone, and Prime Minister Giulio Andreotti. The main subject of the talks was the common concern about the dangerously growing tension in the Middle East, which was to blow up four months later. During the talks, Italy’s and Saudi Arabia’s highest authorities also discussed the construction of a mosque and of an Islamic Cultural Centre in Rome.

On 10 January 1974, at the peak of the oil crisis caused by the Yom-Kippur war, Saudi Oil Minister Yamani travelled to Rome: there, he met Aldo Moro, who had resumed his position as foreign minister in the new government headed by Mariano Rumor. For delicate, complex reasons deriving from the need to guarantee Italy’s security and energy supplies, Aldo Moro – a faithful supporter of the diplomacy of friendship – strove to favour peace and stability in the Middle East, which was constantly shaken by the Arab-Israeli wars. In this perspective, the prophetic speech given by Foreign Minister Moro to the Italian Senate on 17 October 1973, a few days after the dramatic renewal of the conflict, is quite significant: “We know”, said Moro in his speech much appreciated by the Arab world, “that force cannot resolve any conflict. In the long run reason and justice can win. And reason and justice want the people

of the Middle East, and Israel of course, to have a safe and decent life within the borders protected by consensus and, where necessary, by a solid institutional guarantee." Between the end of January and the beginning of February 1974, Moro made a number of official visits to several countries, from Egypt to Saudi Arabia. In Saudi Arabia, Moro met the foreign minister and was received by King Faisal, with whom he had a few important talks concerning the political and economic situation. Moro reasserted his view on the "total and not partial nature" of the well known UN Resolution 242 which implied "the need to withdraw from all Territories occupied" using force. Overall, Moro's mission marked a significant moment in the diplomacy of friendship and was perceived as such. "In the Arab world", stated the foreign minister on his return to Rome on 3 February 1974, "there is a major opening towards Italy."

The following year, from 2 to 5 March, President of the Republic Giovanni Leone made the first official visit of an Italian Head of State to Saudi Arabia, where he met King Faisal. With him he found a "fundamental harmony" of views concerning the Palestinian question, to the solution of which, Leone confirmed, Italy would never withdraw its support in the various international fora. During Leone's visit, a technical and economic cooperation agreement was also signed.

On 5-6 August 1977, Italian Prime Minister Giulio Andreotti and Foreign Minister Arnaldo Forlani (both in office since July 1976) travelled to Saudi Arabia, where they were received by King Khalid (who had ascended to the throne on 26 March 1975). The Italians' visit took place while US Secretary of State Cyrus Vance was on a diplomatic tour of the main Arab countries. On appointment by President Jimmy Carter, his was an attempt to resume the peace process in the Middle East, for which the Saudi diplomacy's contribution was essential. His mission failed, however, also because of the uncompromising attitude of some of the parties involved.

At the same time, commercial relations between Italy and Saudi Arabia were growing fast, especially in the sector of oil supplies, and many visits between highest-ranking politicians and diplomats were made on both sides. One of the most important of these was Foreign Minister Saud al-Faisal's visit to Rome on 20 December 1980. The mission, which was carried out in an atmosphere of great friendliness, contributed to consolidating relations between Italy and Saudi Arabia after the misunderstandings related to a contract for a major oil supply which was later cancelled. This contract, also because of the

negative influence of secret power groups, had become the target of a violent political media campaign which was fuelling harsh attacks and suspicion within a few Italian parties. Needless to say, this situation had created some disappointment in the Saudi political and diplomatic settings and a cooling of relations with Italy which, fortunately, did not last long. Minister Saud had long, fruitful talks with Foreign Minister Emilio Colombo and, as the official joint statement read, the “shadows” that had gathered around Italian-Saudi relations had been dissipated for good.

Thus the sun began to shine again over the relations between the two countries, leading to a major increase in trade. At the same time, Italy and Saudi Arabia had similar views about the need to restore stability in the Middle East following the Iran-Iraq war and the dramatic crisis in Lebanon. To this purpose, at various international venues Italy had constantly ensured its full support to the mediation offered by the Tripartite Commission of the Arab League. Moreover, it had welcomed with “satisfaction” the signing of the important Taif Accords of 22 October 1989 in which the Saudi diplomacy had played a crucial role.

Unfortunately, the invasion of Kuwait by Iraq a few months later set the Middle East – from the Mediterranean to the Persian Gulf – on fire again. Within the international coalition, Italy and Saudi Arabia were side by side in the war to free Kuwait, developing close bilateral cooperation in the diplomatic as well as economic and military fields that was to last for a long time. Following the meeting in Dhahran between the Italian Prime Minister Giulio Andreotti and King Fahd, reciprocal visits and missions of leading political and economic exponents of both countries took place. This paved the way for wider-ranging, better-organised cooperation based on a shared view of the main international political issues, above all the Israeli-Palestinian peace process which, following the Oslo Accords, seemed to be heading at last towards a shared solution.

THE STRENGTHENING OF POLITICAL AND ECONOMIC COOPERATION

On 20 June 1995, the governor of Riyadh province, Prince Salman, travelled to Rome to attend the opening of the mosque at Rome’s Islamic Cultural Centre. On the following day, the prince met Prime Minister Lamberto Dini, who stressed the “role of balance and moderation” played by Saudi Arabia on issues regarding peace and

stability in the Middle East, while the prince remarked on the “excellent state of bilateral relations”. The following year, it was Dini (who had become Foreign Minister after the elections held on 21 April 1996) who went to Saudi Arabia where, on 10 September, he signed the bilateral Agreement for the promotion and protection of investments, which was to influence and foster economic relations between the two countries. Foreign Minister Dini went to Saudi Arabia again on 19-20 July 1997, accompanying President of the Republic Oscar Luigi Scalfaro, who met Fahd and Crown Prince Abdullah in Jeddah. “The visit,” read the official press release, “was closed by a talk, not included in the ceremonial, which the crown prince had requested to reassert the excellent bilateral relations and explore the possibility of making further progress in political and economic relations.”

In the spirit of the diplomacy of friendship between the two countries (marked by the frequent bilateral political meetings in Rome and Riyadh involving ministers and leading figures from both countries), on 24-26 May 1999, Crown Prince Abdullah made an important visit to Italy, where he met the new President of the Republic Carlo Azeglio Ciampi. He also had official talks with the highest Italian authorities, including Prime Minister Massimo D’Alema, with whom he analysed the main international questions “with frankness and in a spirit of collaboration”. In particular, in the meeting between D’Alema and Crown Prince Abdullah that took place at Palazzo Chigi (the seat of the Italian prime minister) on 25 May 1999, after highlighting the “solid historical relations between the two countries”, the common will was reasserted to promote the peace process in the Middle East in order to “deliver, through negotiation, a fair, global and lasting peace in compliance with the relevant UN resolutions and the Oslo fundamental principles, which include the principle of land for peace”. On the same day, the two foreign ministers met at the Ministry of Foreign Affairs: Dini and Saud al-Faisal agreed on the importance of the “dialogue between cultures and religions” for better mutual understanding. A few months later, Minister Dini met Minister Saud al-Faisal again, to discuss trade relations, which were becoming more and more important and beneficial for Italy, also in the light of the “moderation, wisdom and broad-mindedness of the Riyadh government’s foreign policy”.

On 7 February 2000, the two foreign ministers signed a Memorandum of Understanding in Riyadh aimed at organising Italian-Saudi political relations into a permanent framework of regular bilateral

consultations. Very importantly, the two ministers expressed the same views concerning the Israeli-Palestinian question. On his part, Minister Dini added: “Unless the territories are returned no lasting peace can be achieved.” By signing the Memorandum, the Italian-Saudi diplomacy of friendship made the qualitative improvement that both parties had been hoping for. So, on 30 January 2001, the first session of the Italian-Saudi Reinforced Consultations took place in Rome, with the additional participation of two technical delegations led respectively by the secretary general of the Italian Ministry of Foreign Affairs and the Saudi deputy foreign minister. At the end of the meeting, the two heads of delegation and the Saudi ambassador to Italy, Prince Mohammed Bin Nawaf, were received by Minister Dini who, once again, highlighted “the privileged relationship that ties Rome and Riyadh, the excellent relations existing between the two countries and the common will to strengthen them further”. After all, in all the international venues Italian and Saudi diplomats had long been committed, both individually and jointly, to promoting dialogue and mediation policies in the Middle East.

The Second Intifada, harshly repressed by the Israeli military authorities, dismayed the international community and caused great suffering in the Palestinian Territories. The international mission led by the American Mitchell, sent there in late 2001 to try and establish the minimum conditions to stop the fight, was unfortunately not successful, and tension in the Territories continued to rise throughout the summer. On 12 July 2001, a delegation of the ambassadors of Arab countries accredited to Italy visited the Ministry of Foreign Affairs of a country viewed as a friend, to express their concern regarding “the stalemate in the Middle East peace process and the Israeli government’s intransigent position on the matter”.

But worse was yet to come: the terrible tragedy that followed the attack on the Twin Towers in New York on 11 September 2001 changed the international scenario radically. The military operations in Afghanistan and Iraq put in place by US President George W. Bush in the framework of the ‘global war on terror’ had a number of serious repercussions on the Arab world, exacerbating the problems still open in the Mediterranean East. At the same time, contrary to certain simplistic, instrumentally optimistic analyses of the scenario, the normalisation of Afghanistan and Iraq would soon appear in all its complexity, generating new misunderstandings over time, not only

between Arab countries and the United States, but also between the US and some of its European allies.

KING ABDULLAH AND THE RENEWED FRIENDSHIP

On 25-26 May 2004, the foreign minister of the Italian centre-right government, Franco Frattini, was received in Jeddah by the prince regent, Abdullah, who expressed his appreciation for the “balanced and equidistant role of Italy concerning the Israeli-Palestinian conflict” and his wish that “contributing to releasing tension in the region” was possible. A few months before Minister Frattini’s visit to Riyadh, a joint enterprise had been established by ENI, the Spanish company Repsol and the Saudi Aramco, for activities including exploration, development and production of gas in a vast concession area in the *Rub Al Khali* basin.

In the meantime, in the Territories the Israeli-Palestinian conflict had washed away all opportunities for negotiation in the direction indicated by the Road Map (strongly supported by the Italian and Saudi diplomacies), and escalated further into a spiral of cruel fighting. At last, with the mediation of Egypt, Israelis and Palestinians signed a truce in Sharm el Sheikh on 8 February 2005, in the hope of resuming the road to dialogue. The Israeli-Palestinian peace process was, in fact, one of the main topics discussed in Rome during Saudi Foreign Minister Saud al-Faisal’s visit on 24 May 2005. Minister Saud met Gianfranco Fini at the Farnesina, the seat of the Ministry of Foreign Affairs in Rome. On that occasion, he confirmed the “Saudis’ willingness to make every effort to achieve a negotiated resolution of the Israeli-Palestinian conflict that safeguards the legitimate aspirations of the Palestinian people”. Minister Fini mentioned the Road Map explicitly, stressing its importance. The joint statement released on 24 May 2005 stated, “The two ministers have examined the positive development of the relations between the two countries and have agreed on the opportunity of having more frequent consultations on issues of common interest.”

A few weeks later, on 1 August 2005, Abdullah bin Abdulaziz was proclaimed King of Saudi Arabia. With a view to fostering the development and modernisation of his country, King Abdullah immediately set out a wide-ranging programme of reforms in the economic, social and health sectors and, most importantly, in the sector of infrastructures. In this respect, the futuristic project to build four big

'economic cities' was particularly interesting – a project that aimed at “promoting the diversification of the economy in a rapid yet sustainable manner, creating over one million job opportunities and targeting 4-5 million inhabitants as of today”. On the king's initiative, the first direct local elections took place (to be regularly held again at the term of office of the legislature).

On 26 July 2006, Minister Saud was once again in Rome to attend the international conference on the Lebanese crisis promoted by Massimo D'Alema, the Foreign Minister in the new centre-left government which took office after the 9 April elections. Alongside his long-declared, intense commitment towards Europe, Minister D'Alema made the revival of the diplomacy of friendship with the Arab countries of the eastern Mediterranean one of the distinctive traits of his actions as minister. Following the important Rome conference, which was attended by the foreign ministers of 15 countries as well as the UN Secretary General, and which laid the foundations for the stabilisation of southern Lebanon, D'Alema gave a further boost to the 'Arab policy' of the Italian government.

In early January 2007, D'Alema made a diplomatic tour of the main Gulf countries. On 13 January 2007, he met the Saudi Foreign Minister, Saud al-Faisal, in Riyadh. The two ministers acknowledged the positive trend in trade between the two countries (Italy was Saudi Arabia's sixth most important trade partner) but, above all, recognised a common view on the main issues of international politics. In the two ministers' opinion, peace and stability in the Middle East required a global, overarching approach involving all the state- and non-state actors concerned. A few days later, on 21 January 2007, Minister D'Alema expressed his sincere “appreciation” for an important initiative launched by King Abdullah in an attempt to put an end to the violent clashes taking place in the Territories between Fatah and Hamas, which were causing enormous suffering to the Palestinian people. King Abdullah invited all the Palestinian leaders to Saudi Arabia and, thanks to his acknowledged moral authority, pushed them towards the negotiations which would end in the Mecca Agreement signed on 7 February 2007. This agreement, however fragile, was the first, laboured step (to be followed by the Cairo and Doha agreements respectively of 2011 and February 2012) towards a reconciliation between Fatah and Hamas.

It was precisely with a quote from the Mecca Agreement that the Italian Prime Minister Romano Prodi opened his speech before

the Consultative Assembly of Saudi Arabia in Riyadh on 22 April 2007. Prodi, who was received by King Abdullah with great warmth, expressed his wish for the creation of a sovereign, independent, vital and geographically united state for the Palestinian people. A few months later, Prime Minister Prodi met King Abdullah on his arrival in Italy on a state visit. The Saudi king reached Rome on 5 November 2007 and on the same evening met the President of the Republic, Giorgio Napolitano. "Since the establishment of the modern State of Saudi Arabia", said King Abdullah in his official speech, "the relations between our countries have been characterised by closeness and cooperation. It is our hope that this visit may give a major boost to the relations between the two countries in various fields." Similar concepts were expressed by the king in the speech he gave during the meeting with Romano Prodi, in which he stressed his great appreciation for Italian foreign policy, whose aim has always been to maintain world peace. "With respect to this," the sovereign pointed out, "we cannot but praise the constructive policy adopted by Italy concerning the most delicate Middle East crisis, that is the Israeli-Arab conflict". On the same day, 6 November 2007, King Abdullah made the first historic visit of a Saudi sovereign to the Vatican to meet Pope Benedict XVI. The Custodian of the Two Holy Mosques of Mecca and Medina and the Pope had a "very warm" meeting, in which they highlighted the importance they both attached to "intercultural and inter-religious dialogue for the promotion of peace, justice and of spiritual and moral values".

An earnest supporter of inter-religious dialogue, after the meeting at the Vatican King Abdullah relaunched his long nurtured project to set up an international Centre for the promotion of peace and mutual understanding in cultural and religious matters. In July 2008, the king organised an international conference in Madrid that was attended by 300 representatives of the world's religions. Following the opening ceremony of the session on inter-religious dialogue held at the UN Assembly on 12 November 2008, King Abdullah gave a much appreciated speech in which, after harshly blaming the exploitation of religions by extremist fanaticism, he urged instead "to gather around shared values for a more peaceful, more just and more tolerant world". On 13 October 2011, in Vienna, the Saudi Foreign Minister signed the Treaty establishing the "King Abdullah International Centre for Interreligious and Intercultural Dialogue" with his Austrian and Spanish counterparts.

Returning to the chronological order of our story, we must remark

that during the Saudi delegation's visit to Rome on 6 November 2005, the two foreign ministers, Massimo D'Alema and Saud al-Faisal, exchanged views on the main international issues, pointing out "shared views" particularly concerning the Middle East crisis. In Rome the relevant authorities of the two countries signed a number of agreements and memorandums of understanding in the areas of defence, the fight against organised crime, vocational training, health and university cooperation. These technical agreements, together with the shared views on the main international issues, were proof of the excellent relations between Italy and Saudi Arabia in the framework of the long-standing friendship that has marked Italian foreign policy.

The same line was followed by the new centre-right Italian government led by Silvio Berlusconi after the early elections in April 2008. The Minister of Foreign Affairs was once again Franco Frattini who, because of the interest Italy has in Gulf countries, went to Riyadh on 14 October 2009 to co-chair (with the Saudi Finance Minister al-Assaf) the Saudi-Italian Joint Commission, aimed at consolidating economic cooperation between the two countries. The following month, Italian Prime Minister Silvio Berlusconi was received by King Abdullah in Saudi Arabia on 21 November. Berlusconi also met leading figures in Saudi politics and the economy and, at the end of the visit, suggested organising a business mission of Italian entrepreneurs to strengthen business relations.

The Italian mission to Saudi Arabia led by Minister Frattini took place on 5-6 November 2010, with the aim of promoting dialogue between business communities and strengthening bilateral political relations. The mission included Minister Paolo Romani, the president of Confindustria Emma Marcegaglia and several Italian industrialists. In an interview published in the magazine, *Diplomazia economica italiana*, just before the arrival of the mission, the Italian ambassador to Riyadh, Valentino Simonetti, gave a detailed description of the king's most important modernisation programme, focusing on the diversification of the economy, improvement of infrastructure and "enhancement of human capital."

Quite importantly, King Abdullah has given new impetus to Modon, the Saudi government body responsible for the country's industrial development, which in the past four years has doubled its activity, building the new industrial cities which are currently state-of-the-art in terms of technology and environmental impact. The social expenditure for services, unemployment benefits, health assistance and incentives

for youth employment has also increased remarkably. The areas of the Two Holy Mosques of Mecca and Medina have also been involved in projects to update infrastructure and accommodation facilities. Finally, much attention has been given to higher education, starting with the King Abdullah University for Science and Technology in Thuwal. The boast of the country's university system, the university was opened with a solemn ceremony on 23 September 2009 and accepts male and female students alike. On 7 June 2011, the Majlis Ash Shura (the kingdom's consultative body) expressed its favourable opinion for the extension of the right to vote to women, starting with local elections (scheduled for 2015), while in early October 2012, the minister of justice finally approved the procedures to allow women to work as lawyers.

As far as Italian-Saudi bilateral relations are concerned, on 1 October 2011, the Minister for Economic Development, Paolo Romani, made a visit to Riyadh where he met the Saudi authorities in the areas of energy, infrastructure, telecommunications and new technologies to relaunch bilateral cooperation in these sectors. "In the framework of Saudi Arabia's extensive programme to diversify electric power sources," the final press release stated, "Italy, considering its competences, will be able to contribute to the realisation, production and distribution of energy. The two countries will also set up industrial cooperation in the sector of renewable energy, water treatment and other technologies."

Finally, a few months ago in Rome, another, much more important event took place, confirming the excellent relations between Italy and Saudi Arabia. On Monday, 23 April 2012, President of the Republic Giorgio Napolitano, accompanied by Anna Maria Cancellieri and Andrea Riccardi, respectively minister of the interior and minister of international cooperation in the new government led by Mario Monti (in office since 16 November 2011) paid an official visit to the Islamic Cultural Centre of Italy, where he was met by the Saudi Ambassador, Saleh Mohammad Al Ghamdi. After showing the President around the Great Mosque of Rome, in his speech the ambassador expressed his "deep thanks and gratitude for the visit and for the generous consideration and attention that Muslims enjoy in Italy" and wished for "growing coordination and collaboration between the Islamic Centre and the Italian cultural centres" in order to promote "cohesion and the coexistence of all". The image of President Napolitano visiting the Great Mosque of Rome is an effective conclusion for our historical journey through the relations between Italy and Saudi Arabia from 1932 to

2012 – relations that have recently been strengthened in trade as well as in politics, in the framework of the shared commitment in the various international fora to working for a solution to the dramatic Syrian crisis and the democratic transition processes in North Africa after the fall of despotic regimes.

Italy considers Saudi Arabia a fundamental state actor for maintaining peace and for the final stabilisation of the whole Middle East. Conversely, Saudi Arabia considers Italy a credible, reliable partner that can effectively play the important role of “bridge across the Mediterranean” between Europe and Arab countries. Above all, however, as this chapter has tried to highlight, regardless of the scenarios and events that have unfolded over the years, relations between Italy and Saudi Arabia have always been inspired by the diplomacy of friendship, which is founded on peace, cooperation between peers and mutual respect with no political, ideological or religious prejudices. And it is on these grounds that they are going to last in the future.

2.

Saudi Arabia and Italy in the Mediterranean: An Emerging Dimension in Bilateral Relations

Roberto Aliboni

INTRODUCTION

In the 1920s and 1930s, security relations between the Kingdom of Saudi Arabia and the then Kingdom of Italy were important. Relations concerned the two countries' common interest in balancing the British presence on the Arabian peninsula, as well as Italy's military assistance to the burgeoning Saudi air force. Subsequently, with the end of the colonial era, in particular the loss of the colonies and territories owned by Italy on the Red Sea, the Arabian Sea and the Indian Ocean, the most essential reasons behind the strong security and diplomatic relations between Italy and Saudi Arabia vanished. Since WWII, even though Italy and Saudi Arabia have developed good and fruitful relations in many fields, such as trade, investment, culture, and so on, bilaterally and through the European Union-Gulf Cooperation Council (EU-GCC) and NATO Istanbul Cooperation Initiative (ICI) collective frameworks as well as in global multilateral organizations, security has remained on the sidelines.

There are now developments, however, that make it possible, if not likely, that this situation will change. In the last ten years, and even more so as a consequence of the so-called "Arab Spring", Saudi Arabia and other GCC members, in particular Qatar, have increased their interest in the Mediterranean. And they seem destined to go on doing so in the future. This new direction does not regard the Levant, i.e. Syria, Lebanon, Palestine and Jordan, nor Egypt. These countries, as part of the Mashreq, have always had intense relations and ties with countries in the Gulf. It regards relations with the Maghreb countries, which might become so much more intense and meaningful than they are today as to change in

nature. Relations that have always been important in the cultural field are now swiftly becoming important from the political, ideological, economic and, thus, security angle. The Arab Spring has played a decisive role in opening up this new direction for Saudi Arabia and the other GCC countries.

From a European point of view, the outreach of Saudi Arabia and the other GCC countries to the Maghreb means that they are becoming Mediterranean actors. In this sense, Saudi Arabia is also reaching out to Italy, Southern Europe and EU Mediterranean interests and this is changing an entire set of geopolitical perspectives. From this view, it makes sense to reflect on the security relationship that is emerging between Saudi Arabia and Italy in the wider context of the changes taking place in security relations between the GCC and Europe.

This chapter considers an emerging rather than consolidated dimension of Saudi Arabia-Italy relations. The first section takes on the analyses carried out in the last five to six years of the broader issue of the GCC countries' new interest in the Southeastern Mediterranean (hereinafter the "Mediterranean") area and the responses by Western countries and Turkey, an interest that has strongly intensified with the Arab Spring. The second section analyzes a set of strategic issues involving the postures and objectives in the Mediterranean of the two countries with a view to identifying convergence and divergence between their security interests and objectives. The third and concluding section considers the outlook for cooperation and conflict in the Mediterranean between Saudi Arabia and Italy in the EU-GCC context, with a view to setting out several policy recommendations.

GCC COUNTRIES AND THE MEDITERRANEAN

First of all, it is necessary to consider how Gulf-Mediterranean relations have evolved in the last ten years, making the whole Mediterranean area relevant to GCC countries, that is assigning a new relevance to the Maghreb, in addition to the continuing importance of the Mashreq. In doing so, a distinction has to be made between a first stage (2003-2010), in which the GCC countries looked at the Mediterranean countries by and large as a new investment opportunity, and a second one (from 2011 on), in which the political and ideological relevance of the Southeastern Mediterranean Arab countries was enhanced in the view of the Gulf

countries as a consequence of the uprisings against the former regimes and the ascendancy of new Islamist-led regimes in the region.

