SHARAKA
ENHANCING UNDERSTANDING
AND COOPERATION IN EU-GCC RELATIONS

شراكة
تعزيز التفاهم والتعاون في علاقات الاتحاد
الاوروبي ودول مجلس التعاون الخليجي

RESEARCH PAPERS

Need to Rethink the EU-GCC Strategic Relation - Sharaka Conceptual Paper

by Silvia Colombo and Camilla Committeri

Introduction

The Gulf Cooperation Council (GCC) and the European Union (EU) are two important global actors with an enormous potential for cooperation in a number of sectors. This paper provides the conceptual framework that will guide the research to be carried out in the project "Sharaka – Enhancing Understanding and Cooperation in EU-GCC Relations". The project and the paper itself come at a timely moment in which relations are at an all-time low and need to be revamped and rebuilt on a new, more solid foundation. The aim of this paper is to shed some light on the past, present and future of EU-GCC relations, assessing their strengths and weaknesses and putting forth ideas to foster mutual cooperation.

The first section contextualises the current state of EU-GCC relations in the framework of the history of cooperation between the two regions. It then identifies the factors that have favoured cooperation and those that have hindered closer relations and led to unfulfilled potential. It also dwells on the challenges and opportunities embedded in the future of EU-GCC relations, which is the main objective of the Sharaka project. The second section assesses the present state of cooperation and the way forward in a number of sectors, ranging from trade and finance to communications and higher education. This provides the backbone of the research to be carried out in the project. Our conclusions lay out some ideas about how to overcome obstacles and maximize the potential for EU-GCC cooperation and how the project will contribute to this goal.

The EU-GCC Cooperation between Strategic Interests and Ideational Obstacles

The EU and the GCC: A long history of cooperation

Relations between Europe and the GCC date back to the Cooperation Agreement signed in 1988, although intense bilateral relations based on historical and colonial ties preceded it. Contacts between the two sides started in 1983 as a direct consequence of the creation of the GCC in 1981.[1] The Cooperation Agreement, entered into force in 1989, was a fairly general document providing for the institutional framework in which cooperation should have been achieved in a number of fields of interest to both parties. These included the traditional sectors of the economy: energy, industry, trade, investment, agriculture, science, technology and the environment.[2] The principal aims were to improve economic relations between the two regions, intensify trade and investment exchange, strengthen interregional interdependence and initiate loose political dialogue. It also intended to encourage GCC regional integration, contribute to strengthening stability in a region of strategic importance to Europe, secure European energy supplies and strengthen the process of economic development and diversification of the GCC economies.

In spite of this comprehensive list of ambitious goals, EU-GCC relations have been largely confined to trade and economic issues for many years. One of the main goals of the Cooperation Agreement was the establishment of an EU-GCC free trade area (FTA). After the initial enthusiasm for the potentially positive repercussions on cooperation in political and security issues, negotiations gradually lost steam and were unilaterally interrupted by the GCC at the end of 2008. While the next section will discuss the factors that have prevented the establishment of the FTA, it is commonplace to argue that this issue has taken EU-GCC relations hostage. Talks have gone through many ups and downs and the scope and mandate often changed to accommodate new priorities by one or both sides. The agreement would provide for a progressive, reciprocal and region-to-region liberalisation of trade in goods and services, aiming at ensuring a comparable level of market access opportunities. Negotiations would also cover common rules and regulations for intellectual property rights, competition, dispute settlement and rules of origin. Although FTA talks were initiated in 1990, immediately after the signing of the Cooperation Agreement, the prospects of a region-to-region FTA only became realistic in 2003, when the GCC became a customs union. The pace of negotiations accelerated in 2007 and there was much expectation that a conclusion would be reached in 2008. This did not happen as the GCC, feeling that too many concessions had been made with no reward coming from the European side, decided to suspend the FTA talks. In the following years, the two regions have only maintained the institutional exchanges through the yearly Joint Council and Ministerial Meeting, a series of communiqués and some expert meetings aimed at advancing cooperation in the areas of environment, energy, education and combating criminal activities.

However, this list does not make justice to the strategic nature of the EU-GCC relations in a number of areas. Some issues are specific to the EU and the GCC, while there are also a number of global issues that have a particular relevance for the bilateral relationship. On the one hand, energy relations are clearly the main driver of EU-GCC relations and the sector in which fewer doubts exist about the necessity to increase cooperation: Europe needs

---

1 M. Legrenzi *The GCC and the International Relations of the Gulf. Diplomacy, Security and Economic Coordination in a Changing Middle East*, London-New York: I.B. Tauris, 2011.

2 EU-GCC Cooperation Agreement, Official Journal L 054 of 25/02/1989, p. 3-15, http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:1989:054:0003:0010:EN:PDF.

to secure the procurement of its growing energy demand and the GCC countries seek to obtain access to technology and know-how. On the other hand, the current global financial crisis has raised important questions about the role of the Gulf Sovereign Wealth Funds and Gulf investments in general. Although EU-GCC relations may look asymmetrical in some respects, with Europe and its member states vying with other actors such as China and India for a special relationship with the GCC countries to cope with their financial and energy needs, reality on the ground tells a different story. Europe is and remains one of the most important strategic partners for the Gulf region as well as a sort of model for the latter's internal evolution in the direction of increased regional integration. Strategic interests notwithstanding, the two regions have grown increasingly apart, turning their dialogue and cooperation into a formal and fruitless exercise.

In 2010, the EU and the GCC agreed on a Joint Action Programme for 2010-2013 for the implementation of the Cooperation Agreement of 1988.[3] The Programme is once again a detailed but scarcely operational list of areas of cooperation ranging from trade and energy to culture and mutual understanding and higher education and scientific research. The Joint Action Programme has not contributed to resurrecting and putting the EU-GCC cooperation on a new track; relations need to be recast by trimming the number of areas, in order to avoid an all-encompassing list that could dilute the cooperation, and should focus instead on best practices (see the Conclusions for a more detailed elaboration on this issue).

After more than 20 years since the 1988 EU-GCC Cooperation Agreement and many rounds of meetings, cooperation between the two sides remains dismally limited and does not live up to the potential and aspirations of both sides. The global financial and economic crisis has only increased the urgency to rethink the EU-GCC strategic relationship by addressing the lack of political will to settle some pending issues. Over the years, this situation has bred a certain degree of mistrust and lack of confidence, particularly regarding the intentions and the ability of the EU to pursue a sincere, non-preconditioned dialogue with the GCC to increase mutual cooperation.

More recently, the events of the so-called Arab Spring have highlighted the little leverage enjoyed by the EU in the Gulf region and the lack of instruments in the field of foreign policy cooperation. The fact that the EU has not engaged the GCC in its initiatives targeted to the Mediterranean and the Middle East tells a lot about the short-sightedness of the EU in relation to the GCC. The risk is that the new political and socio-economic regional developments will further dilute the European presence and influence in the Gulf region. The next paragraphs discuss how this situation has materialised, pinpointing some of the causes of the deficits in EU-GCC relations.

3 Joint Action Programme for Implementation of the GCC-EU Cooperation Agreement of 1988, 2010-2013, http://eeas.europa.eu/gulf_cooperation/docs/joint_action_programme_en.pdf.

Explaining the relationship to date: Structural factors

Among the reasons for the disappointing performance and outstanding difficulties in developing EU-GCC relations, both structural and contingent factors can be mentioned. Generally speaking, EU-GCC cooperation was affected by the domestic, regional and international political and economic situation of the Gulf countries.

Starting from the structural factors, EU-GCC multilateral relations have suffered from the resilience of bilateral relations between individual European member states and the Gulf states. Institutional deficiencies inside the GCC are partially responsible for this situation. While economic and financial regional integration is not yet complete (see Section 2 for more details on the current state of economic ties at the regional level), decision-making on strategic issues such as foreign policy is still taking place at the individual state level rather than within the framework of the multilateral GCC. This is also reflected in the contrasts and rivalries that sometimes emerge in the positions of the six GCC states in relation to some strategic decisions regarding both domestic and external domains. Evidence of contrasts within the GCC is, for example, the increased competition between Saudi Arabia and Qatar in the wake of the Arab Spring and the covert struggle related to the issue of monetary union. In March 2010, Saudi Arabia, Kuwait, Qatar and Bahrain set up a forerunner to the Gulf central bank, a "monetary council", but since then the institution has kept a low profile because of the lack of agreement on the whole issue. More in general, it is possible to speak of the GCC as a weak-integrated regional organisation, in which major disagreements exist among its member states about the form of cooperation to be pursued both in internal and external affairs.