The economic dimension

The two major data bases regarding foreign direct investment (FDI) in the Mediterranean are UNCTAD and the ANIMA Mediterranean Investment and Partnership Observatory (MIPO). While the first provides global macroeconomic flows as registered by central banks, the latter collects FDI announcements from companies and governments and focuses on the Southeastern Mediterranean area (Turkey, Israel and the eight-nine Arab countries in North Africa and the Levant, i.e. Morocco, Algeria, Tunisia, Egypt, Jordan, Palestinian Occupied Territories, Lebanon and Syria - Libya being only occasionally added to the list). Since 2003, ANIMA, a private association based in France, has constantly and extensively collected and analyzed data on Mediterranean FDI. Here, I refer essentially to ANIMA-MIPO data and analyses¹, limiting myself to synthesizing ANIMA's findings by emphasizing and illustrating the aspects pertinent to this chapter.

In 2003, the GCC countries began to increase their investment in the Mediterranean, starting out from a share of 17 percent of total FDI. Investment surged in 2006, when it surpassed EU investment in the area (respectively 31 and 30 percent of total FDI) and peaked in 2007 (35 percent). Although it gradually declined after that, it remained second only to EU investment until 2010 when, while total FDI in the Mediterranean surged despite the financial and economic crisis in the Western world, the Gulf's share of total FDI dropped to 21 percent and was surpassed by investment coming from Asian and other emerging countries (29 percent).

In 2011 and 2012, as a consequence of the uprisings in North Africa and the Levant, while total investments from abroad in Morocco and

¹ The data employed in this chapter come essentially from the ANIMA website pages, where "MIPO Reviews" are published: http://www.animaweb.org/en/opportunities.php?type=document_mipo and B. de Saint-Laurent, assisted by P. Henry and S. Abdelkrim, "Investment from the GCC and Development in the Mediterranean. The Outlook for EU-GCC Financial and Economic Cooperation in the Mediterranean", in R. Aliboni (ed.), *The Mediterranean: Opportunities to Develop EU-GCC Relations?*, Quaderni IAI, English Series No 18, Rome, June 2010, pp. 31-55. See also V. Talbot, *GCC Economic Presence in the Mediterranean and the Outlook for EU-GCC Cooperation*, Mediterranean Paper Series, German Marshall Fund of the United States and Istituto Affari Internazionali, December 2010, especially pp. 7-12.

Algeria have remained steady (and those in Israel and Turkey increased), FDI in other Mediterranean Arab countries has fallen. Although complete statistical data are not yet available, in the first nine months of 2011 the number of FDIs announced by GCC countries and registered by ANIMA diminished by 26 percent and the amounts allocated in Euro dropped by 34 percent with respect to the same period in 2010. In the same period, again according to information provided by ANIMA, the number of GCC announcements of FDIs in Tunisia fell by 40 percent, in Egypt by 50 percent, in Lebanon and Jordan by about 50 percent and in Libya and Syria by 75 percent. In 2011 (and probably 2012), the Gulf's share of total FDI in North Africa and the Levant is among the lowest.

While actual trends will only become evident over time, the pattern of investment sources and destinations regarding the Southeastern Mediterranean is worth noting. If we consider the main investors in the area, Europe – the leading investor – invests in Turkey first of all, then in the Maghreb, and only lastly in Egypt and the Levant; North American investments go above all to Israel; and the GCC countries invest mainly in the Mashreq and only in the first part of the period considered in this chapter have they begun to invest significantly in the Maghreb as well. This pattern has slightly changed after the Arab Spring, with investment in the Arab world diminishing and those in Israel and Turkey either maintaining their usual high level or even increasing (especially with regard to Turkey).

In his study, *Bénédict de Saint Laurent*² provides an interesting cumulative picture of 2003-2009 Gulf FDI towards the Mediterranean by sources and destinations. The top investors are the UAE (Euro 36.1bn), Kuwait (Euro 12.6bn) and Saudi Arabia (Euro 11.8bn). The Mashreq is the main beneficiary, with UAE providing 22.5bn, Kuwait Euro 7.8bn and Saudi Arabia Euro 6.3bn. The three countries provide in the same order Euro 9.3bn, Euro 3.5bn and Euro 1.6bn to the Maghreb. Other Mediterranean countries, such as Turkey, Cyprus and Malta, have received Euro 4.2bn from the UAE, Euro 3.9bn from Saudi Arabia and Euro 1.3bn from Kuwait.

In conclusion, there is no doubt that the Gulf countries have acquired a considerable interest in Mediterranean countries, giving priority to the countries of the Mashreq (whose Mediterranean dimension corresponds to the Levant, comprising Egypt), and increasing their presence in the

² *Ibidem.*

Maghreb. The Arab Spring crisis (and to a much lesser degree the impact on the Gulf economies of the persistent Western economic and financial crisis) has considerably attenuated the flow of investment from the GCC countries. Expert opinions over future developments, though, suggest that this attenuation, even if notable, will not disrupt a trend that they consider consolidated and that is likely to continue in the future as soon as political transformations are completed and stability returns to the region. Bénédicte de Saint Laurent opened the essay we quoted above by wondering whether there was “the beginning of an affair” in Gulf-Mediterranean relations. Writing a couple of years later, in the midst of the Arab Spring, Abdullah Baaboud stated that the Gulf “is likely to continue its passion for investment in the Mediterranean, increase its share in the future and restore its position as one of the main sources of FDI, nurturing further regional cooperation and integration”.³ Indeed, this view is largely supported by political events regarding the Arab Spring and their significance for future Gulf-Mediterranean relations.

The political dimension

The GCC countries, above all Saudi Arabia and Qatar, have played a primary political role in Mediterranean developments in 2011-2012. This role is bound to increase. There is no doubt that, as soon as the current situation stabilizes, the final configuration of the North African political setting will factor in the new significant sway the GCC countries are acquiring in the region, revealing a completely new profile for the latter and a fresh political and cultural balance among regional trends and actors. Thus, while the Gulf interest in the Mediterranean, as expressed by the amount of investments in Southeastern and Arab Mediterranean countries, has been dwindling, political interests have been increasing strongly in the past few years.

The Saudi and GCC role in the Levant – in Jordan, Lebanon and Syria – has always been important. The outcome of the conflict in Syria, though, will be key in redefining the balance of power in the Levant, as well as its religious and cultural directions. If the Assad regime is definitively toppled, the GCC countries’ influence, already diffuse and significant today, will predominate in the region, especially from the point of view of culture

³ A. Baaboud, “Decreasing Investments of Gulf Countries in the Mediterranean Region”, *Med.2011*, IEMed. Yearbook, Barcelona, 2011, pp. 228-233.

and religion. In Egypt and especially in the rest of North Africa – that is the Maghreb – Gulf countries' ties and influence have always been less important than in the Levant. In North Africa, the Muslim Brotherhood and Sufism have always been, and still are, predominant cultural and religious forces, in particular the Egyptian Muslim Brotherhood and the Senussiyyah. However, the Arab Spring has emerged as an opportunity and the GCC Salafi network has been quick to grasp it with a view to asserting itself and the Salafiyyah in a region in which it is far from being a leading force. Thus, the GCC countries' influence is likely to increase in North Africa as well.

The Salafi movement is a composite galaxy comprising militant as well as quietist wings. The quietist wing has begun to grow stronger in the GCC countries as a reaction to the destructive violence carried out by the variety of Islam-inspired extremist movements that have been struggling against established Arab regimes and Western influence as well as the West's unfair and/or violent responses to Salafi violence since the end of the 1960s. Elena Maestri underscores the innovative role of segments of GCC societies reacting "in a 'constructive way' to Western policies towards the Muslim world, in particular after 9/11, and to the threats to their security posed by violent Islamist militant groups"⁴. These GCC elites have influenced the Saudi and other GCC governments, which in different forms and ways have started to support and foster quietist Salafi networks in their countries and abroad, as well as provide shelter and support for scholars coming from other Arab countries, North Africa in particular.

These scholars have helped set up a number of institutions – such as the International Union of Muslim Scholars-ISMU – that have contributed to spreading their doctrines all over the Arab world and have established contacts and networks in various Arab countries. These networks and contacts worked very well during the regime changes that followed the 2011 Arab revolutions in North Africa as well as in the current Syrian conflict. This is providing Saudi Arabia, along with other GCC countries, with opportunities to play a very significant role in the current Arab transitions, from Tunisia to Egypt and Libya; to provide or reinforce

⁴ E. Maestri, "The Gulf in the Southern Mediterranean", in N. Tocci *et alii*, *Ideational and Material Power in the Mediterranean: The Role of Turkey and the Gulf Cooperation Council*, Mediterranean Paper Series, German Marshall Fund of the United States and Istituto Affari Internazionali, June 2012, pp. 1-9.

their sway in Morocco, Lebanon and Jordan; and to act in Syria as a key stakeholder in the framework of the ongoing conflict. As a result, the reformist Salafi movement, which emerged in the GCC countries during the 2000s, has spread to other Arab countries and, in particular North Africa, thanks to charities, contacts and, especially in the post-revolutionary framework, the channels provided by the exiled scholars and religious leaders they hosted in past years.

The Salafi and GCC presence in the post-revolutionary context in Egypt, Tunisia and Libya now plays a pivotal role in shaping the emerging constitutions and the political future of these countries.⁵ While Salafi militant groups will be a problem for any Islamist regime governing these countries, the large quietist Salafi community in Egypt has set up parties that have proven very successful in the elections. There is no doubt that the Salafi moderate component will influence Muslim Brotherhood-led parties in Egypt and Tunisia, reinforcing the Brotherhood's wings more sensitive to Salafism and its agenda. This trend is looming large in Egypt and is already evident in the weakening of the Tunisian Islamist-liberal coalition in view of the new elections, which are to take place in 2013. The Western perception of Islamist centrist parties leaning towards pro-Western liberal concepts and reforms may well be belied by these parties leaning instead towards Salafi reformism. Coalitions between Ikhwan and Salafists will not be anti-Western, but more resolute than present Muslim Brotherhood-led governments in building societies in which Islam incorporates Western modernity rather than the reverse.

If this trend is confirmed by future developments – and it is very likely that to some extent it will be – the GCC and the Mediterranean will emerge as a more politically and culturally integrated area. Among other consequences, investments, now led by business interests, will be led by political solidarity as well and will certainly increase and be steadier than in the current context.

⁵ Salafism in Egypt after the revolution is analysed by: J. Brown, *Salafis and Sufis in Egypt*, Carnegie Endowment for International Peace, Carnegie Papers, Middle East, December 2011; S. Lacroix, *Sheikh and Politicians: Inside the New Egyptian Salafism*, Policy Briefing, Brookings Doha Center, June 2012; U. Abdul Latif, *Salafists and Politics in Egypt*, Arab Center for Research & Policy Studies, Case Analysis Series, Doha, January 2012; A. Zelin, Who is Jabhat al Islah, *Sada*, Carnegie Endowment for International Peace, 18 July 2012.

GCC-EU AND SAUDI ARABIA-ITALY IN THE EMERGING MEDITERRANEAN CONTEXT

This greater integration between the Gulf and North Africa (which may expand to Syria and the Levant) would change present geopolitics: rather than three main regions – Europe, the Mediterranean and the Gulf – the GCC and the Arab Mediterranean countries would, in many respects, form a single Arab region next to the European Union. The long-standing Euro-Mediterranean policy of the EU would fade away. It would very probably be replaced or coupled with a wider EU Arab policy incorporating both the EU Mediterranean and the EU-GCC policy frameworks. Undoubtedly, that would bring the Gulf with its cultural and political influence nearer to the EU and to Southern Europe in particular. In this sense, the concept of Europe's Southern neighborhood would shift considerably and the existing good relations between Saudi Arabia and Italy would acquire a new dimension. Being devoted to security relations, this chapter explores the security relations between Saudi Arabia and Italy in and across the Mediterranean, taking into due consideration the fact that both countries' security is influenced by the Arab and European contexts, on the one hand, and by the United States – a major ally of both countries – on the other.

The shift in Mediterranean geopolitics just mentioned, while not impinging on Saudi-Italian bilateral relations, would affect the strategic context in which relations take place and compel the two countries to share interests and challenges which they were accustomed to considering separately in the previous geopolitical situation. This would affect not only bilateral relations (new issues to be considered in a joint perspective) but also multilateral politics and alliances (for example, in the framework of EU-Arab relations, in particular if these relations were somehow institutionalized).

In this new Saudi-Italian perspective, the way in which many issues are considered, but especially two, would have to change : (a) the strategic significance of the Mediterranean Sea, and (b) political cooperation in a context of ascending Islamist power and enhanced cultural homogeneity on the Arab side.⁶

⁶ R. Aliboni, "EU and GCC Strategic Interests in the Mediterranean: Convergence and Divergence", in R. Aliboni (ed.), *The Mediterranean: Opportunities to Develop EU-GCC Relations?*, Quaderni IAI, English Series No 18, Rome, June 2010, pp. 69-76; E. Burke, A.

The strategic significance of the Mediterranean Sea

A very important development relates to the evolving pattern of world transport and the role the Red Sea/Mediterranean Sea corridor plays in it and the implications of that evolution. In the last years, approximately 80 percent of world sea transport has moved through the Mediterranean to and from Southwest and Southeast Asia, on the one hand, and to and from the Atlantic coasts of Europe and North America, on the other. The most intensive segment of this route is navigation through the Arabian, Red and Mediterranean Seas. Merchandise and goods are unloaded at major ports in Southwest Asia and the Mediterranean on their way to more distant destinations in Northern Europe and America, and are channelled to minor destinations by local systems of transport. This transport web requires specific, technologically advanced equipment and highly specialized ports. The system is run by a handful of multinational corporations. However, Gulf and EU investment have been significantly attracted by this system (the most important Arab investments are in the ports of Tangiers and Damietta). The EU Commission has long begun to promote effective Mediterranean infrastructure on land and at sea, in particular by planning a system of integrated sea-land highways across the Mediterranean and beyond. One of the major projects contemplated by the Union for the Mediterranean regards the development of Mediterranean "sea highways".

One can hardly overlook the strategic and security implications of this development in transport and the role that the maritime approaches to Southwest Asia, Europe and North Africa play in it. In more general terms, the point is that smooth access has to be assured to these approaches. This is above all a global issue, in which the United States also has a primary interest. But the same is true of US allies in Europe, the Mediterranean and the Arab world. Access to these approaches is a major strategic issue globally, and is obviously of primary and common concern to local areas and countries, that is, among others, both the EU and the GCC.

The first security issue obviously regards access and the need to prevent it from being impeded, whether by Somali pirates in the Arabian

Echagúe and R. Youngs, *Why the European union needs a 'broader Middle East' Policy*, FRIDE, Working Paper 93, February 2010.

Sea, national and regional conflicts, or contrasts over territorial vs. international waters (as regards the Gulf of Sirte). However, in an area with integrated strategic interests like the Mediterranean, other security issues, such as illegal migration flows from Arab to European shores, international organised crime and the protection of the environment cannot escape common consideration. This is to say that, while illegal Tunisian migration towards Italy remains a question essentially involving Tunisia, Italy and the EU, the Mediterranean's integration into the wider context of EU-GCC strategic interests would call for broader policy frameworks dealing with illegal migration and other security issues, in which the GCC countries would participate and Saudi Arabia and Italy would sit side by side.

So, there is a rationale for a double strategic EU-GCC convergence related to (a) the development of a region (the Southern and Eastern Mediterranean) that, while remaining part of the EU neighbourhood, is going to become a more integrated part of the Arab world, and is consequently becoming a shared location for investment, and (b) the safety of access to that region and in particular maritime security (beginning with the fight against piracy in the Arabian Sea, followed by the fight against illegal migration and the protection of environment). All this offers the EU and the GCC an objective platform for strategic cooperation in the Mediterranean and connected sea waters.

In this context, the EU should rethink its policy towards the Mediterranean. The format of this policy, while deepening its principle of differentiation among partners, should be even more flexible as regards relations between them and should stop obliging all partners in question, along with the EU, to buy into other partners as well, in particular Israel. EU cooperation agreements, which are offered only to Mediterranean countries today, should also be extended to non-Mediterranean Arab countries, such as Iraq and Yemen, as well as individual GCC countries. Some years ago, the EU stated its intention to have an "east of Jordan" policy, coherent with its Mediterranean policy, but nothing ever came of it.

The GCC countries hesitate to enter into regional Mediterranean cooperation with the EU not only for the presence of Israel, but also for the absence of a shared political perspective in the Mediterranean. Just as the Europeans dislike being a "payer" and not a "player" in US policy towards the Israeli-Palestinian conflict, so the GCC countries do not want to risk being that in EU Mediterranean or other Western-initiated projects.

Yet, the rationale for strategic cooperation is now emerging. In this perspective, the two countries' diplomacies should activate themselves to look into it.

To conclude, there are trends and factors in the Mediterranean that would require and objectively invite EU-GCC strategic cooperation. As limited as this cooperation may be today, though, because of a lack of strategic will combined with a number of obstacles stemming from the exclusive and ideological nature of the EU's Mediterranean policy, the platform could easily develop and give way to important cooperation between the GCC and the EU and their individual members.

The outlook for political cooperation

Political cooperation between Saudi Arabia and Italy presently takes place through bilateral and EU-GCC channels. Important questions such as Israeli-Palestinian relations, human rights and freedoms, however, are part of the EU-GCC framework of relations. For this reason, while taken into consideration and mentioned during bilateral contacts, this is not the locus in which decisions are made on these matters, as Italy merely abides by EU common positions.

This being the institutional backdrop for Saudi-Italian and GCC-EU political and diplomatic relations, and although – as we saw in the previous section – there is a clear and effective platform for strategic convergence on Mediterranean economic issues, questions are more complicated when it comes to political issues. As attested once again by the EU-GCC meeting of July 2013, while there is broad (still inactive) convergence between the EU and the GCC on the Israeli-Palestinian issue, there is a sharp unequivocal divergence when human rights and freedoms are taken into consideration: the EU has always insisted on having human rights and freedoms on the agenda; the GCC countries do not consider them pertinent to the building of an EU-GCC Free Trade Agreement (FTA) and, in any case, see EU insistence as an unacceptable interference into their way of life and cultural values. Thus, this issue has in fact only hindered the implementation of the FTA, leading to ambiguous mentions in the press communiqués and still no substantive development in EU-GCC political cooperation. In sum, in the framework of EU-GCC and Saudi-Italian political and diplomatic cooperation, while the Palestinian issue is positively present, human rights and freedoms are simply on the sidelines.

In the post-Arab Spring context, whatever political cooperation there will be between Arabs and the EU is bound to be dictated by different aims, principles and constraints than before. There is no doubt that Islamist-led governments will be closer to the Saudi and GCC point of views when dealing with any question relating to democracy, human rights and freedoms. Furthermore, both the GCC and the new Islamist regimes in North Africa (and maybe tomorrow in the Levant) will have a more demanding position than in the past with regard to the Israeli-Palestinian issue. Islamist parties in Tunisia, Morocco and, above all, Egypt, while accepting to keep the Camp David system alive as a guarantee against any new conflict, will want to introduce substantial changes to that system. In this emerging framework, Western countries, Italy being no exception, will have to consider changes in their policies at both the bilateral and multilateral levels.

Let's start by what can be epitomized as Western democracy promotion policy. As far as Europe is concerned, this policy is carried out by the EU – in the EU-GCC and EU-Mediterranean policy frameworks. With the advent of the Arab Spring, the EU has deepened the democracy promotion dimension of its policy, disregarding or failing to understand that the emerging Islamist democracies in North Africa are even less willing than previous authoritarian regimes to have this item on the agenda of their European relations and intend to shape their own democratic principles. If Islamist-led regimes consolidate, there is no doubt that the EU and the European countries will be forced to modify their democracy promotion agenda.⁷ The policy will have to shift from one intended to interfere directly with internal regimes to one negotiated in international instances, such as the United Nations, or inter-regional ones, such as the Union for the Mediterranean, or even new Euro-Arab frameworks still to be worked out with a view to accommodating new times and new relations between the two regions. The aim of these negotiations should be the identification of international standards in human rights to be applied domestically by governments, as well as broad criteria for implementing democratic procedures and guarantees in the domestic arena. In this sense, fostering international organisations and effective

⁷ N. Tocci, *One Year On: A Balance Sheet of the EU's Response to the Arab Spring*, Op-Med, GMF-IAI, May 2012; R. Youngs, *The EU and the Arab spring: from munificence to geo-strategy*, FRIDE, Policy Brief No. 100, October 2011.

multilateralism would be more important for the EU than promoting inter-regional arrangements, as it has done so far.

While developing a new approach with regard to human rights and democratic guarantees will not prove easy, the evolution of the current convergence on the Israeli-Palestinian issue, easy in principle, could encounter difficulties. Unlike the question of human rights, that of Israeli-Palestinian relations is strongly intertwined with both the Arab and the European alliances with the United States. These alliances have shaped Arab and European policies regarding Israel: very strongly in the case of the European states, which in fact have sacrificed their freedom of action on the high altar of the Atlantic Alliance; quite strongly in the case of Mubarak's Egypt and other "moderate" Arab regimes of the past, which abided by the Camp David/Oslo Accords system in the conviction that it would keep its promise of providing a solution to the Palestinian plight by establishing a Palestinian state; less strongly in the case of the GCC states, which set out their conditions with the Saudi Arab Peace Plan while not providing an avenue for the GCC states to negotiate a solution with Israel in the framework of any joint Arab-Western effort. The emerging Islamist-led regimes will move closer to the GCC position, in the sense of keeping cold relations with Israel (at the level of government rather than the "street"), while letting it become more and more internationally isolated. Egypt will need to have more direct relations with Israel because of the Sinai and Gaza, still these relations will be far from collaborative as they were under Mubarak. In fact, today this is a big question mark the Western countries will be forced to face sooner rather than later.

Against this backdrop, while a solution to the Israeli-Palestinian conflict will be no less necessary and urgent than before when the dust settles on the current crisis, there will be a gap in Arab-Israeli relations and the Western countries will have the task of narrowing it as, more than ever, peace will be in their own security and political interest. At this point in time, a broad convergence between Europeans and Arabs on the need to provide a fair solution to the Palestinian quagmire (in the terms stated in all the EU-GCC communiqués) will not be enough. Europeans and Arabs will have to be more precise and go beyond their declaratory policy with a view to acting resolutely with regard to Israel.

If this analysis is accepted, EU-GCC convergence will not prove as easy as in the past, and EU countries will not be able to overlook the issue in their bilateral relations by sending the ball back to the Quartet, the EU or the United States. In conclusion, here again, the European countries, Italy

being no exception, need to take note of the implications of the changes underway in the Middle East and the Mediterranean and be prepared to reshuffle or change their policies to allow a political strategic convergence to match the existing economic convergence with the GCC countries.

CONCLUSION

This chapter has shown how political changes in North Africa will bring the GCC closer to the EU by fostering the emergence of a more homogeneous Gulf/Mediterranean area. It has also shown that this change will encourage Gulf investments in North African, leveraging political aims. While this will prove an opportunity for economic cooperation between the GCC and the EU, and will probably increase cooperation, political changes will create difficulties. Existing convergence between the EU and the GCC on the Israeli-Palestinian conflict and the need for a fair solution, because of political changes in Egypt and North Africa, will require more than generic support, that is more specific and effective political acts. These may prove very difficult to implement for the Europeans. Unless the United States takes a different approach towards Israel, the Europeans will face a strategic balancing act between the Arabs and the US, which may prove unsustainable. In addition, the European aim of promoting democracy and human rights is going to come up against more problems now not only in the Gulf but also in the Mediterranean countries than compared to the pre-Arab Spring period.

All in all, the changes brought about by the Arab Spring are going to have far-reaching consequences. On the one hand, these changes may offer more opportunities, especially from the economic point of view. On the other, unless Europeans accept changes in their current policies, changes may bring about conflict. This development would obviously also affect economic relations in a negative way and reduce the opportunities for development and cooperation that stem from political changes. For all these reasons, it seems safe to say that, while GCC-EU and Saudi Arabia-Italy relations are faced with an opportunity, governments and diplomats need to work very hard to grasp it.

3.

Opportunities for Italian-Saudi Relations in the Post-Arab Spring Environment

Elena Maestri

The protests, uprisings and turmoil in countries of the so-called 2011 “Arab Spring”, as well as the growing tensions with Iran and Syria are opening up a new era for the Gulf Cooperation Council (GCC) and, more specifically within it, Saudi Arabia. King Abdullah has been emphasizing the need to promote real integration at the regional level, according to the principles and objectives of the founding charter of the organisation established in 1981. While economic aspects prevailed in Gulf Arab cooperation during the last decade, the shared perception of very concrete threats to security and stability posed by the most recent political developments in the Arab world have led the GCC leaders to focus their attention once again on the importance of coordination in foreign and security policy. As a part of this perspective, the unprecedented vision of greater unity supported by the kingdom brings new importance to redefining relations between the GCC and the EU which, while based on some common challenges, are often too tepid to be able to build real partnerships. To this end, Saudi Arabia and Italy can contribute effectively to renewing economic and cultural ties between the two regions by starting a dialogue on security in and stabilisation of the Southeastern Mediterranean and the Middle East.

Although trade relations with Asia have acquired much greater importance, a more unified GCC whose bargaining power is likely to grow will no doubt want to return to the issue of GCC-EU trade negotiations, which have been dragging since the 1980s. At the moment, however, that is just one aspect of a new relationship requiring an urgent rethink of Mediterranean policy. Developing strategic convergences on a more solid basis for the benefit of our regions, countries and peoples calls for the ability to look beyond trade to diversified cooperation as the best safeguard of common political and economic interests. Such a vision involves the GCC and the EU both as blocs and at the bilateral level.

Greater awareness of the importance of broadening the relationship

between the two can be developed through enhanced mutual knowledge. Pursuing intellectual capital creation and knowledge sharing must be a priority for more effective EU-GCC policies. Starting out from education, this can lead to the synergies needed to implement effective dialogue and more transparent governance in the Gulf and Europe, as well as the Mediterranean. That would ultimately help to initiate a real spring for the younger generations, a cultural and political awakening far removed from the images of violence, destruction and despair prevailing in the Arab world in the aftermath of the 2011 events.

The EU and, as part of it, Italy should be aware that the seeds of new growth can be found in the Gulf, and that they are likely to create opportunities that should not be missed. In this sense, the words of a 14-year old Saudi girl, participating in the annual conference organised by the King Abdulaziz Center for National Dialogue in 2012, are quite telling: “...We are a generation that believes that mistakes are part and parcel of the learning process. We believe that listening and acknowledging the need for reform is ‘free and responsible behaviour’. Accepting criticism and fixing what needs to be fixed does not undermine or belittle, quite the opposite, it builds credibility and trust and proves to us that our system is strong and dependable. We are a generation that sees things through a different angle — a wider one.”¹

UNDERSTANDING HISTORICAL ROOTS AND INTERNAL DYNAMICS AS A PRE-REQUISITE...AN OVERVIEW

The fact that human history is the outcome of many interacting factors demands the adoption of a multidimensional and multifaceted approach to it, highlighting the relative influences of endogenous and exogenous factors. Thus, the importance of our “knowledge of the Other” emerges: it is our ability to gain insight into other people’s historical and cultural heritage, beyond any stereotype, beyond the veil of legend and prejudice that is important. Nothing should be overlooked in trying to understand the development of a certain political entity and the identity of its society. Looking back at the Gulf Arabs’ fascinating history is perhaps the best way to assess GCC reactions to the most recent events in the Arab world.

¹ *Arab News*, 24 February 2012.

In this perspective, the mind-set, values and political culture of the Gulf Arab peoples have to be understood to overcome some widespread misconceptions and misunderstandings about this unique region.

The emergence of a state structure within a tribal system, and the evolution from tribe (*qabilah*) to state (*dawlah*) through intricate systems of alliances and the establishment of tribal confederations are a peculiar trait of Gulf Arab history. Focusing on Saudi Arabia, the singular structural aspects of its political system are based on both an Arabian tribal political culture, which the kingdom widely shares with the other founding members of the GCC, and a precise historical evolution which, on the contrary, is characteristic of the kingdom alone. These two aspects allow for a better understanding of the kingdom's relationships with its neighbours and other actors.

The establishment of the contemporary Kingdom of Saudi Arabia in 1932 by Abdulaziz Al Saud – not the result of post-colonial control of the territory and governance – cannot be disjoined from the two previous Saudi-Wahhabi states (1747-1818, 1824-1891). Saudi statehood has deep historical and ideological dimensions, which still represent a determining factor in the state's political legitimacy and sustainability. The religious-political alliance agreed in Najd between Muhammad ibn Saud and Muhammad ibn Abd al-Wahhab, a local *qadi* (judge), represented the religious-military-administrative basis of the state-building process, which is still at the core of the third Saudi state.² The chief Najdi chronicles of the period (*Raudat al-afkār* by Ibn Ghannam, *al-Akhbār al-najdiyyah* by Fakhiri, *'Unwān al-majd fi ta'rīkh Najd* by Ibn Bishr) allow for a historical reconstruction of this original process, which was shaped by well defined systemic structural elements that are still essential elements of the balances/imbances in Saudi Arabia.

After consolidating local authority in Najd, the Saudi-Wahhabi initiative enlarged towards the wealthiest regions of Arabia at that time, from al-Hasa and al-Qatif, the historical eastern region of al-Bahrain,³ to the Hejaz in the west. The increased resources were crucial in strengthening authority and power, but the projection beyond Najd also relied on the

² See G.S. Rentz, *The Birth of the Islamic Reform Movement in Saudi Arabia. Muhammad Ibn 'Abd al-Wahhāb (1703/4-1792) and the Beginnings of Unitarian Empire in Arabia*, Arabian Publishing, London 2004.

³ The historical region of al-Bahrain in classical Arabic sources includes present eastern Saudi Arabia, in addition to the archipelago and present day Bahrain.

importance in local history of control of caravan and pilgrim routes from one coast of the Arabian Peninsula to the other, towards the Holy Mosques of Mecca and Medina.⁴

At the beginning of the 20th century, the agreement between an intelligent and determined military chief like Abdulaziz and the ulama of the *Al al-Shaykh* family (the descendants of Shaykh Ibn Abd al-Wahhab) confirmed the original Saudi state model – *dīn wa dawlah* (religion and state). This led to the expansion of the Hanbali *madhhab*, the most conservative school of Islamic jurisprudence, throughout the unified political domain progressively acquired by Abdulaziz through well coordinated military campaigns with the international backing and benevolence of Great Britain.⁵ Thus, a well-defined ideology deeply rooted in the local tradition of Najdian *ahl al-qalam* (scholars) took on a dynamic form. Authority was strengthened from within through Islam, and a state structure was built into a religious system, into a series of crucial tribal loyalties and, last but not least, into a supportive commercial establishment, the rich merchant class. The merchant class was much larger in the Hejaz than anywhere else in the state, the well structured expression of a complex corporate system, strictly connected to the business revolving first of all around the Islamic official annual pilgrimage to Mecca (*hajj*) and, secondly, around the Muslims' "visit" (*umrah*) to the Holy Mosques there. The fact that this class, in spite of the cultural distinctiveness of the Hejaz, came to terms with the new authority rather soon after the expulsion of the Hashemites in 1925,⁶ has to be related to the pro-business and pragmatic attitude they perceived in the new leadership.

The main established merchant families (*tujjār*), either originally Hejazi or integrated in the Hejaz, contributed in projecting the Saudi state towards a more prominent role in the Muslim world, as they had networks of contacts with Arab and Muslim countries, tribes and families near and

⁴ The major Arabic chronicles, even when speaking about pre-Wahhabi Najd, put emphasis on crucial links between the prosperity of business revolving around the pilgrimage (*hajj*) and the political-military ability to guarantee safety along the ancient routes from the Gulf crossing the tribal territories (*dirāt*) of central Arabia to the holy places. Cfr. al-Sakhawi, *Al-Daw' al-Lāmi' li Ahl al-Qarn al-Tāsi'*, 12 vols., Cairo 1353-1355 A.Hg., vol. 1; al-Samhudi, *Wafā' al-Wafā' bi-Akhhār Dār al-Mustafā*, Cairo 1326 A. Hg.; Ibn Iyās, *Badai' al-Zuhūr*, Cairo 1354 A. Hg., vol. 5.

⁵ See T. Niblock, *Saudi Arabia. Power, Legitimacy and Survival*, London and New York 2006, pp. 34-35.

⁶ Cf. A. Al-'Uthaymin, *Storia dell'Arabia Saudita*, Palermo 2001, pp. 249-256.

far, from Yemen to Syria, from Morocco to Central Asia. They were also used to Islam as an everyday experience, very close to the “fundamentals of the faith”, as indicated by the Companions of the Prophet (*al-salaf al-sālih*, the pious ancestors). The situation in the newly established state was thus quite different from the other small Gulf sheikhdoms.⁷ No doubt, a substantially positive interrelationship between the political/religious sphere and the economic sphere was an important determinant in the state-building process and was at the core of the development of a strong “national bourgeoisie” in the kingdom during the 20th century.⁸ That interrelationship still represents one of the most relevant dynamics and has had a clear impact on external relations since 1932, the year in which Italy was among the first states to sign friendship and commercial treaties with the kingdom.

The second dynamic to be considered is bureaucracy, which was introduced only very recently in all Gulf Arab countries (following some sort of Western/Westernised model). The ensuing “bureaucratisation process” has been the means by which a society based on a community order has been transformed into a systemic political-social structure based on a rational order. This process was not implemented directly everywhere, however, nor did it drastically interfere in the traditional power system to reverse long-established balances of power and customs. Some GCC countries institutionalised a “flexible system”, which operates indirectly through understandings and compromises of various kinds with local traditional authorities and institutions.

Since the 1970s, things have moved very fast and politics and ever changing strategic targets have been reshaping life in the Gulf. However, human intervention has not undercut the roots of this world and its culture even though modernisation and globalisation have entered the life of the region rapidly, affecting its physical and human environment.

⁷ J. Onley and S. Khalaf, *Shaikhly Authority in the Pre-Oil Gulf: An Historical-Anthropological Study* in “History and Anthropology”, Vol. 17, No. 3, September 2006, pp. 191-192. As explained in the article: “In contrast to the small Gulf shaikhdoms, the Omani State (1744-), the three Saudi-Wahhabi States at their heights...and the Qasimi State centred around Sharjah and Ras al-Khaimah at its height (c.1750-1860s) were more like mature States than proto-States in terms of their economic, military, political and demographic resources...”.

⁸ On the subject, see the profound study by G. Luciani, *From Private Sector to National Bourgeoisie: Saudi Arabian Business*, in P. Aarts and G. Nonneman, *Saudi Arabia in the Balance*, London 2005, p. 144.

Urbanisation and development have brought with them the crucial tension between tradition and modernity, but they have also brought clear awareness among many GCC nationals of the great advances that have taken place in less than a century. Ebrahim Al-Arrayed, the most famous Bahraini poet of the 20th century, expressed this extraordinary transformation well, from the days in which in 1922, after living and studying in Bombay as a young boy, he had to go back to Bahrain and adapt to the Gulf environment, “a place still living in darkness”. The fact that he belonged to a Shiite family did not prevent him from being fully involved in the cultural and political life of his country and from making valuable contributions to the emergence of an Arab Gulf identity (*al-huwiyyah al-khalijiyah*) and consciousness based on common values. The “water of enlightenment” came from the school system, which spread from Bahrain in the 1920s to Kuwait and Saudi Arabia where, from the 1930s onward, King Abdulaziz, after setting up the Department of Culture, encouraged the establishment of the very first schools. The rest of the Gulf Arab countries followed suit. The “global era” has certainly imposed an urgent need to further improve education and, above all, its quality in the region, yet awareness of last century’s achievements and shortcomings, at this stage, seems to be as important as defining new priorities and goals.

It is in light of the above mentioned historical tradition and political-social dynamics that the GCC countries, and especially Saudi Arabia with its specificities, are now dealing with the evolving concept of security, in which human resources development, social growth and state sustainability have taken on even more prominence after the most recent events.⁹ This has led to wider debates on “democratisation” and, less rhetorically, on the evolution of power structures *vis-à-vis* the existing local and global challenges at the political, economic and social levels. This is particularly evident in Bahrain and Oman, where the 2011 Tunisian and Egyptian uprisings brought some of these issues to the fore. And yet, the Gulf, with its typical Arab-Islamic paradigm and its history of development, reflecting a specific political culture, is not comparable to

⁹ An attentive analysis of the multidimensional and complex concept of state sustainability with reference to Mediterranean Arab countries, can be found in S. Colombo, “The Southern Mediterranean. Between Changes and Challenges to its Sustainability” in S. Colombo and N. Tocci (eds.), *The Challenges of State Sustainability in the Mediterranean*, IAI Research Papers, Rome 2011, pp. 18-28.

any Mediterranean Arab country. The evolution towards localised forms of political participation is presently the main trait in Saudi Arabia and the GCC region in general, but the “transition” is unlikely to be short-term.

ASSESSING PRESENT-DAY CHALLENGES

In internal debates on acculturation vs indoctrination, educational and national dialogues, and social initiatives aimed at integration, “third places”¹⁰ for developing social and cultural capital are key to answering some of the pressing and urgent challenges facing the GCC states today. Building intellectual and emotional infrastructure requires knowledge and respect of “the Other” to improve understanding of oneself. In the GCC region, this means re-assessing the positive core values shaped by Islam and local tradition while taking account of the new development needs of society. King Abdullah’s recent decision to establish an inter-Muslim dialogue centre in Riyadh represents a significant step against sectarianism, and parallels the initiative to promote interfaith dialogue through the KAICIID (King Abdullah bin Abdulaziz International Centre for Interreligious and Intercultural Dialogue), inaugurated in Vienna in November 2012, with the support of EU countries and the Vatican.

Core values, in this perspective, can create a link between past, present and future and, if properly transmitted through education, can help limit the fragility of the youth and their identity crisis, which is becoming more

¹⁰ By “third places” we mean those places where the community meets, which act as possible drivers of social growth and development; they can be essential to reinforcing bonds among nationals and creating bonds with others by reproducing positive cultural values. These places, such as conferences halls and discussion rooms, semi-informal meeting places, community centres, parks and museums, can contribute to a culture of social inclusion and multiculturalism as opposed to segregation and mono-cultural realms, and can be positive generators of civic engagement. A few years ago, Adel Al-Dosary, Chairman of the Department of City and Regional Planning of the KFUPM (Dhahran), was among the first Saudi academics to promote the study of social capital creation through “third places” in the highly mixed population of Al-Khobar city in Saudi Arabia. For the implementation of such a model through the “Historical Park Museum” in Jeddah’s historical centre (*al-Balad*), see E. Maestri and V. Fiorani Piacentini, *Cultural Events and Spaces within a Development Strategy towards a Knowledge-based Society and Economy*, paper presented at the Conference on “Saudi Economy: Challenges and Ambitions”, King Abdulaziz University, Jeddah, 7-9 May 2012.

and more worrying. The final aim is to prevent existing frustration from escalating. If, on the one hand, it is true that controversial issues, such as equality in governance, power sharing, women's rights and human rights for nationals and expatriates, continue to be largely disregarded by reactionary elements in the region, on the other, it is increasingly evident that traditional and modern forms of communication tend to intertwine in a new and unexpected way in the tackling of those issues. The debate has been energised by the call for dignity, transparency and equality that has resounded since the start of the Arab Spring. Nevertheless, these are countries with very different historical and political traditions. In republics like Tunisia, Egypt, Yemen and Syria the protests have, from the beginning, been about regime change and "the downfall of the tyrants", rather than "reform and fight against corruption". In this sense, the degree of legitimacy still enjoyed by Gulf rulers is an important factor. Indeed, the popular support enjoyed by King Abdullah is not the result only of the royal decrees that, in February 2011, provided investments totalling about USD 36 billion to meet the Saudi people's economic demands, but is also linked to his deep understanding of the internal dynamics of his country and his region – largely unknown to both the West and the rest of the Arab world – and his ability to adjust his political line.¹¹

Gulf Arab political leaderships share a number of sources of legitimacy, which are represented by the "religious/ideological factor" (Islam), by tradition (tribal alliances and tribal political culture), by the qualities of the leaders, who may or may not have charisma and, can traditionally be replaced by "royal family councils" when considered inadequate or delegitimised,¹² and, last but not least, by the ability of the government to meet most of the needs of the population and provide a welfare system.¹³ Security institutions have played a much greater role in sustaining regimes in Arab republics than in Gulf Arab monarchies. The main challenge in

¹¹ A.H. Cordesman, *Understanding Saudi Stability and Instability: A Very Different Nation*, 26 February 2011, <http://csis.org/publication/understanding-saudi-stability-and-instability-very-different-nation>.

¹² That is not uncommon in the history of Gulf Arabs: examples of "white coups" supported by the majority within the royal families for reasons of delegitimation of a certain leader can be found throughout the last century: in Saudi Arabia, King Saud was replaced by his brother Faisal in 1964, in Oman, Sultan Said was replaced by Sultan Qaboos in 1970 and, in Qatar, Shaykh Khalifah was replaced by Shaykh Hamad in 1995. See R. Said Zahlan, *The Making of the Modern Gulf States*, Reading 1998, pp. 104, 133, 144.

¹³ See T. Niblock, *Saudi Arabia. Power, Legitimacy and Survival*, cit., pp. 9-13.

the Gulf now is to avoid a breakdown in the trust between governments and citizens. The leaderships seem to be increasingly conscious of the need to develop a roadmap for increased public participation, even while extremely cautious of the potential pitfalls of such a path.

The case of Bahrain exemplifies this sense of caution and the importance of knowing local history and dynamics. Here the issue of political reform intermingles in a very subtle way with the consolidation of a transnational Shia network, which goes well beyond the question of Iranian influence. The situation in Bahrain conceals a much more complex reality, which Europe should not ignore in its relations with the GCC: sectarian identities have been strengthening in the country since the 1980s and in particular the 1990s, when the cohesive forces made up of both Shia and Sunni nationals who had contributed to the state-building process were progressively eroded. The “national” identity has been increasingly undermined by an alarming disgregation of the social fabric (*fitnah*). This is a major concern for the entire GCC region and not only for Saudi Arabia, as the uprising in Bahrain cannot be seen simply as the national awakening of the Shia majority pushing for substantive political reforms. The power struggle is highly detrimental to the already uncertain reform process, and has contributed to the widespread anxiety about the path towards reforms, with some people evoking the spectre of the “tyranny of the Shia majority” within a theocracy, rather than real democratisation.¹⁴ The sectarian tinge to what would otherwise be reform movements should not be underestimated in any assessment of the Shiite protests. The events in Bahrain, the only GCC country seriously and dramatically affected by the events in 2011, has had a serious impact on the sectarianisation of politics in the wider region.

Bahrain experienced the first demands for reform in 1938, and its civil society developed throughout the last century much more than anywhere else in the Gulf. Demands for political reform in the 1990s were initially supported by both Shia and Sunni groups, but they were soon appropriated

¹⁴ The Shia ulama campaign against the approbation by the elected parliament (*majlis al-nawāb*) of the Family Law for all Bahraini citizens was supported by the Shia al-Wifaq society in parliament and was motivated by the fact that the Shia needed approbation of the law by the *marja'iyah* (grand ayatollah and legal authority) of Najaf in Iraq. A new version applicable only in Sunni family courts had then to be drafted. See J. Kinninmont, *Framing the Family Law: A Case Study of Bahrain's Identity Politics*, in “Journal of Arabian Studies”, 1:1, June 2011, pp. 67-68

by the rising influence of the wealthy and powerful transnational Shia network. As a result, the most recent reform movement has to be assessed in light of the country's history and political socialisation process, rather than as only a direct consequence of the Arab Spring. Thus, the definition of new policies and effective collaboration between the GCC and the EU could be an important test for them. Joint support for dialogue in a delicate situation like the one in Bahrain would help the confidence-building process between the various forces, addressing the relationship between religion and politics and the structure of future governance. Although the test would be in an apparently tiny and insignificant state, regionally it represents a crucial arena for revitalisation of the social contract and security.¹⁵

Although the most reactionary forces' reluctance to reform still represents a risk for the future of the Gulf, there seem to be glimpses of a new horizon in which the EU has its own crucial role to play; its expertise and experience in terms of civil society development could be a winning card. A cautious and gradual approach, able to avoid chaotic outcomes (*faudā*), is the most logic one and seems to be widely shared by GCC leaderships. This is not an easy task, considering also that long-term stability will be affected by structural aspects such as economics and demographics: given the burgeoning youth population, the mismatch between the education and skills of nationals – both men and women – and the requirements of the labour market, still dominated by expatriates in most productive and private sectors, will have to be addressed. This is a prerequisite for enhancing diversification and making GCC economies more sustainable and able to face the growing internal problem of unemployment, which mainly affects the younger population. Saudi Arabia, with an unemployment rate of 6.9 percent for men and 24.9 percent for women, and a total of 9.8 percent at the end of the last decade, has been struggling to find a solution that cannot be conceived without regional coordination.¹⁶

¹⁵ See J. Kinninmont, *Bahrain: Beyond the Impasse*, Chatham House Executive Summary, June 2012.

¹⁶ The unemployment rates available for other GCC countries in the same period are the following: 5.5 percent in Kuwait, 10 percent in the UAE, 2.4 percent in Qatar, 3.6 percent in Bahrain, down from an estimated 16 percent in 2002, and yet with a persistently high unemployment rate – around 25 percent – among Bahraini youth. In general, unofficial unemployment rates are much higher everywhere, in

Against this backdrop, fostering cooperation in the areas of education, culture and training becomes an ever more essential step in broadening Italian-Saudi relations within a shared EU-GCC agenda. Italy has a consolidated tradition of Arab-Islamic studies and, as a part of it, the recently developing “Gulf studies”. This cultural-historical awareness can contribute to understanding the complexity of the present challenges in the Mediterranean and the Gulf and the need to support the evolutionary cultural trends against the reactionary ones.

The Saudi state, as both the cradle of Wahhabism and the Custodian of the Two Holy Mosques, has most recently been developing a more flexible approach to the *al-islāh* (reform) thought of Ibn Abd al-Wahhab, stressing the importance of education and respect for human rights for both men and women, according to Islamic Law – an aspect that should not be overlooked. Another no less significant step taken by this political orientation is the tangible interest in *ijtihād*, the effort of religious scholars to interpret the Qur’an and the *Sunna* using reason and logic, without relying exclusively on the traditional schools of *fiqh*, or Islamic jurisprudence. Both the Saudi National Declaration for Reform presented to the government in February 2011 by a group of intellectuals appealing for “the adoption of a comprehensive reform programme by the State and society” and the political efforts of King Abdullah, trying painstakingly to find a balance between post-traditionalism and modernisation at the political and social levels can be seen as expressions of this orientation.