The difficulties encountered in EU-GCC relations cannot be blamed on the Gulf partners alone. At the European level, EU member states have often developed an independent foreign policy, thus retaining as much freedom of manoeuvre as possible in terms of their bilateral relations with the GCC countries. This is the case, for example, in relation to the United Kingdom, France and Germany, each of which has tried to cultivate a privileged relationship with individual GCC countries.[4] This has led to a certain degree of unease on the part of some member states with the way in which the Commission has recently sought to fashion a leading role for itself in EU-GCC relations. Furthermore, member state policies have also signalled to the GCC countries that it is not worth taking the EU seriously.

The development of relations between the two parties is also impacted by the structural difficulties of European foreign and security policy. Before the entry into force of the Lisbon Treaty, the rotating EU presidency played a significant role in advancing or hindering EU-GCC relations. Past research has shown that some presidencies have had the capacity and determination to focus on the development of EU-GCC relations, such as that of Germany in the first half of 2007 and France in the second half of 2008, while during other presidencies

4 A. Baabood and G. Edwards, "Reinforcing Ambivalence: The Interaction of Gulf States and the European Union", *European Foreign Affairs Review*, No. 12, Vol. 4, 2007, pp. 548-550.

the EU-GCC field has lied fallow.[5] With the coming into force of the Lisbon Treaty in December 2009, EU-GCC relations have fallen into the competences of the European External Action Service (EEAS). From the reports and joint communiqués released in the aftermath of the EU-GCC Joint Council and Ministerial Meetings held in 2010, 2011 and 2012, it emerges that long discussions have been going on regarding a number of regional and international issues and the need to devise and implement "common solutions" to "common challenges". In contrast, little information is available on the plans to advance cooperation between the EU and the GCC in the domains that go beyond foreign policy. This is a direct continuation of the trend inaugurated with 9/11 and characterising European foreign policy with regard to all Arab governments: counterterrorism policies and the need to control the turbulence originating from Iraq and Iran have become the most urgent topics of discussion and consultation between the parties.

One of the main reasons for the "disappointing progress in EU-GCC relations", writes Richard Youngs from Fride (Fundación para las Relaciones Internacionales y el Diálogo Exterior, Madrid), "is that the EU has been unable to resolve the tensions between the economic and political strategies in the Gulf".[6] The main argument is that economic questions, and in particular the strong emphasis on the FTA, have interfered with political and governance issues, while neither track of the cooperation has actually reached the desired results. Although a certain mismatch between political and economic goals exist in any relation, in the Gulf such tensions have proven especially difficult to reconcile. Lack of flexibility on economic policies has been an obstacle to political objectives, while short-term thinking on strategic challenges has failed to advance economic cooperation.

On the economic side, integration of the GCC economies, from ways to improve the customs union, to implement the common market, and to prepare for the introduction of a common currency, has not yet reached the desired level. This hinders further cooperation and coordination with the EU on economic matters, as the EU sees these steps as a facilitating pre-condition for the FTA. At the international level, GCC countries often blame the EU for its scarce support for the integration of the GCC economies into global markets. For years EU governments have blocked duty-free access for petrochemicals from the Gulf. This is mainly the result of intense lobbying on the part of the Association of Petroleum Producers in Europe that has actively mobilised against trade liberalisation.[7] As we shall see below, it is clear that protectionists in the EU have used the issue of human rights as a cover to block the EU from offering a more generous package. Indeed, the GCC has never hidden the fact that it sees the signing of the FTA as a prerequisite for deepened political cooperation. This aspiration has always been turned down by the EU, which has dealt with the GCC, in particular with Saudi Arabia and Qatar, merely as energy suppliers rather than as important

5 C. Koch, "Exploring Opportunities in the EU-GCC Relationship", *Policy Brief*, Al Jisr Project, October 2009, http://www.aljisr.ae/?q=node/33.

6 R. Youngs, "Impasse in Euro-Gulf Relations", *Working Paper*, Al Jisr Project, April 2009, p. 9, http://www.aljisr.ae/?q=node/33.

7 R. Youngs, *op. cit.*, p. 2.

geostrategic actors in the broader Middle Eastern region. This may have started to change as a result of the Arab uprisings.

At the political level, the EU has made little impact. The EU's focus on counter-terrorism, embedded in all its acts of foreign policy, has meant that EU efforts to promote governance reform in the GCC countries have largely been weak. On the one hand, conditionality with the GCC regimes has not been implemented because of the latter's opposition to any form of external interference in domestic issues. On the other hand, the EU has not pursued a formal dialogue with civil society organisations in the region, and projects and aid programmes involving civil society have been dropped because they were creating tension with the regimes, whose cooperation was deemed a pillar of western counter-terrorism strategy. The structural weakness of the EU's ability to initiate political dialogue with the GCC region has been compounded by the partial strategic reorientation of EU's efforts towards the eastern neighbourhood following the enlargement of 2004. According to some authors, one additional reason why the EU has partially lost momentum in developing its relations with the GCC stems from the attitudes of the eastern and central European countries. The enlargement to these countries has led to a more inward-looking approach on the part of the EU that has had to cope with the impact of this process on institutional and constitutional terms.[8]

The derailment of the FTA negotiations shows that the substance of the relationship itself has often been contested by one part or the other. The failure of the FTA negotiations has dominated the headlines and has been presented as a major obstacle to cooperation. On the one hand, top GCC officials have often lamented the attempt by the EU to include human rights issues into the FTA negotiations. This has been regarded as an unwarranted attempt to interfere with the domestic development of these countries. The rejection by the GCC to abide by EU conditionality on the grounds that these issues have nothing to do with economic cooperation and dialogue has dampened the prospects for achieving the FTA and with it the progress in EU-GCC relations. On the other hand, the European view is that to some extent the GCC's aversion to the human rights clause disguises a more deep-rooted opposition to genuine liberalisation, including in the service and investment sectors, and to the reduction of subsidies in their economies. Furthermore, for the EU the FTA had to be the umbrella under which other forms of cooperation could be initiated between the two blocs. In particular, the energy dialogue was high on the list of EU priorities in the Gulf region in light of its energy security preoccupations. Despite the marked complementarities existing in this field – with European know-how particularly in the renewable sector and climate change-related issues of crucial importance to the GCC countries – EU-GCC energy cooperation has not flourished.

With a view to re-launching EU-GCC relations based on new, stronger footing, it is important to circumscribe the problem and its impact. One way to overcome the paralysis in EU-GCC relations could be to conduct confidence-building measures, for example through concrete

8 A. Baabood and G. Edwards, *op. cit.*, p. 539.

cooperation measures in foreign policy, education and training and other less controversial areas.

So far Gulf security has also remained outside of the EU-GCC framework and any cooperation has been limited to political declarations or to bilateral arrangements between individual members of each group. For the GCC countries, security plays a fundamental role in shaping their external relations. In this light, their heavy dependence on the United States for security reasons has impacted on their relations with the EU as well. Relations with the EU will never be seen as an alternative to the central role played by the United States in the region. While the U.S. military presence is a matter of necessity and something that cannot be substituted by the EU, the GCC countries have felt the need to diversify their relations with a view to avoiding an over-identification with the United States' superpower. However, faced with what they have sometimes referred to as "inflexible economic policies" and with inescapable human rights and governance-related clauses, the GCC has taken a step backward.

Contingent factors and the future of EU-GCC relations

Profound changes have taken place at the level of the EU and of the GCC since 1988. EU-GCC relations have not lived up to the expectations of both parties. It seems that a frank dialogue has not even started between the two to try to redress their relations, which in the last few years have been overwhelmed by two major events, i.e., the so-called Arab Spring and the current global economic and financial crisis.