The Custodian of the Two Holy Mosques no doubt mobilised resources and assets with a clear awareness that reforms in the political and judicial systems cannot be set apart from economic, cultural and educational reforms. If, on the one hand, one cannot ignore that the top-down political initiatives taken to date fall short of the most reform-minded expectations in the kingdom, most Saudi Islamo-liberal reformists seem to agree that a substantive evolution of the political, judicial and social systems

particular when focusing on youth. See G.C. Gonzales, *Education and Employment in the Private Sector: Addressing the Skills Mismatch in the GCC*, in the Emirates Center for Strategic Studies and Research (ECSSR) (ed.), *Education and the Requirements of the GCC Labour Market*, Abu Dhabi 2010, pp.96-98. With reference to the nationals/expatriates issue in the GCC and Saudi Arabia, see E. Maestri, “Nazionali ed espatriati nel Golfo: grandi ricchezze e grandi disparità” in G. Calchi Novati (ed.), *Asia Major. L’alternativa Sud-Sud, chi vince e chi perde. Economia, politica, modelli culturali*, Carocci Editore, Roma 2011, pp. 181-201.

cannot be pursued by imitating the West, and that looking for “a Saudi way” is not so immediate. Freedom of thought and expression, identity formation, political activism and social networking are at the centre of an open debate among the Saudi intellectual élite, who are asking that they be incorporated into an educational system that does not put them in conflict with Islamic principles. That is plainly discussed in many academic and journalistic articles, as well as in the websites known as *muntadayât*. Quoting the Saudi scholar Hatoon Al-Fassi, “the question on the duality facing society, and women in particular, will remain a dialectic enquiry open for unlimited time”.¹⁷

That is a complex reality, in which the sustainability of the state cannot be linked only to the accountability of political power and the balance of power within the royal family; it is a much more comprehensive challenge in the Saudi and GCC contexts: the “Islam factor” will continue to play a crucial role in a still slow and yet irreversible process of change.

Saudi Arabia has traditionally tried to reinforce its role in the Islamic world – and post-Arab Spring environments are no exception. Its foreign policy is supported by both governmental and non-governmental Islamic organisations: the Organisation of the Islamic Conference (OIC), the non-governmental Islamic World League and *Fiqh Muslim Congress* are just the main ones. Most recently and most surprisingly, the small and very rich Qatar has positioned itself as the second most active GCC supporter of a Salafi-inspired Islamic framework and network, closely followed by the UAE and Kuwait. A ‘knowledge-based’ Islamic line of thought, developing stronger links with the peaceful wing of *Salafiyyah* close to the official Arabian Gulf network, has been emerging as one of the determinants of post-Arab Spring events, too often obscured by the violent extremist salafist groups.¹⁸

¹⁷ H. Al-Fassi, *Introduction*, in A. Profanter, S.R. Cate, V. Fiorani Piacentini and E. Maestri, *Saudi Arabia and Women in Higher Education and Cultural Dialogue. New Perspectives*, CRiSSMA Working Paper, EDUCatt, Milano, 2010, p. 20.

¹⁸ The *Salafiyyah* (from *salaf*, ancestors) is a composite movement, of which Wahhabism is only one expression. It is deeply linked to the traditional knowledge and consciousness of early Islam and its original precepts. The *Salafiyyah* can be defined in Western terms as a strict juridical school which has had – and continues to enjoy – a numerous following and impact throughout most of the Islamic world. For a detailed analysis of the *Salafiyyah* in its evolution and different expressions in the Muslim world, see V. Fiorani Piacentini, *Islam. Logica della fede e logica della conflittualità*, Milan 2003, pp. 138-146.

Bearing in mind that neither the *iftā'*, or deliverance of formal legal opinions (*fatāwā*, sing. *fatwā*)¹⁹ nor the *ta'mīm*, a form of legal article issued by the government,²⁰ make the *sharī'ah*, Islamic Law, it is clear that debating on *ijtihād* becomes even more crucial, given the leading position of the kingdom in Sunni Islam. The encouragement of contemporary authentic *ijtihād* as a collective, consensual interpretation effort of religious foundational texts by trustworthy ulama has been inspiring transnational bodies sponsored by Saudi Arabia, such as the Fiqh Academy (*al-Majma' al-fiqh al-Islāmī*) of the Muslim World League, established in Mecca in 1977, and the International Fiqh Academy (*Majma' al-fiqhī al-Islāmī al-duwalī*), headquartered in Jeddah since 1983. Although including scholars with different legal approaches, these academies are dominated by a Salafi orientation towards the derivation of legal norms and the principle of *ijtihād*. The latter is at the centre of the internal reform process in Saudi Arabia itself, as attested by the establishment of the Saudi Fiqh Academy (*Majma' al-fiqhī al-sa'ūdī*) by King Abdullah in March 2011.²¹ Not surprisingly, it is also mentioned as one of the main objectives of the European Council of Fatwa and Research (ECFR) founded in Dublin by al-Qaradawi, a prominent Egyptian Islamic scholar long exiled in Qatar.²²

The growing influence of Saudi Arabia and Qatar puts even more emphasis on the rising importance of dialogue. By starting out from culture and general education, the final objective should be to integrate the GCC states in the European Research Area: both Saudi Arabia and Italy can make precious contributions in this direction by giving stronger support to exchange programs for students, researchers and scholars, as well as joint research projects and the transformation of universities from mere comprehensive educational institutions into highly specialised research institutions. In this perspective, linguistic and cultural mediation comes to the fore and takes on special importance

¹⁹ Cf. R. Lacey, *Inside the Kingdom*, New York, 2009, pp. 329-330.

²⁰ A very well known *ta'mīm* issued by the Ministry of Interior in Saudi Arabia regards the ban on women driving, but it is the consequence of neither a *fatwā* nor a precept established by Islamic Law.

²¹ *Al-ālam al-Islāmī*, 21 March 2011.

²² ECFR acts as one of the most important institutional loci of a Gulf-supported Islamic network with an increasing impact on the Southeastern Mediterranean, as well as European Muslim communities. Cfr. T. Oubrou, "La Sharī'a et la fatwa en "terre laïque": reflexion pour une integration canonique de l'islam", in M. Younès (ed.), *La Fatwā en Europe. Droit de minorité et enjeu d'intégration*, Lyon 2010, 45-55.

for Europeans in our relations with the Arabs. In order to build a more solid base for positive interaction, deeper knowledge is needed of each other's cultural production in all its forms and expressions. Promoting joint Euro-Gulf investments in educational/cultural initiatives may be one of the best ways to avoid raising the new generations on false concepts and prejudices, as has occurred in the past; on an increasingly smaller planet, highly characterized by the ICT revolution and related changes, linguistic and cultural mediation can play a major role in opposing antagonism and conflict.

Reaching a balance between technological development and the preservation of ancient traditions and the environment is another major objective for bridging the past with the present and the future, and building a pathway towards a new form of human security and sustainable growth. Both form the basis of order, stability, security and cultural development. It is a moral duty we share that can only take on a real economic dimension through greater knowledge of civilizational symbols able to create educational platforms in the local environment, in both urban and rural contexts. Pride in one's archaeological and historical heritage is an essential ingredient for nourishing the determination to develop it. The well known Saudi artist, Ali Al-Ruzaiza, having studied art in Italy and gained a deep knowledge of the country's rich archaeological and artistic heritage, never lost pride in his heritage and, with his acquired appreciation for an Other's cultural experience, found the determination to develop his heritage in Saudi Arabia.²³ That is an approach which clearly needs further support by authorities, institutions and within society.

Both Europe and Italy, on the one hand, and the GCC and Saudi Arabia, on the other, need more concrete proposals for cooperation with a view to forging new links. Thus, enhancing communication skills and creativity in the cultural industry and cultural tourism has recently been recognised as an economic opportunity as well as an effective way to promote human development. The kingdom no longer seems to ignore this approach, having started to formulate new strategies to create a sector of cultural tourism – in addition to religious tourism – as a part of its diversification efforts.²⁴ New and interesting job opportunities could

²³ "From Ushaiger to Rome, Ali Al Ruzaiza Interviewed by Najat Al-Ouhichi", *The Diplomat*, Issue 21, January 2010, pp. 48-53.

²⁴ Tourism can be considered the second sector in the nationalisation of the labour force in the kingdom, according to Prince Sultan bin Salman, President of the Saudi High

be created for women too, which constitute the country's largest pool of untapped human resources. Cultural events and spaces are emerging both as a medium of acculturation, addressing the vital issue of identity preservation and identity crisis amongst the younger generations, and as a medium for the creation of new economic opportunities.

Engagement needs to be pursued with greater determination through dialogue and enhanced mutual knowledge by both Europe and the GCC, via the Arab Mediterranean countries. One cannot but agree with those authoritative scholars who complain about the persisting lack of trustworthy organisations in large parts of the Arab world able to channel the flow of positive energies and innovative ideas into concrete and coherent projects that would lead to gradual and constructive evolutionary change rather than sterile confrontation and the growing threat of violent extremists groups.²⁵ Trying to be optimistic, in spite of all the difficulties, we can hope that a successful transition towards a knowledge-based society (*mujtama' al-ma'rifah*), so often invoked by the Arab intelligentsia in Saudi Arabia and the Gulf, can eventually benefit a much larger region, reaching the Mediterranean and Europe.²⁶

WORKING OUT AVENUES FOR COOPERATION IN POST-ARAB SPRING ENVIRONMENTS

"Strengthening the international status of the GCC" was clearly indicated as one of its strategic goals by GCC Secretary General Abdellatif Al-Zayani. This is in line with the Saudi Kingdom's key objective of taking on a major role in regional and international stabilisation through assistance programmes and donations, as well as mediation efforts.²⁷ North Africa

Commission of Tourism and Antiquities. See *Asharq al-Awsat*, 10 May 2012.

²⁵ A. Pellitteri, "La cosiddetta primavera degli Arabi: alcune definizioni tra riferimenti storico-culturali ed attualità", *Civiltà del Mediterraneo*, December 2011-June 2012, pp. 236-237.

²⁶ M. Bauer and C. Koch, *Promoting EU-GCC Cooperation in Higher Education*, EU-GCC Al-Jisr Project Policy Brief, May 2009, p. 6. See also E. Maestri, "Communication and Cultural Dialogue: the 'Arabian Dimension'" in H. Alsudairy, E. Maestri and B. Nicolini, *Communication with the 'Other': Arab Dimensions, Cultural Mediation and Bows*, CRiSSMA Working Paper, EDUCatt, Milan 2011, pp. 40-42.

²⁷ *Keynote address by the Secretary General of the GCC at the 2012 Gulf Research Meeting opening ceremony, University of Cambridge (UK), 11 July 2012.*

and Yemen exemplify the pro-activism of the GCC and, more specifically, of Saudi Arabia, Qatar and the UAE, in post-Arab Spring environments. The military engagement of Qatar and the UAE in Libya helped legitimise the international action against Qaddafi in the Arab public opinions, while shedding new light on a network of Gulf-supported Islamic charitable activities and business interests, which have been expanding across the Mediterranean in the last decade.

The GCC initiative in Yemen for the departure of President Ali Abdullah Saleh and a peaceful transfer of power was watched with great interest in Europe. In view also of the fact that Yemen lies on the world's major shipping lanes, the EU has been engaging in a more intense political dialogue with the GCC on the issue, supporting joint diplomatic action against transition "spoilers" – Saleh's militant extremist supporters and North Yemeni tribal and religious groups.²⁸ Concerted efforts are essential at this extremely delicate stage both here and in the wider Arab world, and there are very clear priorities to consider in a cooperative approach: from the reduction of the number of weapons circulating among militant groups, in particular in Libya and neighbouring territories, to the need to go beyond aid programs. Business is certainly bound to be a decisive factor in reshaping relationships, but it cannot be the only one. As it is well known that the mega urban projects supported by GCC investors in North Africa in the past proved totally unable to respond to local needs of economic sustainability and fuelled criticism of Gulf capitalist initiatives from Cairo to Tunis to Rabat, a cooperative approach means translating human, material and financial potential into economic power through the promotion of more socially responsible investments in post-Arab Spring environments.

Gulf Arabs, and Saudis in particular, now seem to be looking more seriously at possible "integrative partnerships" – joint initiatives involving more partners – to develop and manage a number of investments in resources development, food and water security, and agriculture. Cooperation in renewable energies, most specifically solar energy, with the involvement of both Tunisia and Algeria is also seen with greater interest among some Gulf Arab business circles. All of this would have a major impact on sustainable growth for all parties involved. And yet, the still too weak institutional structure of the GCC, the still too limited engagement

²⁸ *Saudi Gazette*, 2 October 2012.

of the EU *vis-à-vis* the South and East in promoting multilateral economic projects, and the still prevailing suspicions hampering real economic cooperation among North African states are well known obstacles.²⁹

The GCC's decision in May 2011 to consider including Jordan and Morocco in the organization soon had to face the realistic view that enlargement of the "Gulf community" to the Arab Mediterranean would be ill-advised without taking into consideration economic and labour market issues. Nevertheless, the invitation to Morocco, while politically driven, was also justified by the rising levels of trade and investment between the two sides. As for Jordan, besides being an immediate neighbour, it is also a major Arab trading partner of the GCC. The creation in December 2011 of a Gulf development fund, which began by providing support to development projects in Jordan and Morocco worth 2.5 billion dollars each, confirms the importance of Gulf economic interests in these two countries.

The GCC projection towards the Mediterranean in the aftermath of the Arab Spring through stronger strategic links both with Arab partners and with the EU and Turkey is of unprecedented importance in terms of stabilisation.³⁰ Business, intertwining with the "Islam factor", is leading to a new form of Islamic capitalism, emanating from the growing and increasingly global role of Gulf Islamic financial institutions seeking investment opportunities. Those opportunities need to be directed towards sustainable "integrative partnership models". EU members with strong direct interests in the Mediterranean, such as Italy, are certainly the partners best placed to provide the necessary know-how and training. At the same time, European partners should not ignore GCC expertise in crucial sectors, such as the petrochemical industry and Islamic banking. Boosting partnerships "within a broader scheme of economic relations", supported by Saudi Arabia and Italy,³¹ can achieve a new dimension aimed at stabilisation.

²⁹ On the efforts to establish greater cooperation as a way out of the hardships in North Africa after the Arab Spring, see Y.H. Zoubir, "Tipping the Balance Towards Intra-Maghreb Unity in Light of the Arab Spring", *The International Spectator*, 47:3, pp. 83-99.

³⁰ See E. Maestri, "The Gulf in the Southern Mediterranean" in N. Tocci, E. Maestri, S. Özel and S. Güvenç, *Ideational and Material Power in the Mediterranean. The Role of Turkey and the Gulf Cooperation Council*, GMF Mediterranean Paper Series 2012, p. 7.

³¹ See Agreed Minutes of the Ninth Session of the Saudi-Italian Joint Commission (Rome, 30-31 October 2002).

In the end, strengthening economic ties represents only one aspect of a valuable synergic approach based on a multidimensional strategic dialogue aimed at creating cultural and educational bridges towards neighbouring countries and regions. The necessary political and institutional support is still too weak – and nobody can ignore that – and yet the new page being written in Mediterranean history gives both Saudi Arabia and Italy, within the GCC and the EU respectively, the opportunity to create convergences not only in crises management and economic growth, but also in social and cultural development (soft security), thus counter-balancing an ever more uncertain future.

4.

Saudi Arabia – Europe Economic Cooperation: Prospects and Potentialities

Mai Al-Torki

Over the last 10 years, Saudi Arabia has adopted a clear strategy for sustainable economic development. The leitmotiv of this strategy is “achieving global and regional competitiveness”.

This has translated into a) an iteration of targeted reforms, b) strict selection of sectors where the country wants to compete, c) effective and targeted government stimuli, and d) introduction of mega initiatives from both the private and the public sectors.

All of the above have tripled the country’s GDP over the last 10 years, generated a healthy 6.8 percent real GDP growth in 2012, and transformed Saudi Arabia into the first Foreign Direct Investment (FDI) recipient in the Middle East North African region, according to the United Nations Conference for Trade and Development (UNCTAD).

To date, Europe has provided 30 percent of the above FDI. Key drivers have been French Transnational Companies (TNCs) followed by German, UK and Italian businesses. After a slowdown in 2009 and 2010 when cost-cutting prevailed over expansion, European companies are now once again finding new opportunities across the world. Saudi Arabia is definitely among the priority destinations for energy, transportation and knowledge-based industries. Importantly, there is still room for competitive know-how transfer from Europe and initiatives that generate long-term growth for the Kingdom.

A BUOYANT ECONOMY DESPITE THE ADVERSE EXTERNAL ENVIRONMENT

In 2012, Saudi Arabia maintained a healthy 6.8 percent real GDP growth

(twice the region's average and well above the global average at 2.5 percent¹). 2012 GDP growth was obviously led by the oil sector, which still represents a hefty 49.6 percent of total GDP. Nonetheless, the non-oil sector increased by 7.2 percent in the same year. The Saudi Monetary Agency (SAMA) estimates a 3.3 percent growth for 2013, reflecting a lower growth of the oil sector offset by the continued effect of the government's expansionary fiscal policy, that is boosting the non-oil sector.

In 2012, transport and communications, on the one hand, and construction, on the other, were the fastest to grow, by 10.7 percent and 10.3 percent respectively. These sectors were greatly influenced by the government stimulus dedicated to housing and infrastructure. Expectations are that this stimulus will continue to impact over the coming years, with 4 million houses to be constructed by 2020, and also as a result of the new mortgage law approved in 2012 by the government.

The Saudi ICT sector is the largest among the Gulf Cooperation Council (GCC) countries, with a penetration of mobile devices of 1.88 devices/person. Still, there is major room for growth, with only 40 percent of the population using the internet and the expansion of fibre connections and 4G networks still required.

A single-minded strategy and a coherent implementation

This vibrant economy has solid fundamentals represented by specific goals and clear strategies. In other words, Saudi Arabia knows exactly where it wants to head. Specifically:

- It wants to ensure a rapid and sustainable growth that will also provide qualified jobs for its growing population.
- It wants to win in sectors that are sustainable over the longer term and abandon the ones in which it cannot compete effectively.
- It wants to leverage its geographic position, transforming itself into a hub between East and West.

This means making choices of sectors. And there are three main sectors which the Kingdom is now focusing on:

¹ IMF data.

1. The energy sector: this is where the Kingdom has decided to win globally. Saudi Arabia has 25 percent of the oil reserves of the world, but only 2-3 percent of related industries. This gap has to be closed with industries that can serve the region and the rest of the world. This includes petrochemicals and the industries downstream of petrochemicals, i.e. mining and utilities. Regarding utilities, Saudi Arabia has to more than double its capacity, to go from the current 35 GW to 80 GW by 2020. Given the growing power demand (increasing by 7-8 percent every year), the government has allocated approx USD 107bn to be invested in this sector over the next 10 years. The bottom line is that, between private and public initiatives, there may be USD 300bn worth of potential projects in this sector.

As a matter of fact, the energy sector can leverage many competitive advantages in the Kingdom, such as:

- Feedstock pricing:
 - Electricity USD 0.033/kwh
 - Gas USD 0.75/mbtu
 - Water USD0.03/m3
 - Gasoline USD 0.48/gallon
 - Long-term supply security.
 - Strong demand trends: power demand is expected to grow from 35GW to 80GW in 2020 and 130GW in 2030.
 - Strategic location and clustering.
2. Transportation and logistics: to become a regional hub, Saudi Arabia is putting in place a state-of-the-art transportation and logistics network covering ports, airports, railways, and roads. It has been estimated that there are USD 100bn worth of transportation projects to be developed. Many are underway, such as the expansion of Jeddah and Riyadh airports, the development of the landbridge railway connecting Saudi Arabia's east and west coasts and the construction of the new port at King Abdullah Economic City.

3. Knowledge Based Industries (KBIs): to ensure high standards of development, Saudi Arabia has set up a program to upgrade KBIs, namely healthcare, life sciences, education and ICT. Here the Kingdom aims at becoming a regional reference point. Accordingly, another USD 100bn worth of projects are estimated to be required in these sectors.

Separately, there are another USD 100bn of private sector-led infrastructure development projects underway for the three economic cities: green-field projects to build actual living, vibrant cities in strategic locations for the country. On top of the estimated total of USD 600bn of projects mentioned above, the government announced in January 2010 a stimulus program worth USD 400bn to be spent in the above sectors. A total of USD 1 trillion worth of projects single-mindedly aiming at either global or regional competitiveness.

The No 1 country in the MENA region for ease of doing business

As of 2009, Saudi Arabia became the no 1 country in the MENA region for ease of doing business. This is reflection of the country's focus on competitiveness and its policy of approaching the matter on a national level, involving all public and private stakeholders. In 2005, Saudi Arabia aimed at becoming one of the 10 most competitive countries globally and referred to the World Bank's Ease of Doing Business report as measure for success. An iteration of targeted fiscal and legal reforms started in 2000 has borne fruit. Today, according to the World Bank's Ease of Doing Business report, Saudi Arabia heads the MENA region in terms of business environment and ranks second globally and fourth among G20 countries. In 2005, Saudi Arabia ranked only 68th globally. Importantly, all of this has translated into an increased inflow of FDI, and today Saudi Arabia is the greatest recipient of FDI in the MENA region.

Mega projects and timely government stimulus to accelerate growth

Several mega projects have been launched in the past 4 years by the private and the public sectors. Examples are:

- The launch of three economic cities with a potential investment of USD 100bn by the private sector. Given that these cities are built on green-field sites, they represent a major opportunity

for companies to apply state of the art technologies for housing, security systems, environmentally safe constructions, etc.

- The launch of new industrial zones by the Royal commission of Jubail and Yanbu as well as Modon (Saudi Industrial Development Authority).

Over the last couple of years, three visionary private sector deals have been announced:

- SADARA chemical company: Joint Venture between Saudi Aramco and the Dow Chemical Company. It will become operational in 2015, and will become the largest petrochemical complex ever constructed in one phase. With Dow's technology and Saudi Aramco's managerial capabilities, 50 percent of Sadara's output will serve the Asian market and the rest of the Middle East.
- YASREF: a Joint Venture between Aramco and China Petrochemical Corporation (Sinopec group) worth USD 10bn to create an ultramodern refinery. Yasref will start production in 2014 and will process 400,000 oil barrels/day.
- Saudi Arabian Mining Company: Alcoa has set up a Joint Venture with Ma'aden to develop a fully-integrated aluminium complex (including a bauxite mine, alumina refinery, aluminium smelter and rolling mill). Capital investment in the project is expected to total approximately USD 10.8bn.

Finally, it is important to underscore the active role of the government. In 2013, the government announced yet another increase in spending to develop initiatives within strategic sectors such as healthcare, education, infrastructure and housing.

Table 1: Saudi Arabia 2013 Budget

	Total – USD bn	+ vs.ya	Projects
Total Expenditures	218.7	+19%	
Priorities			
Education & training	54.4	+21%	+539 schools (on top of 1900 under construction and the refurbishment of another 2000) +15 new colleges, facilities and campuses USD 5bn for 120.000 students abroad
Health & Social Affairs	26.7	+16%	+19 new hospitals (on top of 107 under construction) +15 new social and rehabilitation centres +20 new sport centres
Water, Agriculture, and related Infrastructure	15.2	+11%	Dams and desalination plants and water treatments networks and new projects in industrial cities
Transport & TLC	17.3	+16%	
Municipality services	9.6	+23%	Intercity roads, bridges, rain drainage and control systems, flood fighting, asphaltting and environment-related projects

Source: *SAMA Annual Report*.

Incentives for investment in Saudi Arabia

There are numerous incentives in place for industrial projects and

services for initiatives to be implemented in the Kingdom. Examples are:

- Soft loans and shareholding for industrial projects in the Kingdom can be obtained from:
 - Public Investment Fund (PIF): this is under the control of the Saudi Ministry of Finance (MOF) and provides loans and equity participation (PPP). According to the MOF, the total amount of loans committed by PIF up to the end of the fiscal year 2011 was USD 32.1bn.
 - Saudi Industrial Development Fund (SIDF), also under the MOF, finances up to 50 percent of projects with a value of up to USD 133m. Loans can reach 75 percent of the project value in some less developed areas.
- Tax incentives: 20 percent corporate tax (amongst the most competitive in the region), no personal income taxes, and the possibility to carry forward losses on balance sheets indefinitely. The World Bank ranks Saudi Arabia third globally for tax incentives.²
- R&D support programs.
- Customs exemptions:
 - Low tariffs at 5 percent (up to 12-20 percent) and other exemptions.
 - No customs duties on raw materials/equipment for industrial use.
 - Products manufactured in the Kingdom enter the GCC/17 Arab countries' market with zero customs (GCC/GAFTA trade agreements).
- Human capital-related incentives: the Human Resource Development Fund (HRDF) provides 75 percent of training costs for Saudis, and may pay up to 50 percent of payroll costs initially to hire Saudis.

² *Ease of Doing Business Report, 2012.*

SAUDI ARABIA AND EUROPE: AN ESTABLISHED RELATIONSHIP TO NOURISH AND DEVELOP

Why is Europe important to Saudi Arabia?

There are several reasons why Saudi Arabia views Europe as a key player in its long term growth:

- A deep recession in the Euro-zone obviously pulls down oil demand and prices.
- The EU is the world’s largest economy and importantly has competitive know-how in industries and services that overlap with Saudi Arabian development needs (for instance petrochemicals, plastics, pharmaceuticals and healthcare).

Europe is the no 1 FDI provider in the world with 36 percent of global FDI outflow. EU countries, together with Switzerland in particular, represent a growth engine. 92 percent of the European FDI outflow was generated by a total of “10 EU countries + Switzerland”. The relevant EU countries are, in order of their FDI outflows, Germany, France, Belgium, Netherlands, Sweden, Spain, Italy, Luxembourg, Ireland and the UK. The focus of FDI is manufacturing, construction, and financial intermediation.

Table 2: 2011 FDI Outflow

USD million	2008	2009	2010	2011
Total world	1 969 236	1 175 108	1 451 365	1 694 396
Europe	1 024 605	458 103	568 414	651 387
European union	957 798	393 618	482 905	561 805
United States	308 296	266 955	304 399	396 656

Source: *Unctad data WIR*.

- 30 percent of Saudi FDI stocks come from Europe (30 percent of which come from France, 16 percent from Germany and 6 percent from Italy). The following table provides more detail on values of FDI.

Table 3: Actual FDI Inflow from Europe, 2010.

	USD bn	% of total Europe
	50,350	
<i>% of total</i>	<i>30%</i>	
France	15,318	30%
The Netherlands	6,460	13%
UK	7,622	15%
Germany	8,178	16%
Italy	2,970	6%
Switzerland	3,517	7%
Finland	1,951	4%
Spain	1,293	3%
Sweden	765	2%
Russia	744	1%

Source: *SAGIA/UNCTAD data.*

- The EU is the destination of 8.5 percent of Kingdom's total exports.
- The EU is the no 1 source of the Kingdom's imports for sectors such as automotive, pharmaceutical, semi-finished metal products and machinery.³

Outlook for European/Italian-Saudi investment relations

In 2011, European FDI outflow started to grow again after the global slowdown in 2009/10 caused by the financial crisis. This growth, according to UNCTAD's World Investment Report (WIR), was driven by cross-border mergers and acquisitions. Most of these occurred, however, in developed economies. This obviously reflects the conservative approach adopted by European companies in the face of uncertainty of consumer demand and business recovery. Nevertheless, several French TNCs, such as Total, have recently invested in major Saudi projects, which indicates that while remaining selective, European companies

³ Data from the Saudi Ministry of Economics and Planning.

consider the Saudi market highly strategic for energy-related industries and infrastructures.

Italian companies are interested in the Kingdom's opportunities, but are not at the forefront of actual investment. The only exception is the ENI group, which has a historical presence in Saudi Arabia with its various companies. Finmeccanica has opened an office and is constantly exploring new opportunities. The same applies to other big players, such as ENEL and Ferrovie dello Stato, which are carefully looking for the best opportunities. Overall, should other big entities from Italy establish operations in Saudi Arabia as ENI has done, this will provide a broader model for success, thereby attracting the small and medium-sized enterprises that, in numerical terms, represent the backbone of corporate Italy. All of this has to be done, however, keeping in mind the Kingdom's goals of competitiveness and sustainable development and ensuring the creation of jobs for qualified Saudis.

5.

Towards Strengthening Saudi-Italian Economic Cooperation

Abdullah Al-Mobty

GLOBAL ECONOMIC POWER FOR THE KINGDOM OF SAUDI ARABIA AND ITALY

The Republic of Italy was one of the first countries to recognize the Kingdom of Saudi Arabia after its establishment in 1932, and since then the two countries have shared a positive development of distinct bilateral relations on the economic, trading and investment fronts. The past two decades have also seen active movement of trade/business delegations and the execution of economic cooperation agreements which have led to an increase in trade exchange between the two countries, to the extent that Italy has become the eighth trading partner of the Kingdom in the world today. It is also considered the first European economic partner of the Kingdom in trade exchange. On the other hand, the economic power which each country possesses in its geographical region, in addition to its economic fundamentals, has contributed to their common economic interests.

Kingdom of Saudi Arabia

The Kingdom of Saudi Arabia is classified as one of the largest 20 economies in the world, and also possesses multiple constituents and capabilities that give it an influential role in the world economy. It ranks the first in the world in oil reserves, production and exports, and fourth in the world in gas reserves. In the Ease of Doing Business report for 2013, issued by the World Bank, Saudi Arabia was ranked 11th in the world among the countries that enjoy easy business performance, and ninth in the world in terms of economic stability (as it enjoys balanced and stable policies). Saudi Arabia also ranks as the tenth largest exporter of goods in the world, and as the 21st largest importer of goods in the world (with the

exception of bilateral trade between European Union countries).

The Kingdom also ranks as the 28th largest importer of services in the world, and seventh in the global retail development index. The Kingdom has the largest economy in the Middle East, in addition to being a member of the World Trade Organization, the Cooperation Council for the Arab Gulf States and the League of Arab States. It also recently joined the Group of twenty industrial countries (G20).

The impact of the global financial crisis, which hit many countries across the world in the middle of 2008, was less harmful to the Saudi economy than it was to the US and European economies. The economic prosperity which Saudi Arabia has seen since 2002, and its large surplus, which reached 663 billion dollars by the year 2012, in addition to the implementation of more development enterprises, have all helped push the economy in the right direction and lessen the crisis' impact.

The Saudi government initiated the issuance of four key decisions through the Saudi Arabian Monetary Agency (SAMA) to deal with the crisis. These decisions included measures to ensure necessary liquidity for local banks, restrictions on the provision of liquidity to banks by a reduction of the reserve ratio, and lowering financial costs, as well as measures obliging the government to continue ensuring the safety of local banks, including bank deposits.

Over the past two years, the Kingdom has enjoyed rates of high economic growth, namely 8.5 percent in 2011 and 6.8 percent in 2012. Despite this, reports indicate that this rate will drop dramatically in the few following years to 3-3.8 percent for the period 2013-2015, which is mainly due to the slowdown in the oil sector, where a 4.5 percent decline in oil production is expected to take place in 2013.

Republic of Italy

There is no doubt that Italy is considered one of the most important industrial countries in the world. It is a member of the G8 and is a European and global economic power. Italy is ranked as the 18th most developed country in the world; it is also considered one of the top 10 countries in the world in terms of quality of life, and enjoys a high living standard. It ranks 7th in the world in terms of gross domestic production per capita. Italy has the 5th largest government budget in the world.

Italy is considered a founding member of the European Union and

NATO. It is also a member of the G20, the Organization for Economic Cooperation and Development (OECD) and the World Trade Organization.

The 3rd largest economy in the Euro zone, Italy is currently struggling with the European debt crisis' impact, which has affected many European countries. Its economy is still in recession due to the sovereign debt crisis and mortgage problems. Italy's debt is estimated to be USD 2.6 trillion. The economic bulletin of the Bank of Italy indicated that GDP saw a decline of over 2 percent in 2012, whereas the inflation rate fell to 2.3 percent.¹

While trying to figure out solutions to alleviate the severity of the crisis, the government has taken austerity measures through a package of financial and fiscal policies which are aimed at cutting public spending to Euro 26 billion (USD 32 billion), in addition to increasing value added tax in order to meet the default rates set by the European Union. Projections, however, indicate a contraction in the rate of economic growth in Italy during the year 2013 by 1 percent of GDP in light of global events and the continued weakness in economic activity during the last period.

Unemployment in Italy is expected to increase from 11 percent in 2012 to 12 percent during 2013 (the youth unemployment rate is estimated to be 37.1 percent), and despite the various reasons which led Italy to fall into the trap of the European debt crisis, the Italian economy is still too large to be in danger of collapse. Overall, the Italian government should change the structure of the economy by freeing up the market, increasing competition to obtain more productivity and creating more job opportunities.

ROLE OF THE COUNCIL OF SAUDI CHAMBERS IN STRENGTHENING SAUDI-ITALIAN ECONOMIC COOPERATION

The Council of Saudi Chambers (CSC) plays a leading and distinguished role in supporting economic ties with several countries in the world through the facilitation by its departments, the "joint Saudi-Foreign business councils", of connections between the private sector and other countries. The 32 business councils are communities constituted by the membership representatives of the business sector in the Kingdom and their counterparts from the other country which aim

¹ Banca D'Italia, *Economic Bulletin*, No. 67, January 2013.

to activate economic relations (especially commercial, industrial and investment relations, technology transfer and the promotion of feasible opportunities) through a systematic and objective framework. Business councils act in the framework of the CSC to promote increased trade through communication and exchange of information about the needs of both sides for goods and services, and communicate with the relevant government agencies of the two countries in order to improve the climate for cooperation and overcome obstacles that might hinder the growth of these exchanges.

The councils have given special attention to the Saudi-Italian economic relationship because this is of strategic importance to the Kingdom. In order to achieve the goal of consolidating this special economic relationship at the economic level, as well as to activate the bilateral trade exchange between the two countries and to strengthen and develop economic relations between them, the CSC and the Union of Italian Chambers of Commerce (Unioncamere) created the Saudi-Italian Joint Business Council in 2005 with the help of some Saudi and Italian businessmen. A further goal is to foster the investment climate in both countries and to encourage businessmen to establish joint investment projects.

The CSC also works on arranging visits for business delegations from both countries and organizing economic events that support bilateral trade relations through economic forums. One of the recent events was the Saudi-Italian Economic Forum, organized by the CSC in February 2012, which was attended by a high-level Italian delegation headed by the Minister of Foreign Affairs and the Minister of Economic Development, in addition to the President of the Italian Trade Commission, the President of the Italian Organization for Manufacturing and Services, and the Chairman of the Federation of Italian Banks. The delegation included representatives of around 200 Italian companies.

SAUDI-ITALIAN ECONOMIC COOPERATION AGREEMENTS

As part of the deep relations between the two countries, the following joint economic cooperation agreements and memorandums of understanding concluded by them have contributed to supporting and activating the bilateral trade and investment exchange between the Kingdom and the Republic of Italy over the past decades:

- Treaty of Friendship (10/2/1932).
- Economic, Industrial, Technical and Financial Cooperation Agreement (4/3/1975).
- Memorandum of understanding between the CSC and the Manufacturers Association of the Province of Florence (ASSINDUSTRIA) (1977).
- Agreement to Avoid Double Taxation on Income and Property in the Field of Aviation (24/11/1985).
- Joint Agreement for the Development and Protection of Investments (10/9/1996).
- Memorandum of understanding between the CSC and Unioncamere (2005).
- Agreement to Avoid Double Taxation (1/12/2009).

The following section provides details of some key objectives of these agreements:

- Memorandum of Understanding between the CSC and ASSINDUSTRIA: this agreement concerns small and medium-sized enterprises (SMEs) in Saudi Arabia. It helps to develop cooperation ties, technological support and the transfer of technical expertise between ASSINDUSTRIA and the European Union (ECIP programme), on the one hand, and Saudi institutions, on the other.
- Memorandum of understanding between the CSC and Unioncamere regarding founding a Saudi-Italian Joint Business Council: the Saudi-Italian Joint Business Council aims to promote and improve trade relations between the two countries, and to support activities in the fields of trade and industry in both of them via a regular exchange of information between the CSC and Unioncamere, as well as between businessmen and bodies of concern in both countries, especially as regards information related to market conditions, production, business opportunities and technological cooperation. In addition, it supports businessmen in starting joint ventures and preparing studies and making recommendations to

be proposed to relevant bodies in order to strengthen economic ties between the two countries. Among the other key roles of this body is encouraging businessmen to participate in exhibitions in Saudi Arabia and in Italy and to cooperate in order to promote the exchange of business delegations, businessmen and technical experts between the two countries.

- Agreement to avoid double taxation between the governments of Saudi Arabia and Italy: this agreement aims to encourage bilateral investment between Saudi Arabia and Italy by providing full protection for citizens and residents of both countries from direct and indirect double taxation via granting a tax exemption in the state of residence (fully or partially), or by granting a deduction for tax paid in the state of origin for a limited period (a "tax credit"). These measures concern taxes on income and capital. The agreement also aims to fight tax evasion. It offers an opportunity to achieve many benefits for citizens of both countries as well as for companies, funds, private sector institutes, individuals, governmental bodies, national airlines and members of diplomatic missions.

As regards Saudi Arabia, the agreement ensures that there will be no tax levied on companies residing in Saudi Arabia (Saudi or non-Saudi companies) which have activities in Italy unless they have a permanent establishment in Italy, and vice versa. The agreement also ensures that there will be no tax at all, or a low rate of tax, levied on dividends distributed to shareholders residing in Saudi Arabia by companies residing in Italy. This agreement also allows Italian companies residing in Saudi Arabia to avoid paying double taxes by deducting the tax paid in Saudi Arabia from the tax owed in Italy. The agreement also keeps the tax liens obtained by members of diplomatic missions and the Saudi consulate in Italy in accordance with international law or special agreements.

It is worth noting that through the implementation of this agreement, the agreement to facilitate trade between the two countries will be finalized. This latter agreement is expected to lead to an increase in the number of Italian companies investing in the oil, gas and energy sectors and the petrochemical industries in Saudi Arabia, in addition to an increase in the size of joint investments between the two countries.

TRADE RELATIONS

Italy is considered one of the largest trading partners of Saudi Arabia. According to the most recent statistics for the size of trade exchanges between the two countries, Italy comes in an advanced rank (after the US, Japan, the UK and Germany) as one of the largest industrial countries exporting to the Kingdom, whereas Saudi Arabia is ranked second among the Arab countries importing from Italy (after the UAE).

Crude oil is the most important Saudi export to Italy, constituting 28 percent of total exports, in addition to petrochemicals, aluminium and steel covers, heavy white spirits, titanium dioxide powder, sulphur, and tanned leather, including cow and sheep leather. The main commodities imported from Italy are machines, cars, electrical and household appliances, furniture, clothes of all kinds, marble, stones, brick and tiles.

When comparing rates of trade between Saudi Arabia and Italy during the period 2002-2012, we can see a noticeable increase in the size of Saudi exports to Italy. In fact, the value of these exports doubled more than three times through the period 2002-2008. In the same period, Italy was able to maintain an acquisition rate of 2-3 percent of the total exports of Saudi Arabia, where the value of these exports rose from 6.7 billion Saudi Riyals at the beginning of the period to 23 billion Saudi Riyals in 2008.

This could be due to the economic growth in Italy over this period. However, it seems that the financial crisis that toppled the global economy – especially the big countries – in the second half of 2008 has negatively impacted on Italy's economy, leading to a decline in its imports from the Kingdom, which dropped to 9.6 billion Saudi Riyals in 2009, representing a decrease of 58 percent. Despite a relative increase in exports starting from 2010, Italy was unable to acquire more than 1.3-2.8 percent of Saudi's total exports during the period 2009-2011. However, the average value of Saudi exports to Italy is estimated to be 17.2 billion Saudi Riyals for the entire period 2002-2011.

On the other hand, the average annual value of Saudi imports from Italy is estimated at 11.2 billion Saudi Riyals during the period 2002-2011. These imports had an upward trend in general, with an average annual growth of up to 14 percent through the period as the imports of the Kingdom from Italy doubled more than three times between the years 2002-2011, increasing their value from 5.2 billion Saudi Riyals at the beginning of the period to 17.3 billion Saudi Riyals at the end. Imports suffered a 23-24 percent decline during the years 2009 and 2010 consecutively, which could

be due to the impact of the global financial crisis. It should be noted that the relative value of Saudi Arabia's imports from Italy dropped from 4.3 percent to 3.5 percent between the years 2002-2011.

The trade balance between Saudi Arabia and Italy often tilts in favour of Saudi Arabia, with an average annual surplus of 6 billion Saudi Riyals between the years 2002-2011, during which time Saudi exports represented 61 percent of the total trade exchange between the two countries. This is due to the fact that 28 percent of such exports were in the form of oil, because the Italian economy is highly dependent on energy from Saudi Arabia, in addition to another similar percentage represented by basic petrochemical products, which are also important to the Italian economy.

FUTURE OF SAUDI-ITALIAN RELATIONS

The attainment of the future goal of strengthening Saudi-Italian economic cooperation by increasing bilateral trade and implementing direct bilateral investments depends to a large extent on the economic situation in both countries, especially indicators such as GDP, as well as on the economic climate and the impact of other external variables, which can be summarized as follows.

Saudi economy

The Saudi economy is characterized by a positive long-term future perspective which will support the investments made in various business activities. GDP has shown growth during the past three years, supported by low debt levels, large reserves and continued government spending on infrastructure projects. Such factors give the Saudi economy great resilience and immunity to global economic slowdown.

We can easily see the positive impact of government spending on the economy: for example, the value of construction contracts steadily increased during the period 2009-2012. For example, those awarded in 2011 amounted to USD 72 billion, which is more than twice the value of the contracts signed in 2010. This will support growth in the following years during which the projects will be executed. These contracts also exceeded the profits of listed companies in the stock market for the first time by the end of 2012. The net income of these companies may increase by 18 percent on an annual basis to up to USD 30 billion.

Despite the slight expected drop in oil prices, which has already begun, a negative impact on GDP, government spending and investment in general will be limited, as it is expected that GDP will grow by 3 percent by the end of 2013, by 3.8 percent in 2014 and by 3.2 percent in 2015. Despite the slowdown in the growth rate of GDP during the years 2013-2015, it is expected that the government will choose to maintain the high levels of current spending relative to investment spending, but without a deficit, which may be funded from existing savings.

National Industrial Clusters Development Programme

With the good reputation of the Kingdom based on its big oil reserves, the country's development strategy includes measures to encourage and facilitate the process of industrial diversification. In this regard, emphasis is placed on five main industrial clusters through the National Industrial Clusters Development Program (NICDP). Commensurate to the raw materials, infrastructure and manpower available in the Kingdom, these clusters have been recently established to lead the task of developing and improving the following sectors:

- automotive industries and spare parts;
- minerals and metal processing;
- solar energy;
- plastics and packaging;
- home appliances.

These industries share two key characteristics:

- a) they can all utilize, to the fullest extent, the availability of natural resources, raw materials and energy in the Kingdom;
- b) they have huge potential for success, especially as regards exports and technology transfer, and in terms of training and employment opportunities.

On the other hand, the Saudi Arabian Development Plan for the period 2009-2014 has many objectives, including improving the standard of living; developing human resources; increasing the rate of employment of Saudi nationals; diversifying the national economy; ensuring balanced regional

development efforts; and enhancing and improving the competitiveness of the national economy.

The Saudi government's National Industrial Strategy aims to develop and diversify the national economy by 2020 through accomplishing the following objectives:

- raising the production level from 11 percent to 20 percent of GDP;
- doubling the percentage of Saudi employees working in the industrial sector from 15 percent to 30 percent;
- increasing industrial exports from 18 percent to 35 percent;
- doubling the size of technical products from 30 percent to 60 percent;
- increasing the economic 'added value' percentage by 8 percent a year.

Another major plan, Vision 2020, lists similar strategies and aims, such as strengthening academic-industrial links; expanding manufacturing and industry; developing human resources; and expanding the private sector. Supervised by the Ministry of Commerce and Industry and the Ministry of Petroleum and Minerals, the NICDP has a significant role in meeting the targets set out in Vision 2020 and the National Industrial Strategy, as well as broader government goals.

The NICDP is intended to:

- make the most of Saudi Arabia's abundant energy, natural resources and raw materials;
- generate the fastest possible growth in exports;
- bring the greatest benefits in technologies and skills development.

Italian economy

Italy has a diversified economy that includes advanced industries dominated by private companies, in addition to a strong agricultural sector. With a view to solving the unemployment problem, Italy largely relies on high quality consumer goods produced by SMEs, which are mostly family-owned and run. Despite the diversification of Italy's economy, it is still severely suffering from the impact of the 2008 global

financial crisis, and has experienced a decline of over 6 percent; despite attempts to revive the economy in 2010, achieving and sustaining growth quickly vanished in 2011 because of the debt crisis, which has led to economic slowdown.

Forecasts by the OECD indicate that the ratio of deficit to GDP is estimated to be at 2.9 percent in 2013. It is expected that GDP will also drop by 1 percent in the same year, which will be followed by an increase in the unemployment rate from 10.4 percent in 2012 to 11.8 percent in 2014. Furthermore, the austerity policy adopted by the technocratic government in 2012 led to the biggest drop in domestic consumption in Italy since the Second World War. However, the reforms implemented, especially those related to the labour market, have not been sufficient to save Italy from the economic recession. Nevertheless, structural reforms are badly needed to restore the confidence of investors and markets, which will enable the economy to grow.

FUTURE OF SAUDI-ITALIAN ECONOMIC COOPERATION

The above-mentioned macroeconomic trends indicate that Saudi Arabia's economy, embodied in its financial and banking systems, was not significantly affected by the global financial crisis. The high government spending on enterprises has also led to more investment opportunities in the infrastructure, industrial and service sectors to meet development goals. Therefore, for years to come, the Kingdom will have to keep attracting technology and expertise from developed countries, including Italy, to continue developing these fields. On the other hand, despite the strict laws in Italy's banking system, it is still in need of strengthening its liquidity to overcome the negative impacts it has endured as a result of the financial crisis.