The Arab Spring has partially transformed the list of priorities of both the EU and the GCC, thus also impinging on their joint cooperation. The GCC countries', and in particular Saudi Arabia's and Qatar's, increasingly assertive role in relation to the events that have taken place in the Arab world since 2011 has increased the premium associated with a more structured and strategic European engagement with this region. At the same time, the Arab Spring has unveiled a number of inconsistencies in the GCC countries' response to the momentous transformations that are taking place in North Africa and the Middle East, which will put increased pressure on their ability to cope with the multi-faceted challenges they have to confront either domestically or externally. The short-term, anti-status quo impact of the Arab Spring has been offset with a bold programme of social spending and redistribution. As demonstrated elsewhere, however, the expansion of social welfare schemes is likely to be unsustainable, should oil prices decline.[9] Furthermore, the burden on the public sector created with the expansion of employment opportunities and wages is deemed to undermine rather than address the goal of stimulating private sector-led growth and its ability to create jobs outside the oil and gas sector.

Turning to the financial and economic crisis, it is not a coincidence that the negotiations for the FTA were unilaterally suspended by the GCC in December 2008. This was the moment in which the financial crisis started to grip Europe. Thus, this decision cannot be separated

9 S. Colombo, "Unpacking the GCC's Response to the Arab Spring", *Sharaka Commentary No. 1*, July 2012, http://www.sharaka.eu/?p=700.

from the way in which the financial crisis has altered the balance of power in favour of the GCC. While Europe has been significantly weakened by the crisis, the Gulf has acquired a more assertive role and is now in a stronger position to negotiate better terms in its relations to Europe. At the same time, Brussels has had to reassess the rationale of its relations to the GCC. The Gulf, once seen solely as a key provider of energy and a market for EU goods, has emerged as a valuable source of investment capital for European banks and institutions at a time when Europe is having trouble financing itself. Changes in the global political economy have also increased the EU's appetite for a free trade deal with the GCC. As the balance of economic power is increasingly shifting towards Asia, the Gulf region appears to be extremely well positioned to act as bridge between European and Asian markets. At the same time, the competition coming from other regions, especially from Asian markets, is pushing the EU to appreciate the need to reinforce trade with the GCC.

Against this backdrop, the GCC seems to be keen on extending its clout onto geopolitical issues while asserting its independence, most significantly on the fast changing regional context. This becomes apparent as far as the response to the Arab Spring is concerned, in which the GCC and particularly some member states are willing to take the lead and are asking the EU to buy into their agenda. At the same time, the EU continues to view the GCC as a potential strategic partner on a number of economic issues especially in light of the crisis.

Time may be ripe for a qualitatively different mutual engagement between the EU and the GCC. The EU seems to have understood that it cannot fail to develop its relations to this strategic partner any further and it is thus trying to engage more with the GCC. It is still too early to assess whether this will be a short-term strategic reassessment of relations in light of the need to respond to the challenges of the Arab Spring and the Eurozone crisis, or whether it will be a more in-depth attempt to strengthen the foundation for dialogue between these two important regions. During the latest Joint Council and Ministerial Meeting held in Luxembourg at the end of June 2012, HR Catherine Ashton talked about a "constructive and important" meeting to "help ensure that our relationship becomes even more strategic, even more dynamic".[10] Strengthening cooperation between the EU and the GCC at this point would be highly symbolic for the GCC, a sign of acknowledgement of its renewed and more assertive role on the global scene. This sign, while important, should be accompanied by a serious reassessment of the basis upon which the whole EU-GCC cooperation is built, including the issue of domestic reforms. The next section provides a comprehensive overview of the main sectors of cooperation, assessing their strengths and weaknesses and the opportunities for better coordination between the EU and the GCC. This section provides the basis of the research that will be carried out by the Sharaka project.

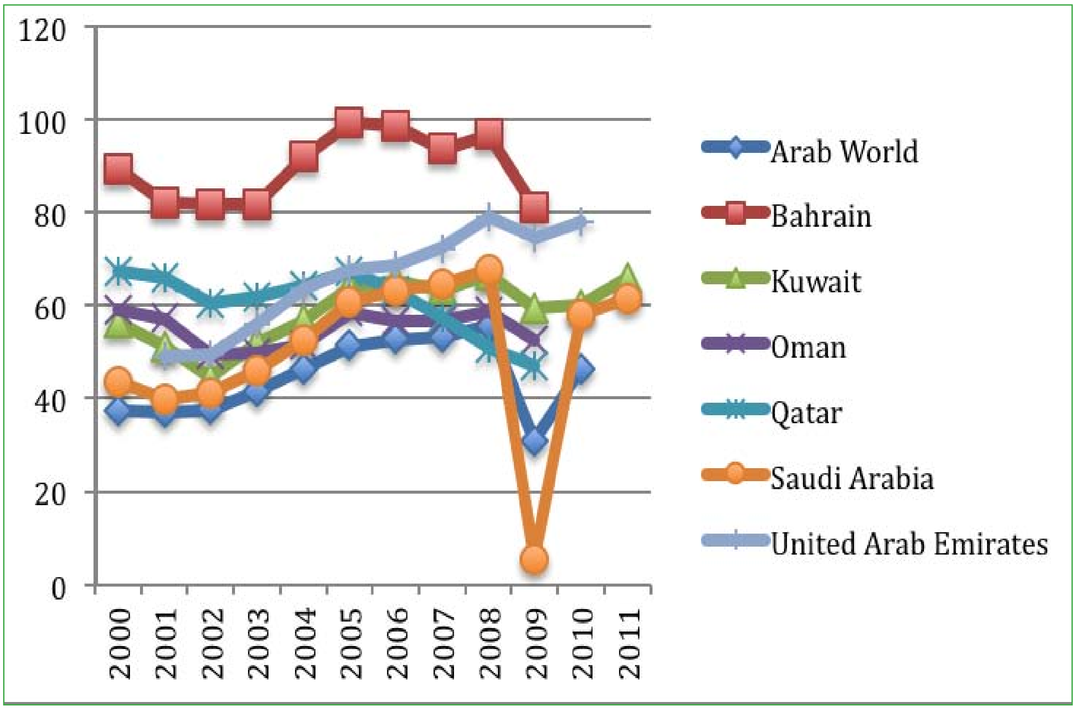
10 Remarks by High Representative Catherine Ashton following the 22nd EU-GCC Joint Council and Ministerial Meeting, Luxembourg, 25 June 2012, http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/EN/foraff/131194.pdf.

Sectoral Cooperation: The Present State and the Way Forward

Trade and Economic Integration

By observing the trends in GCC exports of goods and services between 2002 and 2012, on average, exports increased by 15.7 percent of GDP between 2002 and 2008. In 2009, all countries witnessed a decrease in exports; yet, the global financial crisis affected some countries more than others. For example, the UAE recovered quite rapidly and by 2010 exports were almost at the same level of the pre-crisis period; while, Saudi Arabia endured bigger losses and is recovering at a slower pace.

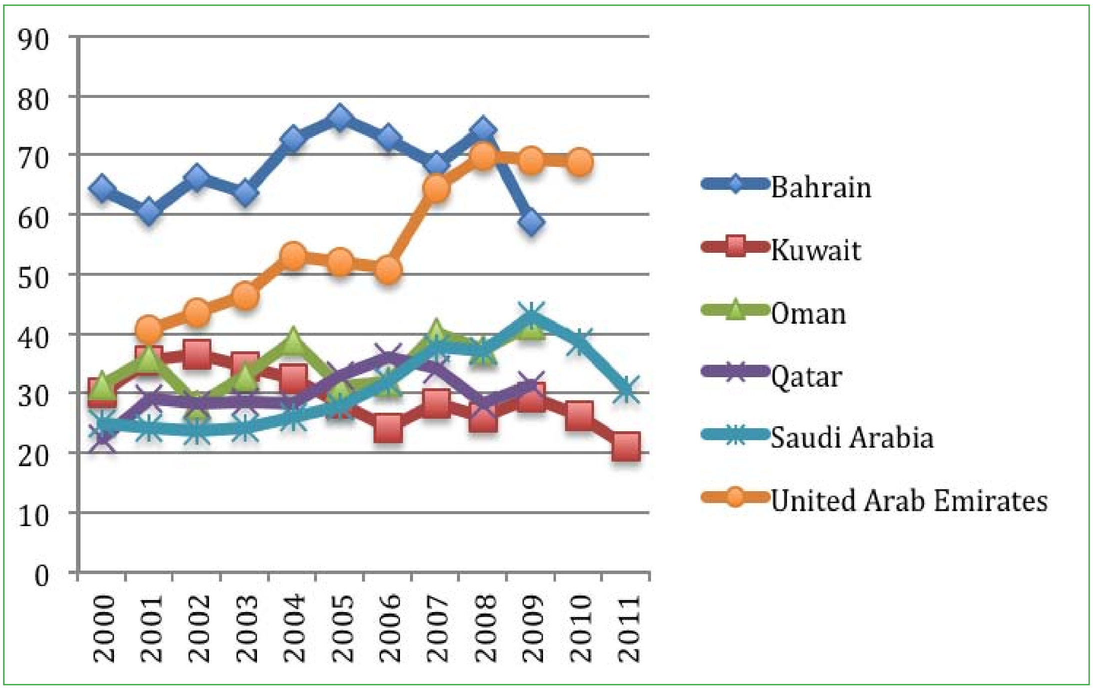
Graph 1: Exports of Goods and Services (%GDP)[11]



Conversely, in the same period, imports of goods and services increased on average by 7.8 percent compared to GDP. And, in the aftermath of the crisis, they did not plunge but remained rather stable or increased.