In terms of mutual relations, the size of the trade exchange between Saudi Arabia and Italy, which is estimated to be around USD 14.9 billion, does not reflect the real state of both countries' economies, which both sides have an interest in increasing. There is also a need to foster bilateral investment, especially bearing in mind that the number of licensed Saudi-Italian joint ventures, which are based in Saudi Arabia, is only 97, with a total capital of about USD 2.9 billion, of which Italy's share is only 15 percent. Thus, it is important to strengthen Saudi-Italian economic cooperation in the coming years, and that can be done by means of the following measures:

- The banking sectors in both countries should cooperate in strengthening the size of bilateral trade and encouraging joint ventures between Saudi Arabia and Italy.
- Italian companies should cooperate in implementing Saudi Arabia's NICDP, especially with regard to the automobile and accessories industries, given that there are giant Italian companies that are specialized in these fields.
- Joint investment opportunities should be created between the two countries as a response to Saudi companies' keenness to obtain renewable energy technologies, which Italy's green energy sector could offer.
- Cooperation opportunities should be launched for the creation of infrastructure in the Kingdom, especially regarding railways and subways, as Italian companies possess distinctive expertise in that these fields.
- Cooperation partnerships should be activated between universities and research centres, which could help Saudi companies to meet their needs in the knowledge-based economy.
- The importance of SMEs should be capitalized on to support the increase of economic ties between the two countries, especially given Italy's successful experience in supporting and strengthening SMEs, which according to some statistics account for 96 percent of the country's total economic force. It is important for Saudi Arabia to take advantage of Italy's successful experience in this field. Some of these enterprises could involve businessmen from both sides, allowing them to share a proportion of the capital, in addition to achieving a tangible transfer of technology while training a number of Saudi employees in Italian companies.
- Joint specialized committees should be created in the framework of the bilateral cooperation pursued by the Saudi-Italian Joint Business Council as a means of strengthening economic ties, such as the Infrastructure Committee, Automobile and Accessories Committee, Education and Training Committee, Green and Renewable Energy Committee, etc.

6.

The Energy Security Challenge in EU-GCC Relations

Giacomo Luciani

Energy security is a function of the sources of energy that we rely upon and of the objectives of our preferred energy policy. For many decades, energy policy has been driven primarily by the desire to minimize cost and maximize convenience. The rise of oil as the dominant source of energy, which dates barely 50 years (until 1960 coal was the dominant source), was due to the fact that it has been cheaper than other sources and in abundant supply; and that it is extraordinarily convenient in use because it is a liquid and has the highest energy density of all alternatives.

Oil has also been a secure source of energy. As I have documented elsewhere,¹ although some of the major oil exporting countries have been engaged in sometimes lengthy and bloody wars, resulting in a need to reorganize supplies from other sources, in the aggregate there has never been a serious shortage of supply.

Nevertheless, the stereotype has it that oil supplies are unreliable and constantly under threat. The stereotype also has it that the Middle East and the Gulf are politically unstable and supplies from the region unreliable, although when the region as a whole is considered, rather than individual countries, statistics support the opposite conclusion. The stereotype also fails to accept the fundamental distinction between the Gulf Cooperation Council, which has always been an area of stability, and the rest of the region.

In addition, in the past 15 years the peak oil narrative has gained growing traction, and has combined with environmental preoccupations to support the conclusion that the world must urgently diversify away from fossil energy sources and into other alternatives. Thus the need for a new energy transition has been supported on the basis of preoccupation about global warming, but has been presented as capable also of

¹ G. Luciani, *Security of Oil Supplies: Issues and Remedies*, Claeys and Casteels, 2013.

delivering cheaper energy (because hydrocarbon will, in this line of thinking, inevitably become increasingly expensive) and greater energy security (because dependence on imports might be reduced).

In fact, such blessed convergence of objectives is a myth, and a growing number of experts are ready to say so. The unconventional oil and gas revolution in the United States has demonstrated that hydrocarbons are neither close to exhaustion nor bound to be increasingly expensive. And realization of the difficulties and fragility of an energy system based on sources whose availability cannot be controlled, and on a form of energy (electricity) which cannot be stored except in marginal quantities, is pointing to the conclusion that, after all, oil supply may be more secure than some of the envisaged alternatives.

OIL: NO LONGER SO SCARCE AFTER ALL

The peak oil theory has been based on analysis of conventional oil sources, i.e. oil that is readily available as liquid in underground deposits and which flows out of the ground unassisted or with limited assistance once wells are perforated. The availability of conventional oil may indeed be close to a plateau, and unable to meet growing global demand.

However, conventional crude oil is no longer the sole source of liquid fuel. Non-conventional sources will become increasingly important, and their total availability is several orders of magnitude larger than that of conventional sources. Furthermore, the separation between these two forms is not neat and clear, but more a matter of grade. As price has increased, a number of oil and gas sources that previously were considered too costly have become attractive, and have begun to be brought into production.

The potential for additional supply from unconventional resources is very large, and development of such resources is a function of investment. Such investment will be undertaken if the promise of satisfactory profit is strong: hence prices must be not only sufficiently high – a condition that is met at today's prices – but also stable. Long-run volatility generates uncertainty in investment outlook and suboptimal levels of investment; hence prices that are on average higher than necessary and probably also more volatile; a vicious circle of insufficient investment and volatility is then created. It is the perception of price instability that generates the feeling that oil supplies are insecure, and in fact creates the conditions for insecurity, although in physical terms global supplies are relatively stable and reliable.

Addressing the issue of energy security therefore primarily entails studying measures to support investment and stabilize prices at a level sufficient to encourage the development of new resources, and no higher.

CONTAINING PRICE VOLATILITY

In the light of extreme price fluctuations since 2007, the attention of politicians and experts has been drawn to the need to dampen short-term fluctuations and achieve greater reliability of prices.

The pendulum has swung back from the extreme position that advocated exclusive reliance on unregulated markets as optimal, to a position advocating the reining-in of speculators and pursuit of a “fair for all” price.²

The experience of the oil price yo-yo of 2007-2009 was sufficiently traumatic to lead to the emergence of a degree of political consensus on the need to dampen volatility and agree on a price that may be acceptable to all sides. Expressions of concern have been voiced not only by the major OPEC exporters, but also by leaders of the major industrialized countries, notably former British Prime Minister Gordon Brown, former French President Nicholas Sarkozy³ and US President Barack Obama. It appeared in 2009 that a political consensus might emerge for a price situated in a band of USD 65-80/b.

On the basis of this evolution, it was proposed to establish an international committee that would decide on prices⁴ or a price band⁵,

² The Oxford Institute for Energy Studies held a conference on oil price volatility in October 2009 at St. Catherine's College. A summary of the discussion, which was held under Chatham House rules, was published in the Oxford Energy Forum #79 of November 2009.

³ G. Brown and N. Sarkozy, “Oil Prices Need Government Supervision”, *Wall Street Journal*, 8 July 2009.

⁴ R. Mabro has proposed the creation of an independent commission backed by significant research capability and an international convention that would be expected to set a reference price for oil once a month. ENI has proposed the creation of a global energy agency “which might possess the tools to implement concrete initiatives as needed to stabilize the price of oil” (my translation of Scaroni's original speech, available in Italian at http://www.eni.com/en_IT/attachments/media/speeches-interviews/italian-version-speech-scaroni-G8-energia-25-maggio-2009.pdf).

⁵ In particular, B. Fattouh and C. Allsopp, “The Price Band and Oil Price Dynamics”, *Oxford Energy Comment*, July 2009.

similarly to what happens with interest rates (at national level).

Speaking at the inaugural session of the World Future Energy Summit in Abu Dhabi in January 2012, Chinese Prime Minister Wen Jiabao was quoted as saying: “To stabilise the oil and natural gas market, we may consider establishing, under the G20 framework, a global energy market governance mechanism that involves energy suppliers, consumers and transit countries... We need to formulate ... binding international rules through consultation and dialogue, and set up multilateral coordination mechanisms covering forecast and early warning, price coordination, financial regulation and emergency response” (emphasis added).⁶

On the same day, the Saudi Minister of Petroleum, Ali Naimi, said in an interview with CNN: “Our wish and hope is we can stabilise this oil price and keep it at a level around USD 100 a barrel. If we were able as producers and consumers to average USD 100 I think the world economy would be in better shape” (emphasis added). Since then, this price target has been reiterated many times, but at the time of writing oil prices remain above it.

PRICE BANDS

A price band is a way to dampen volatility through maximum and minimum price targets which trigger action on the part of producers and/or consumers as the market price approaches or crosses the extremes of the band.

The concept of the price band has been around for some time. OPEC had a notional price band between 2000 and 2005. Robert Mabro, Christopher Allsopp and Bassam Fattouh of the Oxford Institute of Energy Studies (OIES) have all argued in favour of a band. The problem with any price band is the instrumentation of the intervention required whenever the price approaches the limits. In the absence of appropriate instrumentation, it is not at all clear that market psychology will be affected – indeed the market may be tempted to challenge the band and test the will of governments trying to enforce it.

A price band may be effective if both importing and exporting countries agree on its limits. It is not clear that such an agreement would ever be

⁶ F. Neuhof, “China calls for energy stability”, *The National*, 17 January 2012.

possible, although at present it appears that the target prices of both sides are very close. The interests of exporters and importers are in structural opposition, and convergence is likely to be an exception. However, the industrial countries' concern at climate change and their desire to diversify their energy balances away from fossil fuels and specifically oil, and the exporting countries' fear that oil might be penalized as a consequence, have indeed created a new order of priorities for the two sides, such that importers no longer wish to minimize, and exporters no longer wish to maximize, price.

A price band might be useful if it is intended to limit price volatility only within a specified period of time and if it involves a market-responsive automatic adjustment mechanism. For example, it may be envisaged that the price band would extend $x\%$ above and below a central price equal to the average of observed prices in the previous year. In this way, if the price remains consistently close to the upper or lower limit of the band, the central price for the following year will be adjusted and the band moved up or down. The frequency of adjustment of the central price should be inversely proportional to the scope of the band. If the objective is to create a more reliable investment environment, priority should be given to less frequent adjustments and a wider band. The beneficial effect on investment decisions of a broad-based agreement on a central price is likely to outweigh the uncertainty intrinsic in a relatively broader band.

In the end, the effectiveness of a band depends on its instrumentation. Supply restraint may take the form of output limits or the accumulation of stocks, which in turn could be used to counter excessive price increases. This leads us to the possibility of using intervention stocks in addition to strategic stocks, or some hybrid formula of strategic/intervention stocks.

MANAGING STOCKS

In theory, strategic stocks are clearly distinct from commercial or intervention stocks. Strategic stocks are meant to be used in case of supply emergencies and to serve the purpose of guaranteeing energy security. Intervention stocks are meant to maintain prices at a fixed level or within a band. In practice, the distinction is blurred, because the concept of energy security incorporates the notion of affordability, and therefore some

notion of a maximum acceptable price. Furthermore, emergencies or disturbances arising from geopolitical events such as wars or revolutions tend to be reflected – in fact even anticipated – in price levels more than in physically available supplies: in the end, demand always is matched by supply. Consequently, strategic stocks whose utilization is based on a strict quantitative criterion (such as in the case of the IEA emergency response mechanism⁷) tend never to be used.

Intervention stocks are normally not very well regarded because in all cases in which it was attempted to defend a rigid price through the use of an intervention stock, the stock facility eventually went bust. A rigid price regime invites speculation, and eventually market forces overwhelm any stock that might be accumulated.

At the same time, it stands to reason that stocks should be accumulated at times when prices are declining or low, and liquidated at times when prices are high or increasing. Accumulating stocks at times when prices are increasing appears intuitively irrational.

What this means is that institutions and facilities should be established to manage stocks in a flexible way and in the absence of a fixed price regime. If a band is broadly agreed, as discussed in the previous section, then institutions managing stocks will feel encouraged to sell when the price approaches the top of the band and buy when it approaches the bottom, but it might be dangerous to impose a rigid rule on stock managers.

Should governments establish intervention stocks? In theory, managing stocks in a way that helps to maintaining prices within a band is a profitable operation, which might very well be undertaken by private investors. Investors may choose to buy and sell purely paper barrels, or they may decide to hold physical barrels: the latter option is likely to have a beneficial effect on price stability. The objective of government

⁷ In June 2011, the IEA reacted to the disappearance of Libyan production with a release of 60 million barrels over 30 days (2 million barrels per day, which is more than the Libyan production of approximately 1.6 million barrels per day before the beginning of the crisis). See IEA, *Response System for Oil Supply Emergencies*, 2012. The release succeeded in temporarily lowering prices. In the summer of 2012, the United States argued in favour of a release from strategic stocks in order to counter increasing prices (“US faces stiff opposition to emergency oil release plans”, *Reuters*, 17 August 2012), but several European countries opposed the move (“Germany, Italy stay opposed to IEA oil release”, *Reuters*, 31 August 2012). Later, prices began declining, and the issue lost importance.

regulations should therefore be to encourage private investors to hold physical stocks.⁸

However, encouraging the holding of physical stocks requires passing legislation that makes it easier to build and maintain storage. This is partly an issue of environmental and fiscal rules and partly an issue of market organization. Physical storage operators (who are separate legal entities from the owners of the stored oil) should be empowered to issue certificates convertible into physical barrels: oil deposited into the storage would be exchanged for such certificates, and the certificates could be used to withdraw oil from storage. There is nothing exotic about this, but such a facility, and a market for the certificates that it might issue, does not exist.

Governments may well decide to facilitate this development by establishing an agency to build and manage the storage facility⁹ – such an agency could be established at national or regional level or both – and issue certificates to oil depositors. The possibility of depositing oil would be open to all, including the national oil companies of exporting countries. Storage facilities could be built in all appropriate locations, not necessarily in the territory of the country or group of countries establishing them. In fact, it might be very interesting to build large storage facilities at critical logistical junctures, such as the Suez Canal or the Malacca Strait, or in conjunction with pipeline projects designed to bypass such junctures.

Major trading companies already maintain storage facilities, but the phenomenon is limited¹⁰ and not sufficient to influence crude oil prices.

⁸ This applies especially to the world outside the United States. At the time of writing, the United States has total stocks of a little more than a trillion barrels, of which close to 700 million are in the Strategic Petroleum Reserve, and the rest commercial stocks. Data about US stocks are published on a weekly basis and exercise influence over prices (more so in the past than today). However, the situation of stocks outside the United States, notably in Europe, is not transparent at all.

⁹ Japan, Abu Dhabi and Saudi Arabia have an agreement along these lines. Japan has built storage in its own territory that it offers to Abu Dhabi and Saudi Arabia free of charge for the storage of oil. The stored oil belongs to the producer, but obviously Japan gains a degree of security from this. See “Saudi Arabia To Store Oil in Japan,” *Reuters*, 23 December 2009.

¹⁰ In May 2010, Vitol sold 50 percent of its global storage business to Malaysia’s MISC, a subsidiary of Petronas, the purpose being to attract additional equity to expand the business. Being a privately held company owned by its employees, Vitol faces difficulty in tapping the equity market and financing expansion (see *Financial Times*, 17 May 2010).

Much larger storage facilities are needed, and private sector investment may not be attracted to establish them. Nevertheless, *per se* the business of operating storage facilities may very well be profitable if investment in physical stocks develops as envisaged here.

Stored oil certificates should be designed and regulated in such a way that they are accepted as collateral by financial institutions. This would open the possibility for exporting countries of “depositing” oil that they cannot sell at prices which they deem convenient and of borrowing funds to make up for the temporary shortfall in revenue. Of course, if assumptions about future prices are unrealistic, they may end up defaulting – but this should be a concern of the banks, as is the case for any credit issued against real collateral.

DEMAND SECURITY

In discussions of energy security, the producing countries have frequently stated that they are willing to engage in the investment which is required to meet expected future demand, but that they need some demand security, i.e. assurance that demand will be there as expected. In other words, security of supply begs security of demand.

In a free market environment, there can of course be no assurance of future demand. Importing countries are at a loss in responding to the request for demand security, because they possess no tools to guarantee demand. How can this problem be solved?

The establishment of storage facilities where oil could be deposited against certificates that may be discounted by financial intermediaries is already a step in the right direction. An agreement to consult and coordinate in the accumulation/disposal of strategic stocks may also be of help. But neither is likely to be viewed as providing sufficient security of demand.

Historically, the gas industry solved the problem through take-or-pay contracts.¹¹ These were said to place the burden of volume risk on the buyer, and leave the burden of price risk on the seller. There is no

¹¹ A take-or-pay contract is an agreement whereby the buyer agrees to either take, and pay the contract price for, a minimum contract quantity of commodity each year (the “TOP Quantity”) or pay the applicable contract price for such TOP Quantity if it is not taken during the applicable year.

denying that this arrangement, unpopular as it might have become, allowed for the implementation of some very ambitious investment projects and significant improvements in Europe's energy supplies. But these arrangements only were possible because prices were exogenously generated: gas prices were indexed to oil and oil product prices to guarantee the competitiveness of gas in marginal uses.

In the case of oil, we cannot think in terms of take-or-pay contracts because the price needs to be internally generated. However, individual countries, including large ones, could conceivably conclude take-or-pay contracts and index the price to signals generated elsewhere in the world. For example, China or India could put in place take-or-pay contracts for volumes of Gulf oil, and index the price to Brent or WTI or some other traded market (such as in the case of the DME Oman contract). This would provide the Gulf producers with significant demand certainty, although it would probably be viewed with considerable anxiety by importers in the United States, Japan and Europe. We are not quite there yet, it should be said, although the intensification of relations between the Gulf and the emerging countries in Asia does point in this direction.

The drawback of this arrangement is that it would divide the oil market into price-making and price-taking segments; it is to be expected that volatility in the price-making segment would be relatively higher the smaller the price-making segment is relative to the price-taking segment. This is the same as saying that oil may be sold on the basis of long-term evergreen contracts or on a short-term basis: price is generated on the short-term market, which is where all potential demand/supply imbalances will be felt. Such imbalances may be minor in comparison to global demand and supply, but large in comparison to short-term trading only.

Today, we have a system that is very close to this: prices are indexed to traded markets that are a very small component of global physical supply and demand. The difference is that there are no proper take-or-pay contracts, but only evergreen contracts which envisage neither an obligation to supply on the part of the seller nor an obligation to lift on the part of the buyer. In addition, the price directly reflects all the volatility of short-term markets. But an evolution towards take-or-pay contracts closer to those common in the gas industry is conceivable.

VERTICAL INTEGRATION

Another potential step in the direction of a longer-term incentive to investment in the industry is facilitating vertical integration. In the current downturn, the large, vertically-integrated international oil companies have claimed that their investment plans are unaffected by the downturn and are based on their long-term strategies.

At the same time, it is true that large integrated companies “own” their market thanks to their presence at the retail level and the oligopolistic nature of the business. They therefore enjoy a considerable degree of demand security, although they face price risk and are exposed to price volatility, as is any other player in the industry. Large integrated companies also have a broader capital base and may be better able to continue funding investment projects out of internally generated resources than smaller independents.

Nevertheless, the “old” large integrated companies remain vulnerable to pressure from financial analysts and investors, who are typically only interested in “returning value” to the shareholders in the short run. The functioning of financial markets does not encourage strategic thinking, as investors can enter and exit a stock at any time and are mostly interested in short-term appreciation. This is a problem for all industrial corporations, but is an especially difficult problem for oil companies, whose outlook is structurally long-term.

In contrast, financial investors have little influence on the “new” integrated companies, namely the national companies of the major importers, which are venturing internationally in order to improve their security of supply, and the national oil companies of the exporting countries, which are investing downstream in order to gain better control of their markets. In both cases, ownership remains either entirely, or to a large extent, in the hands of strategic investors, frequently the state itself, and strategic thinking is encouraged, rather than short-term profitability.

The growing role of these companies is a factor which increases energy security, because such companies will invest with a long-term perspective. The activism (or shall we say “aggressive” approach) of Chinese companies to acquiring reserves internationally has frequently been portrayed as being a threat to importers in the OECD – while it should be more properly understood as an example to imitate. Equally, the drive of some national oil companies to integrate downstream, acquiring refining and retailing assets in the importing countries, has frequently

been viewed as a threat, as if it entailed a further degree of dependence and loss of control, while in fact it should be viewed as improving security of supply, reinforcing the commitment of the supplier to service his own assets and keeping the market supplied.

Hence, vertical integration is important, and good for energy security. The OECD countries should look into ways in which they might encourage more strategic behavior on the part of the “old” integrated majors and preserve the species by putting a limit on the cannibalism represented by mergers and acquisitions. And they should welcome the downstream integration of the national oil companies of major producers, interpreting the will to invest as a commitment to supply.

RELYING ON LONGER-TERM PRICING

Even if speculation is curbed and short-term volatility is successfully dampened, it would be advisable to rely on price signals from longer-term maturities, rather than on spot or front month prices. Prices for longer maturities (3, 6 or 12 months) have always fluctuated less than front month prices and are inherently more stable, because they are not influenced by short-term inconsistencies of demand and supply.

There is no overwhelming reason why prices to the final consumer should reflect the spot or front month market. Refiners and retailers have the option of hedging forward and could very well be asked to guarantee a price to their customers or give significant advance notice of any variation. The market will not spontaneously generate such behaviour: no retailer of oil products has conceived of competing on the basis of guaranteeing a price to its customers for a given period of time. The reason is simple: customers cannot be tied to a specific supplier: they prefer the supplier that guarantees a price in the longer run for as long as that price is lower than the competition, and will switch to the competition as soon as it becomes higher. However, if regulations were adopted obliging all suppliers to guarantee prices for a given period of time and/or to announce changes with sufficient advance notice, the final consumer could not take advantage of prices that may be lower in the short term.

Oil products markets are normally considered to be either free or administered, and the latter frequently means prices that are kept artificially low, because governments are reluctant to pass on price

increases for crude oil to final consumers. Indeed, the extensive reliance on administered prices in developing countries, notably in the fast-growing Asian economies, has been singled out as one reason for the rigidity of demand relative to price: demand is simply shielded from higher prices.

What is proposed here is not a system of administered prices, but a set of regulations which would in essence encourage refiners and retailers to hedge on the futures market and to lock in the prices which they offer to their clients. Requesting retailers to “post” prices which can only be changed with, say, three months’ advance notice would probably yield the best results: competitors would be able to decide whether to follow the moves of the price leader, and price competition would still be possible. If prices are to be guaranteed over a set period of time, adjustments become more difficult, and competition is discouraged. In all cases, coordination in view of price fixing needs to be eliminated.

The combination of advance notice and limits on the frequency of price changes would represent an increase of energy security for the final consumer *per se*. In theory, the final consumer could use the futures market and derivatives to reduce his risk and enhance his own security even in today’s conditions, but in practice this is beyond the means of most consumers. Only large consumers, such as airlines or shipping companies, have done so, and they too are vulnerable to the threat of consumer infidelity whenever their final prices are higher than those of the competition. Regulations encouraging systematic hedging would contribute to energy security overall.

TURNING GULF OIL INTO A GLOBAL BENCHMARK

The most obvious weakness of the current market organization is its reliance on two benchmarks – WTI and Brent – whose validity for global oil price discovery has been continually eroding, and is now highly questionable.

In the case of WTI, insufficient pipeline capacity to pump crude oil out of Cushing has led to a prolonged disconnect between the two markers. Brent has fared better, but, notwithstanding the enlargement of the pool to include Forties, Oseberg and Ekofisk, its physical base is dwindling.

Yet a benchmark, once established, attracts liquidity; and liquidity attracts further liquidity. Such circularity creates an extraordinary inertia that makes it extremely difficult for one or more alternative benchmarks

to arise and siphon liquidity away from established benchmarks, even if the latter are ailing and increasingly unreliable. Nevertheless, immortality cannot possibly exist even for benchmarks: sooner or later shifting equilibria and market realities will impose a realignment of the market around one or more new markers.

The only longer-term solution to having a truly global marker is to base one on oil exports from the Gulf.¹² The Gulf is, and will remain, the origin of the most significant crude oil flows, serving markets all over the world. A stable global oil market can only be based on a Gulf marker. That requires the Gulf oil producers – Saudi Arabia first and foremost – to accept that their oil be traded. They could take a “permissive” attitude – simply scrapping destination restrictions, and allowing a secondary market in their crude qualities to develop. Or, and in my opinion preferably, they could take a more active stance, and design rules on the basis of which they themselves, either individually or as a group (the GCC), could create a market for their crude.