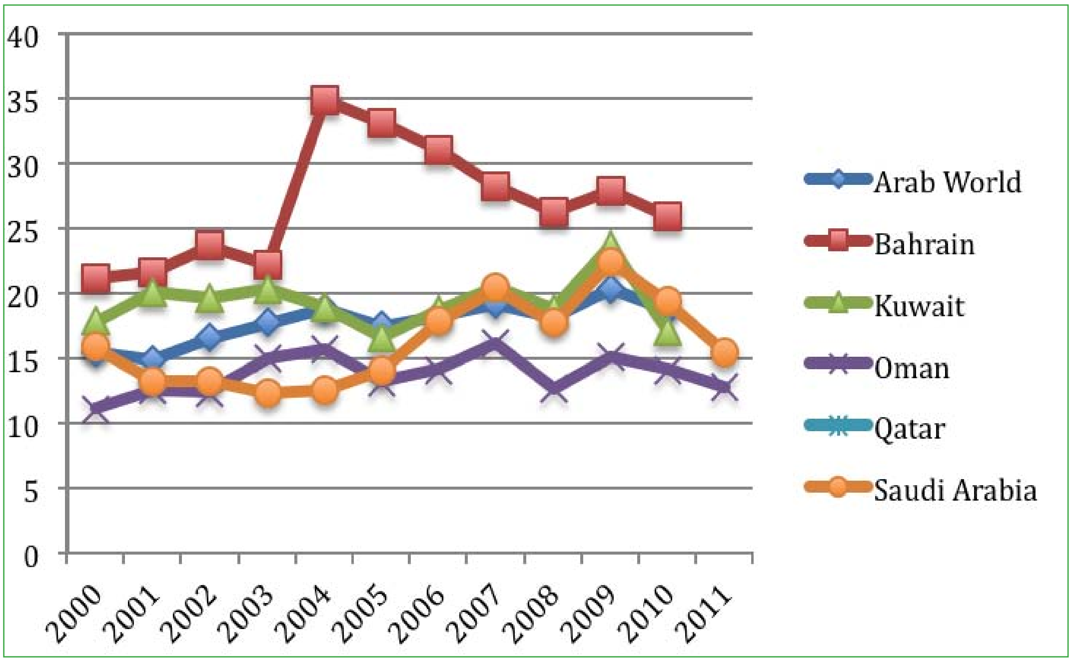
11 All the graphs are the authors' own elaboration of the data provided by the World Bank, http://data.worldbank.org/indicator?display=graph.

Graph 2: Imports of Goods and Services (%GDP)



In a similar manner, when focusing on the outflows and inflows of services in the same period, it emerges that these increased in a regular manner, regardless of the crisis.

Graph 3: Trade in Services (%GDP)



Furthermore, by observing the Ease of Business Index (provided by the World Bank Doing Business Project), which assesses the regulatory environment of conducting business operations, it comes as no surprise that, as of June 2011, the GCC countries ranked among the first in the Arab World, with Saudi Arabia leading the way. However, on a global scale variations between the GCC states are notable, with Saudi Arabia ranking 12th, the UAE 33rd, Qatar 36th, Bahrain 38th, Oman 49th and Kuwait 67th.

Table 1: Doing Business World Bank Index – Ranking for GCC countries

State	Ease of Doing Business	Starting a Business	Dealing with Construction Permits	Getting Electricity	Getting Credit	Protecting Investors	Paying Taxes	Trade Across Borders	Enforcing Contracts
KSA	12	10	4	18	48	17	10	18	138
UAE	33	42	12	10	78	122	7	5	134
QATAR	36	116	24	18	98	97	2	57	95
BAHRAIN	38	82	7	49	126	79	18	49	114
OMAN	49	68	64	61	98	97	9	47	107
KUWAIT	67	142	121	57	98	29	15	112	117

When the GCC was founded in May 1981, initial agreements among member states focused on the structure of the cooperation council and on the steps to be taken towards the creation of a single market. Projects currently underway or under study included a customs union, a joint value-added tax (VAT) and even the introduction of a single currency. But serious obstacles have hampered closer integration, including bureaucratic and administrative inefficiencies, as well as old rivalries and a desire among smaller Gulf States to retain their autonomy. Even the countries' wealth sometimes becomes an obstacle; with economies already growing robustly, there is less incentive to make radical changes to achieve faster growth.

In analysing how GCC countries interact with one another, a recent IMF paper underlines: "GCC countries show signs of convergence on many macroeconomic indicators, including: inflation rates, short-term interest rates, foreign exchange reserves, and public debt to GDP ratios. […] This convergence, while important for the establishment of a monetary union, also reflects the vulnerability of these economies".[12] Indeed, the lack of diversification in GCC economies exposes them to the same types of shocks, including falls in oil prices and dollar depreciation.

Similarly, the World Bank emphasises that trends of economic integration through trade of commodities and services have yet to achieve their full potential. In fact, commodity trade in the region, excluding the non-oil or gas sectors, is far lower than trade flows in similar regional blocs (i.e., NAFTA, ASEAN and the EU-15). Nevertheless, the lowering of

12 R.A. Espinoza; P. Ananthakrishnan and O. Williams, "Regional Financial Integration in the GCC", *International Monetary Fund Working Paper*, Middle East and Central Asia Department, 2010, pp. 4-10, http://www.imf.org/external/pubs/ft/wp/2010/wp1090.pdf.

nontariff barriers to comply with WTO commitments[13] and the unified technical standards for a series of traded products are clear signs of progress. To further enhance this process, greater regional infrastructure and fewer border controls are necessary, together with deep economic reforms to increase economic complementarity among countries.

In addition, trade in services has advanced greatly, in particular thanks to the Common Market Agreement, which allows for the free-movement of GCC citizens, accompanied by the possibility of conducting business in other GCC countries. Yet, this openness has not been extended to foreign investors. Furthermore, the "mode of entry, level of tradability, and market contestability" of services remain diverse and in need of harmonisation.[14]

The GCC launched a customs union — a free trade area with a common external tariff — in 2003; this has largely been successful in removing overt trade barriers within the bloc. But the full functioning of the project has been delayed by disagreements over a formula on how to divide customs revenues between the governments. In June 2012, the GCC set up a customs union authority to resolve the revenue-sharing dispute. Options include dividing customs revenues according to the level of imports, population or the share of gross domestic product of individual countries.

Other GCC projects have also run into headwinds. For six years, Gulf countries have been considering whether to introduce a VAT perhaps at a unified rate of 5 percent, in order to mitigate their reliance on oil income. The countries would need to launch the tax simultaneously to prevent a shift of consumer spending to untaxed areas. However, in light of the current buoyancy in the oil sector – according to recent data, combined Arab crude export earnings of the 11 members of the Kuwaiti-based Organization of Arab Petroleum Exporting Countries (OAPEC), grew by nearly $174 billion and Saudi Arabia accounted for almost half the total – there is little immediate need for governments to raise more revenue. This could go on for some years, depending on oil prices.

The GCC's most ambitious economic integration project, creating a single currency, looks unlikely to move ahead for the foreseeable future. In theory, a monetary union could encourage a fresh wave of trade and investment around the region. Although intra-GCC trade soared to $65.4bn in 2010 from $19.8bn in 2003, official data show that this is still a small fraction of the GCC's total trade volume of nearly $1.3tn last year. The single currency project suffered a major blow in 2009, when the UAE, the second biggest Arab economy, abandoned it over Riyadh's insistence that Saudi Arabia would host the joint central bank. Much smaller Oman had already dropped out of the project in 2006, saying it was not ready. The absence of the UAE, seen as an economic counterbalance to Saudi Arabia, is an obstacle to further progress towards a monetary union. Meanwhile, the Eurozone debt crisis, where

13 The Gulf countries entered the WTO in different moments: Kuwait and Bahrain joined in 1995; Qatar and the UAE in 1996; Oman in 2000; and Saudi Arabia in 2005.

14 World Bank, *Economic Integration in the GCC,* Middle East and North Africa Region, October 2010, http://siteresources.worldbank.org/INTMENA/Resources/GCCStudyweb.pdf.

the single currency system has proven deeply flawed, has dealt another blow to supporters of Gulf monetary union. The Eurozone's experience has suggested a single currency may not be viable if countries do not give up much of their fiscal independence, and Gulf States may not be willing to lose so much of their sovereignty.

Turning to EU-GCC cooperation in the trade sector, the Cooperation Agreement between the EU and the GCC establishes the "institutional and contractual framework" of economic and trade relations, among others, between these two regional institutions. Art. 3 states that both EU and GCC countries should "strive to encourage and facilitate" the latter's productive sector, its economic infrastructure and technology transfers and development through joint ventures. Specifically, art. 11 aims to promote "development and diversification of reciprocal commercial exchanges to the highest possible level".[15]

Economic and trade relations were further enhanced via a series of agreements and memoranda of understanding, the most important of which is the MOU of 2007 between the Federation of GCC Chambers and EUROCHAMBRES. Ten objectives were set, most notably: development of bilateral trade, information exchange, and institutional cooperation.[16]

In 2008, the chambers produced a joint statement on EU-GCC free-trade negotiations, emphasising the need for a comprehensive agreement, calling for "increased market access" for industrial goods, services, investment and public procurement; a definition of rules of origin; support for regional integration; and the establishment of a monitoring committee".[17]

Yet, these achievements represent only small steps towards full economic cooperation between the two regions, due to the stalled negotiations for the FTA. As of 2009, the EU exported approximately €57.8 billion worth of goods, mainly machinery and transport materials, material manufactured goods and chemical products towards GCC economies. Simultaneously, it imported roughly €21.8 billion from the GCC, predominantly in fuels and derivatives.[18]

In particular, EU goods exports to the GCC have steadily increased between 2009 and 2011 (from €57.1 billion to €72.2 billion); similarly, EU commercial services exports increased from €21.6 billion to €22.5 billion in the same period. To sum up, GCC products count for 3.3 percent of EU imports, while the GCC receives 4.7 percent of total EU exports.[19] The

15 EU-GCC Cooperation Agreement, *op. cit.*

16 EUROCHAMBRES, *Memorandum of Understanding between FCCCG and EUROCHAMBRES*, October 2007, http://www.eurochambres.eu/Content/Default.asp?PageID=1&DocID=519.

17 EUROCHAMBRES, *EU-GCC Business Statement on EU-GCC Free Trade Relations*, 29 October 2008, http://www.eurochambres.eu/Content/Default.asp?PageID=1&DocID=1357.

18 European Commission - Trade, *EU-GCC Trade Relations*, 19 November 2010, http://ec.europa.eu/trade/creating-opportunities/bilateral-relations/regions/gulf-region/.

19 European Commission – Trade, *EU-GCC Trade Data*, March 2012,

data reveal that until recently the GCC was commercially more dependent on the EU than vice versa. This situation may have started to change as a result of a stronger exposure and diversification of the GCC economies towards China, India and Russia.[20]

EU-GCC exchanges are currently possible thanks to the Generalized System of Preferences (GSP) established by the EU in 1971, which promotes preferential duties for developing countries' exports to the EU. However, with the 2014 revision of the GSP, countries such as Saudi Arabia and Qatar will be excluded from this system, as the World Bank classifies their level of income per capita as high or upper middle. Nonetheless, if the FTA were to be reached in time, all GCC countries would enter a more favourable economic relation with the EU.[21]

From the above paragraphs, various elements emerge. It is clear that, although rather important in volume, trade between the GCC and the EU is not sufficiently diversified. In fact, oil products and machinery constitute the majority of traded goods. Furthermore, it transpires that full economic integration is yet to be achieved both among GCC countries and between the EU and the GCC. Deficiencies in the former are due to the delays in completing a single market and the difficulty in diversifying the Gulf economies. At the same time, numerous issues hinder the achievement of the FTA between the EU and the GCC. Among these, the aforementioned political demands set forward by the EU represent the most significant complication. Indeed, it appears clear that the GCC will not agree to continue FTA negotiations unless the EU abandons political conditionality to trade.

Finance and Investment

Thanks to the elimination of formal barriers to free movement of goods and services, capital flows and financial integration increased among GCC countries. By looking at the structure of the financial system using interest rate and equity price data it is possible to assess the

---

http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113482.pdf.

20 Asia has become the most important destination for exports from countries such as Saudi Arabia, Kuwait and the UAE. While historically China has not developed strategic ties to the Gulf region, that relationship has witnessed a significant rise in relevance over the late 1990s and into the twenty-first century. Driven primarily by near exponential increases in energy requirements, China has begun to focus a lot of attention on regional Gulf affairs and is increasingly willing to commit political and security-related muscle to its burgeoning global national interests. The GCC is India's second largest trading partner and is expected to overtake the United States as number one. The GCC countries account for more than 12 percent of India's total global exports, supply nearly two-thirds of India's energy needs and host almost four million Indians who contribute to the region's economic development. There is also little dispute about the importance to the Indian economy of remittances sent by Indian expatriates and of the increasing Indian dependence on Gulf crude oil, which may grow to 91.6 percent by 2020. See "China, GCC agree to accelerate FTA negotiations", *ChinaDaily.com*, 16 January 2012, http://www.chinadaily.com.cn/china/2012-01/16/content_14449569.htm and "Big Thrust to India-Gulf Economic Relations", *Alibaba.com*, 9 August 2010, http://news.alibaba.com/article/detail/international-trade-special/100375654-1-big-thrust-india-gulf-economic-relations.html.

21 European Commission – Trade, *Generalised System of Preferences*, http://ec.europa.eu/trade/wider-agenda/development/generalised-system-of-preferences/.

extent of financial integration among GCC countries. Both beta-convergence data on interest rate spreads and the analysis of prices of cross-listed stocks show that "equity markets are fairly efficient at removing price differentials and seem more integrated within the GCC than within global markets and that there is strong evidence of financial integration".[22] Yet, commercial banks dominate the GCC financial system. Defined as "well capitalized" and "sound", they reflect stability across the region. Still, only a small share of the balance sheet is composed of foreign assets and liabilities. Bahrain has the highest percentage of foreign assets (53.4 percent of total assets and 47 percent of total liabilities, respectively), followed by Qatar (24.7 and 22.2 percent) and Kuwait (22.4 and 14.5 percent), while Saudi Arabia's banks are almost closed vis-à-vis the rest of the world (11.8 and 8.6 percent). In addition, important restrictions remain, such as the purchase of shares in local markets and inward FDI, which "hamper regional as well as global integration".