The way in which this might be achieved is through controlled auctions for primary sales – i.e. sales from the national oil company (NOC) of the relevant country to third party buyers. Auctions should be conducted at frequent intervals with no ex ante engagement as to the quantities that will be sold. The seller will receive bids as to how much each buyer is ready to buy at which price, and will simultaneously decide on the quantities that are to be sold and at which price. Primary sales should preferably take place well in advance of the delivery date (perhaps three months forward) so that buyers will have an opportunity to trade on the secondary market until the oil is actually lifted.

If well implemented, this mechanism will give the major Gulf oil-producing countries the possibility credibly to influence prices. If applied too rigidly, the mechanism may even freeze prices for a while, but this would not be wise on the part of producers. They should rather allow market forces to emerge through the auctions and secondary trading, and constantly adjust prices, at the same time keeping variations under control.

¹² I have developed this point in several publications, notably: “From Price Taker to Price Maker? Saudi Arabia and the World Oil Market”, *Rahmania Occasional Paper* 03, 2011; “Global Oil Markets: The Need for Reforms” in R. Looney (ed.), *Handbook of Oil Politics*, Routledge, 2012; and “Oil price benchmarks in international trade”, *Oxford Energy Forum*, February 2012.

The smooth functioning of a cleverly-designed, Gulf-based oil market may further be enhanced by some other emerging trends. The most important of these is probably the tendency among Gulf NOCs to invest in refining both domestically and in key markets abroad, thus selling more of their oil as products than as crude. Under the leadership of Khaled al Faleh, Saudi Aramco now envisages lifting its refining capacity to 8 mb/d, with a large share located in China. It is not by chance that the company has launched the Saudi Aramco Products Trading Company, which became operational in the early days of 2012. Products sales are necessarily much more closely related to specific demand conditions in the various national markets, and less vulnerable to the influence of financial variables.

CONCLUSION

This chapter has argued that the functioning of markets is a key determinant of energy security. Geopolitical and other threats to physical supply may cause price shocks but, as historical experience shows, are unlikely to cause any significant physical shortage. Therefore, insecurity is manifested by price shocks and price shocks *are* insecurity. However, price shocks may very well originate in the absence of major disturbances to physical supplies, simply as runs originated by investors, or “speculators”, which the market does not correct because both demand and supply are rigid relative to prices.

Price volatility is, therefore, a threat *per se*, in many ways more important and more devastating than potential threats to physical supplies. The cost of price volatility is very high, much higher than the potential cost of possible disruption to physical supply; and it is significant not just in the immediate term, but even more so in the long run because of the depressive effect it has on energy investment generally. Thus addressing price volatility is a key component of energy security policy.

Unfortunately, there is no easy recipe to dampen price volatility: this chapter has reviewed several approaches that may reduce volatility, notably:

- Enforcing an internationally-agreed price band.
- Managing stocks.
- Offering demand security through take-or-pay contracts.

- Encouraging vertical integration.
- Increasing reliance on long-term pricing.
- Encouraging the freer trading of major crude oil streams, particularly those from the Gulf.

None of these approaches taken individually is sufficient to stabilize prices, but collectively they may very well succeed in reducing volatility. Volatility will never be eliminated because it is a structural feature of the oil industry, but it may be contained, and energy supply would then be perceived as being much more secure.

The measures suggested here require a mix of unilateral action at national level and internationally concerted action. No country or group of countries can solve a problem which is global by nature in isolation from other major players. But the GCC and the EU could take the initiative on the assumption that other major players may well be interested in following. The solution to energy security is not to renounce oil, but to improve confidence in oil availability and prices.

7.

Parliamentary Relations between the Kingdom of Saudi Arabia and the Republic of Italy

Rashed Al-Kathiri

The Kingdom of Saudi Arabia has close ties with the Republic of Italy. Those close ties date back to the year 1932, when Italy opened a consulate in Jeddah. In 1933, the two countries signed an agreement. In 2012 the two countries celebrated the 80th anniversary of Saudi-Italian relations. Nevertheless, more efforts are required to lift those relations to higher levels in terms of security, politics, energy and the economy. Other aspects, such as education, healthcare, and vocational training, should be included in the process of cooperation between Saudi Arabia and Italy.

SAUDI SHURA COUNCIL: A BRIEF LOOK

The word *shura* (an Arabic word meaning ‘consultation’) is an important principle of the Islamic political institution. It is used as a political and social means of making decisions after consultation and debate among Muslims in a community. An Islamic state is supposed to give its members a consultative or advisory role in political issues and social affairs. In other words, *shura* is “a collective product generated from thought, experience, knowledge, and continuous research”.¹ Hence, the Saudi Shura Council was established in 1924 by King Abdulaziz, the founder of the Kingdom of Saudi Arabia, as a symbol of the unity of the newly-founded kingdom and the founder’s desire to allow Saudi citizens to participate in the process of decision-making.

The Shura Council has passed through different phases until reaching

¹ *The Shura Council in Saudi Arabia: Parliamentary Practice*, 2004.

its current form. However, its development can be summarized in six stages.²

Stage One: the National Council, 1924

The first elected council was founded in Mecca in 1924. It was given the title of the Consultative National Council, and was made up of 12 members. It played a major role in drafting the basic laws for the administration of the country. However, it only lasted for six months. The council was dissolved in an attempt to widen the scope of participation in order to build the newly-founded country.

Stage Two: the Consultative National Council, 1925

In 1925, the circle of participation was expanded. King Abdulaziz ordered the formation of a new council comprised of six elected members representing all of the 12 districts in Mecca, two religious scholars, one representative of businessmen in Mecca, and three members who were appointed by King Abdulaziz. The council was better organized than the previous one in terms of structure; it had a president, a vice-president, a secretary, and 12 members. The council's jurisdiction included regulating courts, municipalities, endowments, education, security, and commerce. Six articles governed the formation of the council, i.e., membership qualification, and its voting system. One should take into account the council's combination of election and nomination.

Stage Three: the National Council, 1926

In this period, after security was restored in Hijaz,³ King Abdul Aziz formed advisory boards in Mecca, Medina, Jeddah, Yanbu and Taif. Mecca's board consisted of ten members and the head was appointed by the government, Medina's board consisted of six members in addition to the director, and each of the advisory boards of Taif, Yanbu and Jeddah consisted of four members in addition to the director. Out of these advisory boards, a national consultative council was formed which was entitled Majlis Ash-Shura. It included 12 members representing Mecca, Medina,

² *Shura Council: Historical Background*, a publication of the Shura Council, 2008.

³ The western region of Saudi Arabia which has the two Holy Mosques.

Jeddah, Yanbu and Taif. It also included representatives of tribes.⁴ Also, the country's new law included items regulating the Shura system (items 28, 29, 30, 31, 36, and 37). They discussed membership requirements, the council's location and duration, the selection process, etc. The council was better organized than the previous ones, and it continued its work until it was dissolved a few months later.

Stage Four: Majlis Ash-Shura, 1927

The council for this year consisted of eight members serving two-year terms, four of whom were elected by the government after consultation with eminent experts, while the other four members were appointed simply by the government. King Faisal bin Abdulaziz Al Saud inaugurated the council's first session on 17 July 1927, which is considered the actual founding date of Majlis Ash-Shura. The council's jurisdiction included: budgets of government agencies, issuance of economic and contraction businesses' licenses, approval of financial and economic projects, etc. The council's role was to ensure the execution of laws and rules by government agencies. If the council and the government had conflicting opinions, the King was given the right to the final decision. Two committees were established during this period to handle financial and managerial affairs.

Stage Five: Majlis Ash-Shura, 1928

Some amendments were made to the council's governing law. The number of members was increased from eight to 12. The council's vice-president was to be appointed by the King, while a second vice-president was to be elected by the council.

In the same year, an appendix was developed and issued as a set of internal by-laws for Majlis Ash-Shura. The council exercised a wide jurisdiction until the founding of the Council of Ministers in 1953, when many of the functions of Majlis Ash-Shura were distributed between the Council of Ministers and other apparatuses of government. However, Majlis Ash-Shura continued to hold sessions and to look into issues referred to it, albeit at a reduced level of power.

⁴ Abdurahamn Alzahrani, *Shura Council in Saudi Arabia*, 2002, pp. 20-21.

Stage Six: the modern Majlis Ash-Shura

In 1992, the Custodian of the Two Holy Mosques, the late King Fahd bin Abdul-Aziz, introduced three major laws: the Basic Law of Governance, the Provincial Councils' Law and the Majlis Ash-Shura Law. The council's frameworks, methods and means were reorganized. This started a new page in the long history of Majlis Ash-Shura in the Kingdom of Saudi Arabia. In 1994, the King launched the first term of the council with a speaker and 60 members. In the second term, the council consisted of a speaker and 90 members. In the third term, it included a speaker and 120 members. In the fourth term, the council consisted of a speaker and 150 members, representing people of knowledge, experience, and competence. It consists of 13 committees.

The Shura Council expresses its opinion on the State's general policies. Under the Shura Council law, article 15, the Council shall specifically have the right to do the following:

- Give its view on the Kingdom's general policies.
- Discuss the general plan for economic and social development, and give views.
- Revise laws and regulations, international treaties and agreements, concessions, and provide whatever suggestions it deems appropriate.
- Discuss government agencies' annual reports, attaching new proposals when deemed appropriate.⁵
- Request the accountability of ministers. A minister shall have the right to participate in the deliberation but not the right to vote.⁶
- Have the jurisdiction to propose a draft of a new law or an amendment to an enacted law, and study them within the council.⁷

⁵ Shura Council Law, Royal Decree No. A/91, 1 March 1992, published in Umm-al-Qura Gazette, No. 3397, 5 March 1992.

⁶ Article 22, Shura Council Law.

⁷ Article 23, Shura Council Law.

SAUDI-ITALIAN RELATIONS AND THE ROLE OF INTER-PARLIAMENTARY DIALOGUE

The Kingdom's oil production capacity and its large oil reserves have motivated many countries to build strong relations with the Kingdom to ensure that their oil supply needs are met in order to cover their energy needs. Thus, this productive capacity and large reserves of oil have given Saudi Shura Council strength in cooperation and dealing with foreign parliaments; it has also made it easy for the Council to join many global and foreign parliamentary unions. Since economics and energy are important elements in political relations, the Shura Council and the Italian Parliament have played a role in executing several trade agreements. A bilateral trade agreement on the avoidance of double taxation on income and capital and the prevention of tax evasion was approved and signed by the Saudi and Italian sides in Riyadh on 13 January 2007.

Cooperation between the Shura Council and the Italian Parliament has facilitated the participation of Italian and Saudi businessmen and investors in projects in both countries. Italian investors have participated in 54 joint investment projects in the Kingdom in the fields of construction, industry and services. To facilitate investment, a convention on the protection and promotion of investment between the two countries was signed during a visit of the Italian Foreign Minister, Lamberto Dini, in September 1996 (resolution No. 30/32/17). The Shura Council, as an increasingly important legislative institution in Saudi Arabia, has actively cooperated with the Italian Parliament in economic, political and social affairs. The results of such collaboration have been impressively fruitful. A memorandum of understanding and cooperation in the parliamentary and diplomatic fields is due for signature soon by the Shura Council and the Italian senate. It was drafted by the heads of the two councils following an official friendship visit headed by HE Dr. Abdulla Al-AlShaikh, President of Saudi Shura Council.

Regarding sustainable energy, the economic and energy affairs committee of the Shura Council is working on the establishment by Saudi Arabia of alternative energy sources. This can be only achieved through benefiting from other countries' experience in this field. One possible alternative energy source is renewable energy. The economic and energy affairs committee would really benefit from Italy's energy

research, and hopes these plans would result in sustainable energy projects in the Kingdom.

Furthermore, the global financial crisis was discussed in meetings between members of the Shura Council and the Italian Parliament to reduce its effects on the two economies and promote investment opportunities in both countries.

Since the Kingdom of Saudi Arabia has a special influence in the Arab world and a prominent position among Muslim countries and those with Muslim minorities, on the one hand, and holds an important economic status in the rest of the world, on the other, it can play an intermediary role between East and West. The Custodian of the Two Holy Mosques, King Abdullah Bin Abdulaziz, initiated a dialogue among religions and cultures. His initiative was crowned by the historical summit between his Majesty and the Pope of the Vatican on 7 November 2007 during a visit to the Republic of Italy. To promote this dialogue in practical terms, His Majesty has also established the King Abdullah bin Abdulaziz International Centre for Interreligious and Intercultural Dialogue, known as KAICIID, which was inaugurated on 26 November 2012.⁸ The Government of Austria as well as the Government of Spain are supportive of this very important initiative.

Another step taken by the Saudi government to create paths for communication among cultures was the establishment of the King Abdul Aziz Center for Islamic Sciences Studies in the city of Bologna. Prince Sultan bin Abdul Aziz, the late Minister of Defense and Aviation and Inspector General, inaugurated the centre on 17 January 2000. This centre is believed to present various aspects of Islam and Muslim communities through research and intensive studies. The Shura Council and the Italian Parliament are fully aware of these efforts, and are playing a major role in achieving the goal of mutual cooperation. Through the mutual visits between members of Shura Council and the Italian Parliament, the Shura Council tries to contribute to approximation and dialogue among cultures. Sincere efforts are carried out to achieve this goal, with a future plan to include the youth in such initiatives and gatherings.

His Majesty's belief that dialogue is the best means of communication and understanding not only within the international community, but also within Saudi society, led to the establishment of a national dialogue

⁸ See the chapter by Bin Muammar in this volume.

centre in Riyadh that invites various segments of Saudi society to discuss the challenges facing the country as it moves further into development and increasingly needs to meet the needs of its growing population. This is especially important since Saudi society has been through many rapid changes that expedited the need for development in Saudi Arabia. More than 60 percent of Saudis are young people under the age of 30, who want their voice to be heard and represented in government institutions; hence, one of the Shura Council work mechanisms for communication with citizens is receiving citizens' complaints, suggestions, and recommendations. Through its multiple committees, the Shura Council works on suggestions, visions, and grievances to ensure effective recommendations and solutions for such issues.

The Shura Council supports the kingdom's efforts to resolve international and humanitarian problems in the global community in general. With regard to the Palestinian issue in particular, it seeks to promote justice and equality. Within this context, Italy has been a positive partner in its understanding and promotion of justice and equality globally. We believe that cooperation and coordination between Saudi Arabia and Italy through the Italian Parliament and the Saudi Shura Council would add to international efforts to ensure security and stability for the international community.

The prominent status of Saudi Arabia in the international community politically, geographically and economically, besides Italy's economic and political role in the European Union, has strengthened the need for Saudi-Italian cooperation. Furthermore, the similarities of policies between the two countries in many issues have reinforced the importance of coherence and the establishment of close relationships between the two countries. This has resulted in many visits between officials at the highest levels in both countries,⁹ as well as the signing of a series of agreements

⁹ These visits are as follows:

King Faisal bin Abdul Aziz visited Italy on 14 June 1973.

King Fahd bin Abdul Aziz visited Italy in May 1980.

Italian Prime Minister, Bettino Craxi, visited Saudi Arabia in November 1984.

Italian Prime Minister, Giulio Andreotti, visited Saudi Arabia in June 1991.

Italian President, Oscar Luigi, visited Saudi Arabia in September 1997.

The Saudi Minister of Aviation and Defense visited Italy in 1997.

Italian Prime Minister, Silvio Berlusconi, visited Saudi Arabia in March 2002.

The Chairman of the Foreign Affairs Committee in the Shura Council visited Italy on 12-21 November 2005.

and memoranda of understanding which serve the interests of the two countries.¹⁰ These visits were excellent opportunities for tackling international problems and issues and clarifying mutual policies and positions.

Turmoil and instability in some Arab countries following the Arab Spring, the threat of terrorism and political conflict in the region have meant that it is necessary to ensure social, political and economic stability in the Gulf region. Delegations from both sides discussed these issues and coordinated memoranda of understanding and agreements between the two countries, represented by the Ministries of Foreign Affairs and the Ministries of the Interior.

The Kingdom's attempt to update its systems in response to the rapid changes in Saudi society, and its movement towards a democratic community that involves all citizens in the process of decision-making, have led the Shura Council to seriously reconsider and update its mechanisms and mandate in order to serve the community and to enhance the performance of government institutions and agencies, especially in laws and policies in fields related to education, training, labour, economic transactions and citizens' rights. It also promotes laws and systems for fighting corruption.

Although ten decades have passed since the Saudi Shura Council's establishment, it still strives to develop its system, working mechanisms and mandate through the study of projects, regulations and reports. In addition, it communicates with international parliaments and studies their systems and mechanisms of action. It has set for itself a plan to ensure the representation of Saudi society through dialogue with communities and citizens, taking into consideration the diversity of the cultures and managerial provinces in the Kingdom, in order to be a voice for citizens and to build modern systems of governance.

The Shura Council works hard to bring its working mechanisms and powers in line with the Parliaments of the developed world, taking into

The Italian Ambassador visited the Shura Council on 21 October 2008.

The Chairman of the Foreign Affairs Committee in the Italian Senate, Senator Lamberto Dini, visited the Shura Council from 6 to 9 February 2009.

The Italian Foreign Minister, Franco Frattini, visited the Shura Council on 14 October 2009.

¹⁰ A memorandum of understanding in the field of healthcare was signed in Rome on 6 November 2007 by the Ministries of Health of Saudi Arabia and Italy.

account the diversity of these Parliaments in the representation of their communities. To achieve this, a number of visits have been organized between the two parliaments. The President of the Italian Parliament visited the Kingdom to attend the Parliamentary Summit of the G20 on 29 December 2011. A delegation of the Shura Council, headed by H.E. the late Sheikh Mohammed bin Jubair, visited the Republic of Italy during the period from 8 to 13 June 1997 in order to establish strong ties with the Italian Parliament and study its mechanisms of action. Also, a delegation of the Italian Parliament, headed by Luciano Violante, visited the Shura Council during the period from 9 to 11 May 1999, where he learned about the council's internal by-laws and powers; in addition, more visits, coordinated by the Saudi-Italian Parliamentary Friendship Committee, took place.¹¹ In the process of developing the Parliamentary practices of the Shura Council, Gianni de Michelis, former Italian Foreign Minister and former Member of the European Parliament, was invited by the Saudi-Italian Parliamentary Friendship Committee to the Shura Council from 15 to 18 November 2009, accompanied by a delegation of businessmen and experts in international politics.

A LOOK INTO THE FUTURE

Relations between the Islamic world and the West have been noticeably tense, which can be seen as a result of a huge misunderstanding on the part of both parties and a lack of communication. Nevertheless, Saudi Arabia, as one of the major Muslim and Arab countries, on the one hand, and Italy, as a representative of European culture, on the other, could contribute to bridging the gap and creating positive relations between these two deeply-rooted civilizations.

The observer of relations between the Shura Council and the Italian Parliament finds that this relationship is in continuous improvement and development. This is indicated by the reciprocal visits between Parliament members from both sides, and the number of agreements and memoranda of understanding signed between the two countries.

Regarding parliamentary relations, the Saudi-Italian Parliamentary

¹¹ A delegation of the Shura Council visited Italy from 1 to 6 March 2005. The Italian Prime Minister, Romano Prodi, was invited to the Shura Council on 23 April 2007. The Saudi-Italian Parliamentary Friendship Committee delegation met on 22-24 May 2010.

Friendship committee looks for further coordination between the Shura Council in the Kingdom of Saudi Arabia and the Italian Parliament to prevent division, intolerance, violence and terrorism. In addition, both sides are encouraged to support dialogue among followers of different religions and cultures, and to promote stability and security in their societies. This can be done through building on the existing Saudi effort, as demonstrated by the two centres in Vienna and Bologna. The Shura Council and the Italian Parliament can sponsor joint seminars and dialogues that bring together different religions and cultures to promote dialogue among them, using the capacity of both Saudi-supported institutions.

Both the Shura Council and the Italian Parliament can also promote relationships between thinkers and intellectuals, and parliamentarians from both sides and here the Saudi-Italian Parliamentary Friendship Committee can play an active role in organizing such events, that can be both face-to-face or through online networks, for effective communication on emerging issues. The interaction does not have to be limited to parliamentary issues, but can concern general events for the promotion of Saudi-Italian friendship and common interests.

Therefore, the Saudi-Italian Parliamentary Friendship Committee can also play a critical role in identifying global or regional emerging issues that deserve joint discussion between the Shura Council and the Italian Parliament to develop a common vision about such issues and thus to reach agreement on joint action. This would then be translated through joint statements, memoranda of understanding and agreements that allow the two countries to support actions that promote stability and development in the world and in the region. To reach such closeness of purpose, visits between officials of the two countries add to the strengthening of relations and build a common understanding of emerging political, economic, social and cultural issues of interest to the two countries.

For example, the Saudi-Italian Parliamentary Friendship Committee can promote specific events between the parliamentarians of both countries, such as visits by parliamentarians to become acquainted with the various regions of the countries and to see the beauty of the desert and the historical parts of Italy. It can further organize visits to some of the progressive institutions in the countries, such as the King Abdullah University for Science and Technology (KAUST), the King Abdulaziz Research Center for Technology, and similar institutions that house experiments and research programmes.

Another proposal is to organize visits between civil society organizations active in social development with sister organizations in the Kingdom through the Saudi-Italian Parliamentary Friendship Committee so that the Italian partners can become familiar with another dimension of the Saudi institutions.

Another proposal would cover student exchange programs and dialogues on issues of common interest with universities in both countries so that a culture of understanding and tolerance can be promoted among the young people of both countries.

Italy has a history of arts and Saudi Arabia has a very active world of artistic exhibits and associations, with many artists promoting an artistic vision of the country and its issues. This is done through paintings and photographs. Visits to the other country and exchanging experience in fine art and/or learning from each other about the artistic movement would also enhance the common vision of both societies and introduce them to a new world of creativity and understanding.

I believe that such parliamentary interactions through the Saudi-Italian Parliamentary Friendship Committee, in areas of general societal interest, would lead to closer relationships between the two countries and a deeper understanding of each other's contexts. It is only through multicultural and inter-cultural visits and dialogue that relationships can be strengthened and world peace enhanced.

8.

Saudi-Italian Relations. A History of Political and Cultural Cooperation

Faysal Bin Abdul Rahman Bin Muammar

POLITICAL COOPERATION

In a world where interests commute and benefits permeate, where inter-state relations amplify to achieve joint interests and benefits for countries and people, the Custodian of the Two Holy Mosques, King Abdullah Bin Abdul Aziz engages in top level diplomacy with the intent to reinforce relations between the Kingdom of Saudi Arabia and world capitals.

Saudi-Italian relations seem to be driven towards more development on the political, economic and cultural levels, and have their roots entrenched in sound cooperation as Italy is believed to be one of the main historic trading partners of the Kingdom of Saudi Arabia (KSA). The Saudi-Italian partnership involves a vision aimed at developing and maintaining friendship ties between the two countries while Riyadh and Rome hold a strong and solid bond of understanding and mutual respect. This reflects the depth of bilateral relations wherein both countries express a constant willingness to pursue dialogue and consultation and to seize every available chance to exchange points of view as to the interests of each country.

In fact, during the past years Saudi-Italian relations have entered an unprecedented period of harmony in points of view regarding regional and international relations. This is nothing more than the natural result of a profound keenness expressed by the leadership of both countries to pursue dialogue under the umbrella of a clear strategy and sound thinking aimed at expressing common interests in matters of security and stability in the Middle East. In fact, Saudi-Italian relations have intensified since the establishment of the Kingdom by the late founding father King Abdulaziz Bin Abdul Rahman Al Saud. Indeed, this historic establishment, echoed in the region, presaged the rise of the Kingdom and the establishment of an independent state. Italy showed great interest in the Arabian Peninsula as a result of a historic rivalry with Great Britain over control of the Red

Sea. Hence, it concentrated its influence in Ethiopia, Eritrea and Yemen. It even supported Sharif Hussein with an attempt to destabilize the British presence in the Red Sea.