The World Bank underlines similar features of the GCC financial sector, most notably that "the largest five banks are domestic and account for 50-80 percent of total banking sector assets"; [23] Islamic banking now controls 24 percent of the region's banking system assets; and "mutual investment funds are bank-owned". These elements result in shallow bond markets, with underdeveloped secondary bond markets, a surplus of bank assets over stock market capitalization and limited nonbank financial institutions. Further aspects hindering regional and global integration are the variations in "regulatory regimes and in the level of openness to foreign participation". Nevertheless, important steps towards best practices in finance and corporate governance have been made and Central Banks have agreed to comply with Basel II standards, founding independent authorities dedicated to capital market regulation.[24]

However, the global financial crisis delayed the biggest step towards regional integration. Originally scheduled for 2010, modelled after the European Monetary Union, and now indefinitely postponed, the GCC monetary union would have "lowered foreign exchange rate transaction costs and increased pricing transparency, competition and trade". Furthermore, the crisis unveiled weaknesses in the regional financial sector. These were handled on a case-by-case basis, hence lacking clear "criteria for treatment," which slows down further development of structured financial products. Finally, the crisis, which instigated the Dubai World debt problem, as well as the default of two major Saudi corporations and the overall Kuwaiti financial problems, led to an increase in risk aversion and a revision of lending practices on the banks' side.[25]

22 R.A. Espinoza; P. Ananthakrishnan and O. Williams, *op. cit.*, pp. 4-10.

23 World Bank, *Economic Integration in the GCC, op. cit.*, pp. 12-14.

24 Basel II is the second version of the Basel Accords and it is composed of three pillars dealing with banking laws and capital regulation. Released in June 2004, it is now incorporated in Basel III.

25 M. Khamis and A. Senhadji, "Impact of the Global Financial Crisis on the Gulf Cooperation Council Countries and Challenges Ahead: An update", *International Monetary Fund Working Paper*, Middle East and Central Asia Department, 2010, p. 15, http://www.imf.org/external/pubs/ft/dp/2010/dp1002.pdf.

Turning to EU-GCC cooperation on financial matters, art. 7 of the Cooperation Agreement affirms that "in the field of investments, the EU and the GCC shall strive to take steps for the mutual promotion and protection of investments, in particular through the extension of investments promotion and protection agreements with a view to improving reciprocal investment conditions".[26]

Almost two decades later, in the context of the EU-GCC Al-Jisr project, which was developed between 2008 and 2010, the study Europe and the Gulf Region – Towards a New Horizon underscored common financial interests between the two regions. Especially in light of the global financial crisis, a particular area of cooperation would be to jointly identify best practices. This would increase both regions' attractiveness for international investors. Moreover, similar "down-to-earth financial practices", such as Islamic finance or German cooperative banks, are potential elements for further partnerships, as well as common support for small and medium-sized enterprises.[27] Recently EUROCHAMBRES has called for greater financial cooperation between the EU and the GCC, particularly concerning FDI. This led EUROCHAMBRES to launch "EU-GCC Invest: a project aimed at stimulating a policy debate on FDI and at creating a common virtual platform for EU business in the region".[28] Regardless of these treaties and MOU, a recent European Central Bank report shows that bank exposure between the GCC and the EU remains relatively low, with the GCC claiming less than 2 percent of the Euro area banks' activities outside the eurozone. Hence, financial integration between the two regions still has a long way to go.[29]

In light of the above, it appears that further financial integration between the EU and the GCC, a step of great importance for the success of the FTA, will only be achieved once Gulf banks decide to become more exposed to global financial markets. While this might seem farfetched in light of the global financial crisis and the Eurozone crisis more specifically, it is important that both parts bear in mind the common aspects of their markets, to coordinate and harmonise best practices and overall standards.

Energy

In 2009, GCC countries produced more than 1 million kiloton of oil equivalents of energy, thanks to their reserves of crude oil and natural gas. More than half of this production was supplied by Saudi Arabia.

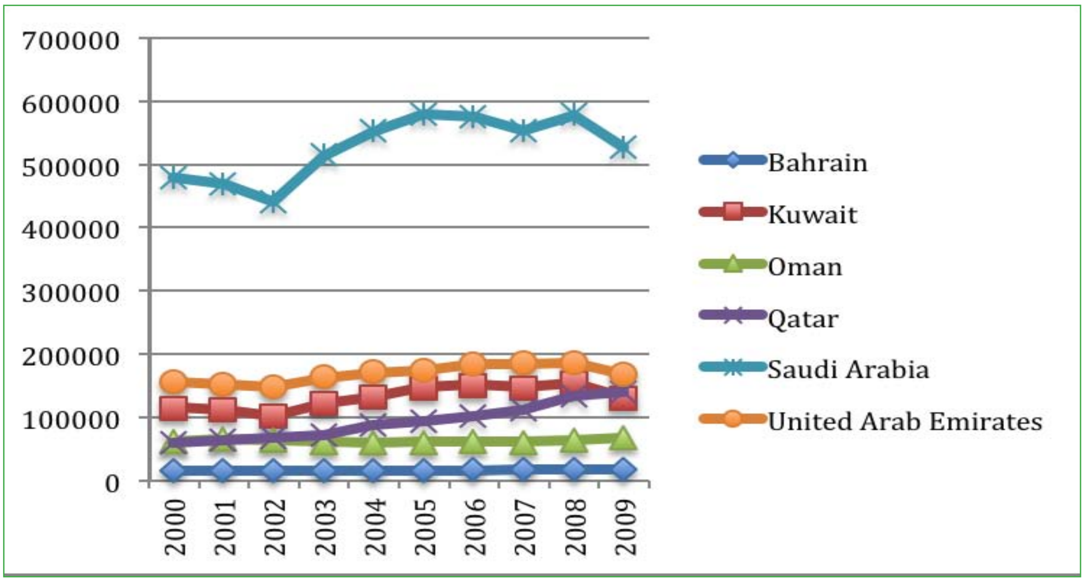
26 EU-GCC Cooperation Agreement, *op. cit.*

27 M. Bauer and C. Hanelt, *Europe and the Gulf Region – Towards a New Horizon*, Al Jisr Project, Bertelsmann Stiftung, May 2009, http://aljisr.ae/sites/default/files/Europe_and_Toward_Gulf_Region_kronberg.pdf.

28 EUROCHAMBRES, *EU needs to increase its investment efforts into the Gulf Region*, 27 March 2012, http://www.actu-cci.com/en/Depeches-CCI-EN/Liste-des-depeches/EU-needs-to-increase-its-investment-efforts-into-the-Gulf-Region.

29 European Central Bank – Directorate General International and European Relations, *Recent Economic and Financial Developments in the GCC*, Division EU Neighbouring Regions, 2012.

Graph 4: Energy production (kt of oil production)

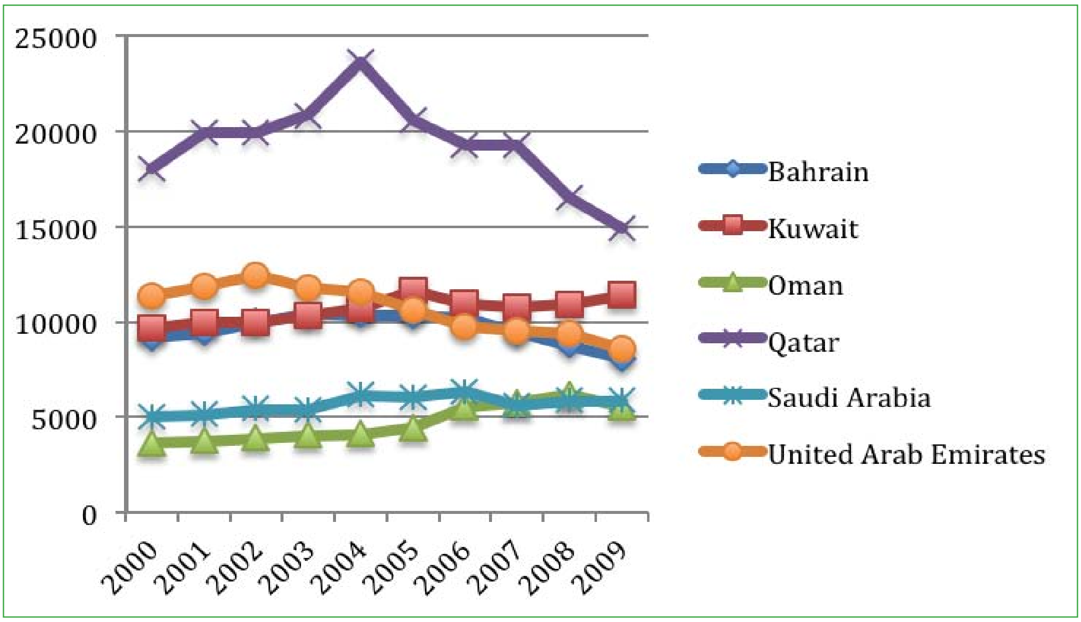


According to the International Energy Agency (IEA)'s 2011 Key World Energy Statistics, Saudi Arabia supplies 11.9 percent of the world's total crude oil production and it is also the main exporter, with 313 megaton (Mt) exported in 2010. Yet, in 1973, the MENA area as a whole had a higher share of global crude oil production than it did in 2010. This is due to the increase in energy production in former Soviet space, China and Africa.[30]

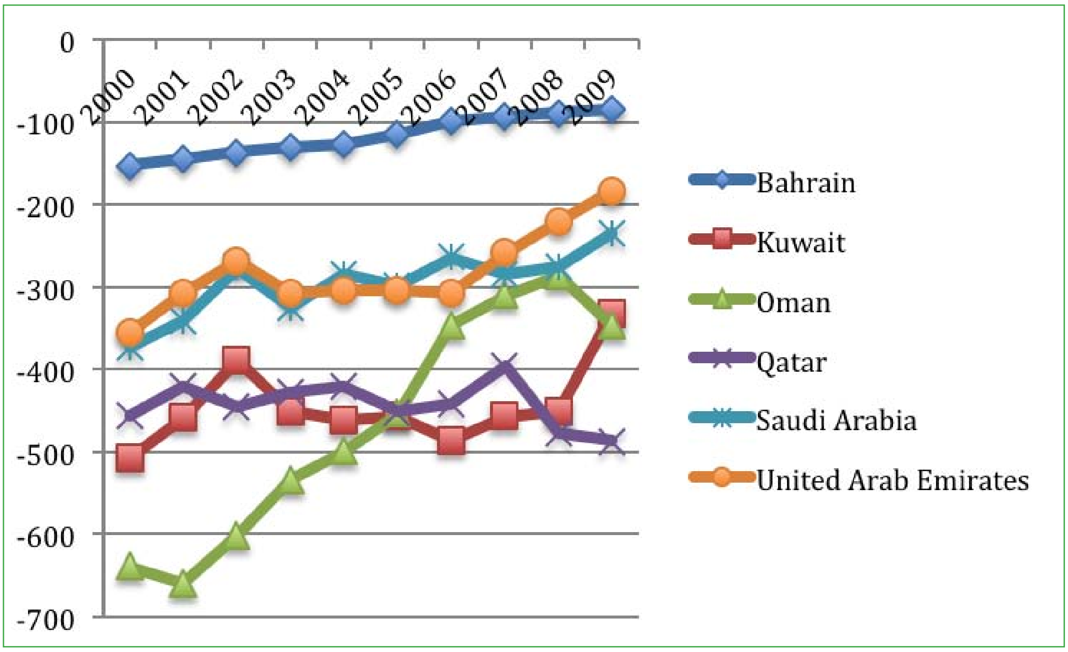
Also, World Bank data on energy use reflects an increase in local consumption, with fairly stable energy production. This point is also underpinned by the net imports data. Graph no. 6 shows that the GCC countries, albeit still among the biggest energy exporters, are slowly, yet steadily, increasing their imports.

30 Organisation of Economic Cooperation and Development (OECD) & International Energy Agency (IEA), *World Key Energy Statistics 2011*, pp. 10-11, http://www.iea.org/publications/freepublications/publication/key_world_energy_stats-1.pdf.

Graph 5: Energy Use - kg of oil equivalent per capita



Graph 6: Energy Imports – net (% of energy use)



Today, energy is central to relations between the GCC and the EU. In fact, biofuels remain the most traded product between the two regions. This is mainly due to geographic proximity and the complementarity of the two regions' energy production and consumption patterns, which create favourable exchange conditions between the EU and the GCC. These exchanges are regulated chiefly through art. 6 of the Cooperation Agreement, which states that "in the field of energy, [the EU and the GCC] shall strive to encourage and facilitate: cooperation in the two regions by energy undertakings, […] and exchanges of views and information on matters relating to energy in general and respective energy policies, without prejudice to the parties' international obligations".[31]

As previously mentioned, energy flows between the regions are still very much focused on biofuels, mainly petroleum and gas. The OPEC 2010 report underlines that Qatar exports towards Europe only 8.6 percent of its total export volume, Kuwait 7.7 percent of its total exports, Saudi Arabia 7.4 percent and the UAE merely 0.5 percent.[32] In this situation, the Kingdom of Saudi Arabia remains the biggest exporter towards Europe, with 3315 thousand metric tons of biofuels transferred only in 2011.[33]

When considering the EU's crude oil imports from 2005 to 2011, the privileged relationship with the former Soviet space remains unaltered. In fact, imports from this region increased steadily from 35.7 percent in 2005 to 41 percent in 2011. Another region providing major supplies is Africa, with Algeria and Libya in the lead. Imports from this region also grew from 18 percent in 2005 to 20.6 percent in 2010 – with a slight decrease in 2011 (down to 17.3 percent), due to the recent events of the Arab Spring. A similar trend is observable for the Middle East, which includes the Gulf and the Levant. In 2005, imports from these countries accounted for 20 percent of the total, they decreased until 2009, when imports were at 15.1 percent, and in 2011 they rose back to 18.3 percent.[34] The registered decrease is mainly due to the increase of imports from the Former Soviet Union area. Indeed, the downtrend reversed with the surge in gas prices set by Russia around the same time.[35]

To enhance cooperation in this field, the EU-GCC Joint Action Programme for 2010-2013 focuses on information exchanges on oil and gas markets; policies, frameworks and best practices; and techniques for upstream, midstream and downstream infrastructure. The Joint Action Programme provides that ad-hoc groups should address the various areas of cooperation, holding seminars and workshops, as well as training and capacity building exercises when appropriate.

Particular attention is devoted, in the Joint Action Programme, to the issue of renewable

31 EU-GCC Cooperation Agreement, *op. cit.*

32 OPEC, *Annual Statistical Bulletin 2010/2011*, http://www.opec.org/opec_web/static_files_project/media/downloads/publications/ASB2010_2011.pdf.

33 IEA, *Monthly Oil Survey*, March 2012, http://www.iea.org/stats/surveys/oilsurv.pdf.

34 European Commission – Energy, *EU Crude Oil Imports - Monthly and cumulated Crude Oil Imports (volumes and prices) by EU and non EU country*, 2011, http://ec.europa.eu/energy/observatory/oil/import_export_en.htm.

35 Russia pursued a policy aimed at making the country the sole energy supplier to the European Union. Said ambition was hindered by the notable budgetary expenditure first and by the global financial crisis and the consequent Eurozone crisis later.

energy, specifically solar energy technology. While the European Union has started leaning towards eco-responsibility, the GCC still lacks a coherent framework for all six countries, since most governments have established different targets and timelines. Yet, this does not imply that the region is inactive in the field of renewables. In fact, all GCC countries promote national large-scale projects of this nature. Bahrain, for example, is investing in mobile solar water desalination units, although, as of today, the only renewable source project remains the installation of wind turbines in the Bahrain World Trade Centre. Kuwait is an exception, generally avoiding renewable energy large-scale projects, even though the government has repeatedly financed research in the field. Regardless, the Kuwaiti government set a 5 percent target for electricity produced by renewables – how this is to be achieved is yet to be determined. Similarly, the Omani government is currently promoting feasibility studies to enhance the development and use of solar energy, in particular large-scale grid-connected solar thermal plants. Qatar, on the other hand, has already processed its field studies and is now in the early stages of project implementation, both for solar and photovoltaic plants, which should be completed by 2014. The Saudi private sector has recently begun investing heavily in solar power plants, most notably in the city of Jubail II. Finally, the UAE, while investing in side projects in other emirates, is most famous for the Abu Dhabi-based Masdar City, entirely reliant on solar energy.[36]

Furthermore, numerous conferences on clean energy between the EU and the GCC have been held. Generally, the common interest in sustainable development is highlighted in the Gulf by the increase in local energy consumption and resulting growing strain put on biofuels, and in the EU because of the general focus on green growth. These elements led to the establishment of a "Clean Energy Network", a framework in which GCC institutions can access European Commission partnerships and participate in discussion groups and pilot projects.[37]

To a large extent, energy relations between Europe and the Gulf are the backbone of economic or political ties. The benefits both parties accrue from these exchanges cannot be underestimated. The GCC is an important energy supplier to the EU, while the EU can help build consistent and sound frameworks for the ambitious energy diversification projects of the GCC as well as constitute a model in renewable energy technology and projects.