When King Abdulaziz announced the establishment of the Kingdom of Saudi Arabia in year 1351Hegire/1932 AD, Italy soon recognized it. During the same year, both countries signed a Friendship Treaty whereby they started diplomatic and consulate relations.¹ The Treaty was signed in Rome by Prince Faysal Bin Abdul Aziz, authorized Saudi delegate. Prince Faysal met afterwards with the Italian King Victor Emmanuel III and the Italian Prime Minister Benito Mussolini. Diplomatic relations were thus opened and cooperation soon began as Italy opened its Consulate in Jeddah. The Saudi Embassy in Rome opened somewhat later in 1951.

Ever since, relations between the two countries have undergone a positive and remarkable development on the political, economic and scientific levels and in the fields of security and defense. Such cooperation has been framed by conventions and memorandums of understanding signed between both countries. Saudi-Italian relations have also been marked by historic visits to the leaders of both countries:

- Late King Faysal Bin Abdul Aziz visited Italy when he was Minister of Foreign Affairs in 1932 AD to meet Italian King Victor Emmanuel.
- In 1935, crown prince Saud Bin Abdulaziz visited Italy to discuss with Italian leaders, mainly Mussolini, the Italian-Ethiopian relations, the Palestinian cause, the Iraqi-Iranian conflict and the possibility of supplying KSA with arms and technical assistance. The Italian government contributed to the training of the Saudi air forces.
- King Faysal visited Italy in 1973 as King to discuss the establishment of the biggest Islamic cultural center in Europe in the Italian capital Rome.
- In 1975, the joint Saudi-Italian Committee for Economic, Trade and Investment was founded.

¹ Cfr. the annex to this volume on the Friendship Treaty between the Kingdom of Hejaz, Najd and annexes and the Italian Republic.

- In 1979, late King Fahd Abdul Aziz, then crown prince, visited Italy.
- In 1983, His Royal Highness late Prince Sultan Bin Abdulaziz made an official visit to Italy to meet President Sandro Pertini, Prime Minister Bettino Craxi as well as the Minister of Defence.
- His Highness made another visit to Italy in 1994 and again in 1997 where he met President Oscar Luigi Scalfaro and Prime Minister Romano Prodi.
- In 2000 His Highness visited the city of Bologna in Italy where he opened the King Abdul Aziz Centre for Islamic Studies at the Bologna University which was established by a donation from His Highness.
- In 1999, the Custodian of the Two Holy Mosques, King Abdullah Bin Abdulaziz, then crown prince, made an official visit to Italy to meet President Carlo Azeglio Ciampi and Prime Minister Massimo D'Alema.
- In 2007, the Custodian of the two Holy Mosques made an official visit to Italy where he met President Giorgio Napolitano and Prime Minister Romano Prodi. Many agreements were signed during the visit namely:
 - Agreement on cooperation in matters of defence (military defence agreement).
 - Cooperation agreement on combating crime (security agreement).
 - Health related MOU.
 - Technical and Vocational Training MOU.
 - MOU between the Ministry of Higher Education in the Kingdom and the Italian Ministry on Universities and Research.

From the Italian side:

- In 1975, Italian President Giovanni Leone visited the Kingdom.

- In 1984, Italian Prime Minister Bettino Craxi visited the Kingdom.
- In 1991, Prime Minister Giovanni Leone visited the Kingdom.
- In 1997, Italian President Oscar Luigi Scalfaro visited the Kingdom.
- In 2002, Italian Prime Minister Silvio Berlusconi visited the Kingdom.
- In 2007, Italian Prime Minister Romano Prodi visited the Kingdom.
- In 2009, Italian Prime Minister Silvio Berlusconi made a second visit to the Kingdom.

The set of relations and visits is a true expression of the profound historic ties between the two countries which lead to convergence in points of view between the Kingdom and Italy with regards to international and regional affairs and the support given to decreasing tension and achieving peace and progress in the Middle East.

CULTURAL COOPERATION

Cultural relations between both countries are as important as political and economic relations since the scientific and cultural exchange between the Kingdom and Italy are as developed and prosperous as the trade and economic relations between the two countries.² In the recent past, many Saudi students have enrolled in Italian universities while many Saudi students, having obtained a scholarship, pursue their studies in Italy along with many teachers and Saudi researchers who attend conferences and seminars in Italy.

Italy is one of the first countries having called for dialogue among civilizations with the Rome conference held in 1980. This invitation to dialogue reached out to several countries from Iran to Tunisia. However the initiative of the Custodian of the Two Holy Mosques King Abdullah Bin Abdulaziz aimed at paving the way for a more profound and comprehensive dialogue, and called in particular for the United Nations to place this initiative in its wider international scope. This experience was

² See the chapter by Al-Mobty in this volume.

further developed with the KSA dialogue experience that was initiated years ago and has given the world a crystal clear model rich with ideas and prospects from different religions and cultures.

Ever since the initiative, the international community has engaged in communication and has taken important steps in terms of institutional planning to guarantee sustainability and enable the holding of international conferences on protecting a dialogue between cultures and followers of religion, one that is sustained by the State and international civil organizations. Hence, the agreement to establish the King Abdullah bin Abdulaziz International Centre for Interreligious and Intercultural Dialogue (KAICIID) was signed on 13 October 2011 in Vienna. An international audience was present at the ceremony, namely KSA, the Republic of Austria, the Kingdom of Spain, in presence of the Pontifical Council for Interreligious Dialogue and representatives of the religious Diaspora in Europe. The Centre, based in Vienna, was opened on 26 November 2012.

The Centre would contribute to building trust between KSA in particular and Muslims in general on the one hand and the Italian Republic and the West on the other hand, especially in the following areas:

- Using dialogue instead of violence since dialogue is the language of civilizations, one that is worthy of humans. It is the best means to solve problems and avoid the sorrow and destruction that result from violence. Dialogue shall only be fruitful when parties show readiness to listen to each other and think of the suggested ideas prior to reading joint visions and criteria that make way to joint cooperation, not only for the sake of common interests but for the sake of world peace and stability as well. All sorts of violence and negative positions may hence be overturned.
- Focusing on common features and having both parties understand that similarities exceed dissimilarities. For example, Christianity and Islam which are the founding pillars of the two countries were both born in the East and share fundamental vocations. The belief in the Christ and the revealed Gospel are founding elements of the Islamic faith. These joint elements or common features challenge the Huntington prophecy on the unavoidable clash between the eastern and western civilizations.
- Contributing to the establishment and success of the Euro-Med partnership including Muslim and Western countries.

- Cooperating on all political, economic, social, scientific and technological levels.
- Aiming at achieving sustainable development for all.
- Intensifying the meetings between religious and political leaderships as a prelude to consulting, exchanging points of view, taking decisions and starting legislations to establish solid foundations for peace and security and to do what is best for the whole world.
- Condemning violence and combating all sorts of terrorism.
- Working on developing public freedom, and human rights in the whole world.
- Spreading the culture of both countries, defining their qualities and laying the foundations of mutual respect.
- Developing cultural tourism, holding shows and defining the historic sites of both countries.
- Contributing to developing an efficient environmental policy to protecting both environments and supporting international efforts on this level.

Though it is easy to draw political and geographic boundaries between countries and people, it is nevertheless difficult to draw fixed boundaries to any given civilization. For example, a western and Italian Muslim is part of the Islamic civilization; however he is at the same time part of the West. The human reality is full of similar examples to the extent that we might conclude that civilizations and cultures commute and overlap, which constitutes *per se* a channel for dialogue, interaction and correlation between religions, civilizations and cultures. Diversity is a universal law and is a prelude to acquaintance.

Out of the international dialogue sessions having taken place in the past decades, a common feature appears to be a strengthening of the resolve to continue this endeavour. Italy is the country having initiated dialogue among civilizations as early as the 1980s in Rome; KSA, on the other hand, is the Arab and Islamic country that started the dialogue between cultures and followers of religion. Italy encompasses the Vatican,

the centre of the Christian World today whereas KSA takes in the sacred Islamic sites including the Kaaba, the centre of the Islamic world.

The visit made by King Abdullah Bin Abdulaziz to Italy where he met Italian leaders increased the chances for rapprochement and understanding among two friendly people. It even reflected the increased interest in communication between civilizations and in opening new channels for the dialogue which I hope will play an eminent role in combating the clash of civilizations, with all its expected positive repercussions and impact on improving Arab and European cooperation on all levels. The initiative by King Abdullah Bin Abdulaziz for interreligious and intercultural dialogue is an important sign of rapprochement with other cultures, coexistence and the willingness to exchange ideas and widen the scope of knowledge exchange away from any impediment to such developmental thinking in any country. It is not easy to bring home the laurels of such efforts in a short time, however these steps lead to a specific goal and this goal can only be attained by means of a strong will among whoever wishes to achieve such goal.

CONCLUSION

In view of the sound and historic economic relations between Saudi Arabia and Italy, both countries have endeavoured to maintain good terms and reinforce relations within political, economic and cultural frameworks. Hence, the relations between Italy and KSA can be qualified as good historic relations, especially since cooperation is not only limited to political and economic relations but also involves culture-, civilization-, and dialogue-related relations, especially through the international initiative of the Custodian of the Two Holy Mosques for interreligious and intercultural dialogue.

Coexistence and reinforcement of the values of dialogue shall prevail, especially as we live in a globalized world. We must share a constructive dialogue that does not prejudice the dignity of Arabs and Muslims, but one that elevates them, which is what the Custodian of the Two Holy Mosques is keen on. If Saudi diplomacy, which appreciates the importance and significance of a state the size of Italy, is taken into account in the European equation, the same shall apply to Italy's vision towards the Saudi role and its impact on reinforcing communication and positive dialogue between Italy and the Arab World which stretches into Asia, Africa and the Middle East.

The prospects of Saudi – Italian relations shall improve with the cultural and dialogue-based improvements. Such prospects make way for fruitful efforts that affect cultural exchange, translation and the exchange of expertise in all domains which could give a bright idea about cooperation and coexistence among both countries.

9.

Conclusion

Silvia Colombo

Saudi-Italian relations are navigating turbulent waters, although their long-term potential has been strengthened rather than weakened by the events of the Arab Spring and the global financial and economic crisis. Italy is today facing the same challenges, albeit if different in many respects, which it had encountered at the beginning of the 1930s, when it first established diplomatic bilateral relations with Saudi Arabia. At that time, when, following the First World War, Italian interests started to gravitate towards the Arabian Peninsula with a view to creating a military outpost on the Red Sea to facilitate the extension of the Italian colonial empire from Eritrea and Somalia to Yemen, Italy had to deal with its limited size compared to that of other European colonial powers, particularly the British, who kept many Gulf regimes under their protectorate. Today, Italy also has to deal with a significant mismatch between its aspirations as a European mid-sized power and its actual ability to deliver at the regional and international levels. Contrary to other European states, including the United Kingdom and France, which have long cultivated strong relations with Saudi Arabia and the other rentier state economies of the region, Italy has come late on the scene, and has always struggled to develop an independent and assertive foreign policy in the region in line with its aspirations.

In spite of the structural and contingent difficulties faced by Italy when trying to shape its foreign policy towards the region, it has managed to carve a niche for itself and to develop a mutual relationship with Saudi Arabia that responds to the needs and the competitive advantage Italy can offer to the Arab Gulf countries. Since the early years of the twentieth century, when Italian engineers participated in the design and construction of the Hejaz railway, Italian expertise has been focused on the areas of engineering and major infrastructure projects. Furthermore, many Italian engineers, doctors and even military trainers were hired by the Kingdom of Saudi Arabia towards the end of the 1940s to contribute to the reorganisation of the navy and the air force, or by the oil company

Aramco, at the time still under American ownership. Soon after these initial moves, Italy started to develop its role in the energy field, especially in the oil sector, where however it began from a disadvantaged position compared to the major international companies, mainly British and American, which had been operating in the Gulf since the 1930s. It has also to be noted that Italy has traditionally focused its energy-related business on other countries such as Iran and Iraq and, more generally, North Africa, where in 2010 Libya stood as the leading Arab exporter to Italy. During the years of the economic boom, Italy's policy in the Gulf region was aimed at expanding its trade relations with its partners, and in 1967 ENI won a grant to carry out oil explorations in the area of the Rub al-Khali ("the Empty Quarter"), a desert area that stretches from Saudi Arabia to Yemen, Oman and the United Arab Emirates. Next to infrastructure commissions and energy imports, the good reputation of Italian brands in the areas of catering, fashion and luxury, as well as its expertise in the agri-food sector, heavy machinery, infrastructure, transport, metallurgy, electricity and renewable energy, have ensured gradual but steady access to the Gulf markets for Italian goods and services.

Going back to the establishment of Saudi-Italian cooperation, the positive relations that traditionally bind Italy to the Arab world were one of the factors favouring the improvement of relations with Saudi Arabia. In addition, at the same time the gradual alignment of Italian Middle East policy with that of the United States ensured an increase in contacts, opportunities and mutual understanding between Italy and the Arab Gulf countries, including Saudi Arabia, who largely depended – then as well as today – on external actors, first of all the United States, for their regional security. The Italian position on the Arab-Israeli conflict and the presence of strong pro-Arab/Palestinian currents in Italy's public opinion led in turn to a rapprochement between our country and the Muslim world, including Saudi Arabia.

Bilateral relations with Saudi Arabia were further consolidated during the 1970s and 1980s, a period that coincided with the timid Italian, and to some extent also European, attempts to outline a Middle East policy separate from that of the United States. In 1971 an agreement was signed for industrial and technological cooperation between Italy and Saudi Arabia, followed in 1973 by a collaboration agreement on cultural, scientific and technical matters. During the same year, during a visit to Italy, Saudi King Faisal inaugurated the Islamic Centre of Rome, with a contribution of seven million dollars. The surge in oil prices caused by

the embargo imposed by the Arab major exporters as a result of the US military support for Israel during the Arab-Israeli war of 1973 further stimulated Italy's bilateral relations with Saudi Arabia and, almost by extension, with the other Gulf countries. Another event that brought Italy to increase contacts with the Arab states of the Gulf was the outbreak of the Iranian revolution in 1979, followed a year later by the commencement of the long and bloody Iran-Iraq war that lasted until 1988. In the early 1980s, Italy stood as the fourth-largest exporter to the Kingdom of Saudi Arabia, after the United States, Japan and West Germany. Since the 1980s, and in particular over the following decades, Italy's relations with Saudi Arabia have continued to grow steadily, including in sectors other than the traditional energy and infrastructure sectors.

Today, Saudi Arabia is Italy's third-largest trading partner in the Arab world, with a total value of exchange between the two countries of over Euro 8 billion. Data on Italian exports show that the situation is improving again after the economic crisis that significantly depressed the Italian economy in 2009. In 2011, Italian exports increased by 28.3 percent in comparison to 2010, and they continued to grow in 2012. The Saudi market is the second-largest buyer of Italian goods in the Gulf region, after the United Arab Emirates. In terms of their composition, Italian exports are constituted overwhelmingly by machinery, products deriving from the refining of petroleum, motors, furniture, clothing, food and luxury cars. In the future, important new opportunities are likely to emerge in the areas of renewable energy and civil nuclear energy, due to the diversification and modernisation strategies implemented by the Saudi government and by the significant Italian expertise in these areas. In light of the substantial currency reserves available to the Saudi monarchy, the Italian government should increase its efforts to attract a significant amount of new Saudi capital to Italy, targeting that capital in particular to the Italian tourism industry. Saudi Arabia looks at its partnership with Italy as an important instrument to meet its strategic objectives by pursuing economic modernisation and diversification, boosting intercultural dialogue and acquiring regional and international relevance.

The steady development of Saudi-Italian relations over the past 80 years has most recently been affected by the accelerated changes taking place in the Mediterranean region as part of the so-called "Arab Spring". The region represents a priority for both countries and a significant link between them, as shown by the chapter by Roberto Aliboni in this volume. Both economic imperatives and a geo-strategic rationale lie behind

the increasingly frequent calls for a consolidation of bilateral relations between Italy and the countries of the GCC in general, and Saudi Arabia in particular. One of the consequences of the popular protests that have swept much of the Arab world since 2011 is the clear increase in the regional projection of some GCC countries, particularly Saudi Arabia, Qatar and the United Arab Emirates. From support for the NATO operation in Libya to the financial aid sent to post-Mubarak Egypt and the Syrian rebels, some GCC countries have greatly increased their regional profile. The role played by these countries in the delicate political transitions underway is a source of both appreciation and concern to Western countries, including Italy. While on the one hand the role of the GCC countries in supporting and stabilizing the economies of North Africa during this period of unrest, financial crisis and political transition has to be acknowledged, some doubts still exist as to whether it is possible to reconcile long-term Western and European interests with those promoted by the Arab Gulf monarchies in the Mediterranean region.

Despite these concerns, most Western countries, including Italy, consider the activism of the GCC countries in the Mediterranean and the Middle East as an asset that, if properly handled and coordinated with their own policies, can compensate for the decline of European and transatlantic influence in the Arab world caused by the financial crisis and the loss of leverage of the United States following the Iraq war. In light of the significant economic resources of the Gulf monarchies and their ability to deliver timely and more substantial aid than the Europeans or Americans and to channel that aid towards the southern coast of the Mediterranean, the transatlantic parties – with Italy potentially occupying the driving seat due to its position in the Mediterranean basin and its links to the countries of the region – should not discount the essential role played by the Gulf countries in investing in growth – and therefore stability – in the region. Furthermore, given the worrying scenario of continued political instability in the Mediterranean – of which the Egyptian situation is probably the best example – and its likely repercussions in terms of migratory flows to Europe, EU member states are showing an interest in the emergence of a ‘strategic partnership’ with the Arab countries of the Gulf.

With the exception of Bahrain, and to a lesser extent, Oman and Kuwait, the GCC countries have shown substantial resilience to change during this period of political upheaval in the region. The large economic reserves at the disposal of the ruling families of the Gulf have contributed greatly

to their maintenance of political stability. In addition, the GCC countries' economies have experienced high rates of growth in recent years. In this light, their potential usefulness to the West is great, not only in terms of possible direct investment, which could reduce the economic pressure on the old continent, but also as a strategic partner for the transatlantic powers in the Mediterranean and the Middle East. Another issue that makes the Gulf countries particularly attractive, especially to Italian industry, is the fact that many of them, and especially Saudi Arabia, the UAE and Qatar, have recently initiated policies to diversify their economies through the development of renewable energy, the metal industry and the manufacturing sector. All this makes the Arab countries of the Gulf potential strategic partners of Italy in manifold sectors. Looking to the future, in order to grasp these opportunities it will be important to improve coordination between the Foreign Affairs Ministry, the Ministry of Economic Development, the various chambers of commerce and the private and public entities active in the Gulf markets. The constant and visible support of the most senior representatives of Italian diplomacy will be key to convincing Saudi Arabia and the other GCC countries to invest in Italy and, similarly, to ensure that new and more profitable contracts are granted to Italian companies. This should be matched by an attempt to widen the scope of Saudi-Italian bilateral relations by using the economy as a driver for other cooperation initiatives in foreign policy, education and training, and culture and the arts. Only in this way would Italy achieve its aim of bringing Europe closer to the Gulf.

Annex

THE FRIENDSHIP TREATY BETWEEN THE KINGDOM OF HEJAZ, NAJD AND ANNEXES AND THE ITALIAN REPUBLIC

In the name of God most gracious most merciful
May His blessings and peace be on His Beloved Prophet,
We King Abdulaziz Bin Abdul Rahman Alfaysal Al Saud
King of Hejaz, Najd and annexes

Have concluded a friendship treaty with H.E the King of Italy with the intent of reinforcing friendship ties between both our countries, which was signed on our behalf by a designated delegate and from the Italian side by a delegate appointed by His Majesty, both fully and mutually authorized, in Jeddah on the third day of Chawal year 1350 Hegire, the equivalent of 10 February 1932 AD stating the following:

His Majesty King of Hejaz, Najd and annexes	first party
And His Majesty the King of Italy	second party

Having expressed the wish to establish and reinforce friendly relations among both their countries, have decided to conclude a friendship treaty. Therefore:

His Majesty King of Hejaz, Najd and annexes designated His Royal Highness Prince Faysal, Minister of Foreign Affairs

And His Majesty the King of Italy, designated Commandatory Guido Sollazzo

as authorized delegates.

Both delegates after thorough review of the credentials, agreed to the following:

Article One

On the basis of the recognition made by His Majesty the King of Italy in presence of His Majesty King Abdulaziz Bin Abdul Rahman Al Faysal Al Saud as King of Hijaz, Najd and annexes, solid friendship ties were held between His Majesty the King of Hijaz, Najd and annexes and His Majesty the King of Italy, and between their kingdoms and inhabitants who enjoy permanent peace.

Article Two

In implementation of the former Article, both parties have agreed to build political and consulate relations. To this end, political and consulate representatives of each contracting party shall benefit where they are found in the country of the other party, from the treatment established in the principles of the international public law, they shall also benefit from a preferential treatment, provided mutual treatment is guaranteed.

Article Three

Contracting parties commit to make an effort in order to preserve sound relations between them. They shall aim at preventing anyone from transforming the country into a launching point for illegitimate activities against the country of the second party.

Article Four

Members of every contracting party shall be given a treatment no less favourable than that which it accords to, provided mutual treatment is guaranteed – preferential treatment shall be granted and equal treatment shall be given to companies of every contracting party in the country of the other party.

Article Five

His Majesty the King of Italy recognizes the Hejazi Najdi citizenship of all subjects of the Kingdom of Hejaz, Najd and annexes where they are found on Italian soils.

H.E the King of Hejaz Najd and annexes, shall recognize the Italian citizenship of all the subjects of H.E the King of Italy where they are found on his soils.

Moreover, the King of Hejaz Najd and annexes shall recognize the Italian citizenship of all the subjects of H.E the King of Italy and persons having the protection of His Majesty where they are found on the soils of His Majesty the King of Hejaz, Najd and annexes provided the principles of international law apply.

Article Six

His Majesty the King of Hejaz, Najd and annexes commits to provide facilities and protection to Italian subjects who worship Islam and go to Hejaz for Hajj and commits to grant all pilgrims equal treatment. His

Majesty the King of Hejaz Najd and annexes commits to unblock the funds of deceased Italian pilgrims who die in Hejaz after the necessary legal procedures are completed and once the fees established in Hejaz and Najd laws are perceived and to remit the funds to the representative of the Italian government in Jeddah who in turn commits to send them to their legitimate heirs, unless legal heirs are found in Hejaz. Where legal custodians are found, the inheritance of the deceased shall be delivered to them.

Article Seven

This treaty is made in two copies in Arabic and Italian. Both texts shall carry the same value and the Treaty shall enter into force shortly and will be applicable as of exchanging the enforcement decisions.

Jeddah 3 Chawal 1350 (10 February 1932)

Signed Faysal Bin Abdul Aziz (Seal)

Signed Guido Sollazzo (Seal)

The Treaty has three attachments. The first is related to the mechanism of implementation upon delivering the inheritance of the deceased; the second to slave trafficking and release; the third to granting countries a preferential treatment. It is annexed to a ten year commercial treaty.

Finito di stampare nel mese di settembre 2013
con tecnologia *print on demand*
presso il Centro Stampa "Nuova Cultura"
p.le Aldo Moro n. 5, 00185 Roma
www.nuovacultura.it
per ordini: ordini@nuovacultura.it

[Int_9788868121518_17x24bn_LN04]