Maritime Security

The notion of maritime security encloses different elements, ranging from freedom of navigation, to the ability of countering threats posed by piracy, terrorism, drug trafficking, irregular immigration and the proliferation of weapons of mass destruction.

36 I.J. Bachellerie, *Renewable Energy in the GCC Countries*, Gulf Research Centre, March 2012, http://library.fes.de/pdf-files/bueros/amman/09008.pdf.

37 EU-GCC Clean Energy Network, *Network Activities and Offering*, 2010, http://www.eugcc-cleanergy.net/TheNetwork/NetworkActivitiesOffering.aspx.

The GCC is fully aware of the potential threats to maritime security present off the coasts of Yemen and Oman. In fact, recent developments in maritime security specifically concern the Gulf region, most notably due to piracy, drug trafficking, and to some extent, irregular migration. Alongside these non-state actor challenges, there are risks tied with state issues, in particular regarding the Strait of Hormuz and the territorial disputes over the islands of Abu Mousa, Greater Thumb and Lesser Thumb between the UAE and Iran. Consequently, the GCC has promoted a series of encounters and conferences to enhance coordination among member states. In particular, during the February 2012 Maritime Security and Surveillance Conference, the following critical areas were identified: piracy, drug-trafficking and maritime coordination. The first two are perceived as domains in which progress is being made, regardless of the lack of a complete body of international norms and regulations governing the issue of piracy. Regarding coordination, different methods of surveillance systems are currently being examined.

At the international level, an issue as global as this has led to the creation of specific instruments, in the form of treaties, instruments and initiatives attempting to deal with the multifaceted reality of maritime security. The greatest achievements in this area are the UN Convention on the Law of the Sea (UNCLOS) and the Convention for the Suppression of Unlawful Acts Against the Safety of Maritime Navigation (SUA). The former, finalized in 1982, regulates the use of international waters by state and non-state actors. The latter, entered into force in 1992, dictates provisions for bringing to justice persons suspected of unlawful acts against ships. The GCC and its neighbouring countries have ratified UNCLOS, with the exception of the UAE and Iran.

The aforementioned contention over the three islands between the UAE and Iran and the Strait of Hormuz are issues relevant for UNCLOS, in particular for the regime of navigation through international straits, the delimitation of Continental Shelf (CS) and Exclusive Economic Zone (EEZ) between adjacent and opposing States. Furthermore, art. 123 of UNCLOS regulating enclosed and semi-enclosed seas is relevant. The Gulf countries – constituting a semi-enclosed area – may, via the GCC "invite, as appropriate, international organisations to cooperate with them". This leaves room for manoeuvre for the European Union, namely in the areas envisaged by Article 123, i.e., exploration, conservation and exploitation of fisheries, preservation of marine environment and marine scientific research. The GCC actively participates in the Combined Task Force 151, which deals with piracy off the coast of Somalia, but it is yet to take part in the EU military programme, ATALANTA, which ensures safe-passage of ships in the same area. In the latter, non-EU member states can participate, either through an operational contribution (navy vessels, patrol aircrafts or vessel protection teams) or by providing military staff for the EU NAVFOR Headquarters in the UK. Clearly, the participation of Gulf countries in this programme, particularly as operational contributors, would symbolise an important step towards fighting piracy in the Gulf region.

Media and Communication

Regional integration is not only measured by volumes of traded commodities or financial services among countries, but also via the harmonization of standards for public services. One of these services is clearly that of media and communication. For the latter, in particular, the GCC has asked its Communication and IT Steering Committee to produce a coherent legislation and regulation package. Furthermore, the Employment and Tariffs Committee recently proposed a revised roaming price standard, to be standardised throughout the GCC.

Also, to further enhance dissemination of the Council's decisions, the GCC General Secretariat has approved the creation of a Twitter account, as well as a YouTube Channel. Both tools are deemed necessary to target younger generations and involve them in the objectives and scope of action of the GCC. This step clearly demonstrates that social networks are increasingly recognised in the region for their ability to connect and interconnect, for their appeal and power over specific segments of the population.[38]

It would be inadequate to speak of media and communication in this region without mentioning the noteworthy role played by Al Jazeera. Founded in 1996, thanks to a significant loan from the Emir of Qatar, and still expanding, Al Jazeera became the voice of the Arab world in the Middle East and beyond. In 1996, it filled the void left by the discontinuation of BBC Arabic, taking up most of its staff. However, it was only in 2000, when it started airing around the clock, that Al Jazeera surpassed Middle East Broadcasting Centre (MBC)'s viewership. The latter was the first "free-to-air, pan-Arab news and entertainment channel";[39] initially stationed in London, it was later transferred to Dubai for the opening of the affiliated 24-hour news channel Al Arabiya, direct competitor of Al Jazeera. Though founded in London, MBC was the brain-child of King Fahd of Saudi Arabia. The late king's brother-in-law, Waleed al Ibrahim, is still chairman of the channel. It is interesting to note that both channels are available online, though Al Jazeera developed a broader network. Finally, it is important to note that, since both channels are primarily state-founded, they follow, to a certain extent, the national and foreign concerns of their patrons. Hence, both the GCC and the region's more or less independent media are undergoing important steps to complete the digital revolution.

Media and communication relations with the rest of the world developed thanks to Al Jazeera's role in the aftermath of 9/11, airing video messages by Al-Qaeda. This marked the turning point at which the western world acknowledged the growing importance of Al Jazeera and of Arab media in general. Furthermore, the coverage of the wars in Afghanistan

38 GCC General Secretariat, *Communication and IT Steering Committee Meeting*, 20 May 2012, http://www.gcc-sg.org/index898e.html?action=News&Sub=ShowOne&ID=2428&T=A.

39 Allied Media Corp, *MBC: Middle East Broadcasting Centre*, http://www.allied-media.com/ARABTV/ana_tv_and_middle_east_broadcast.htm.

and Iraq highlighted the added value of well-established offices in different regions of the world. In fact, after the successes of their broadcasts from these war zones, Al Jazeera opened new bureaus worldwide.

The entry of the GCC in the global arena of media and communication is also evident when observing the dissemination of specialised foreign magazines. For example, *TimeOut*, a well known weekly entertainment guide, publishes editions for Dubai, Doha and Bahrain.

The inauguration of Al Jazeera English and of its London office, in 2006, further enhanced media relations between the Gulf and Europe. This is today reflected in the solid efforts to renew common telecommunication policies and the role of governments in IT development. In fact, the aforementioned GCC Employment and Tariffs Committee approved, in February 2012, legislation to increase cooperation with EU countries "expressing readiness to provide consultation and share experiences in the field of ICT, contributing to the development of this sector in GCC countries." [40]

Higher Education and Research

Recently, Gulf governments voiced their concern about the quality of education received by their nationals and they are now taking action to make improvements. In particular, a meeting of the Ministers of Education in May 2012 underscored the region's priorities regarding training and education. It is clear that training in the security field remains a focal point and a prime concern, as it was the first element to be discussed. Yet, a complete education reform should involve all sectors concerned. In fact, fresh research underlining the importance of complementary skills courses to theoretical teachings suggests tackling the issue at the state, employer, professor and student level to maximize results.[41]

In the aftermath of the Arab Spring, Gulf governments increased the amount of money allocated to social welfare. The increase of such spending also bore positive effects on the education system. In particular, it emerges that funds for scholarships to study abroad increased, while the national education reforms are yet to be defined in detail. Hence, it appears that the current strategy for increasing competitiveness is to send nationals to study abroad.

In this context, the EU has ample leeway for enhanced cooperation with GCC countries. As a matter of fact, it is specified in the EU-GCC Joint Action Programme that cooperation at the institutional level should be continued and enhanced, in particular by promoting relations between the European University Association and the GCC Committee of Heads of Universities. Furthermore, involved countries should strive to raise awareness among

---

40 Telecommunication Regulatory Authority, *TRA participates in EU-GCC Meeting*, 9 July 2012, http://www.tra.gov.ae/news429.php.

41 M. Barber; M. Mourshed and F. Whelan, *Improving Education in the Gulf*, McKinsey Quarterly, March 2007, http://www.mckinseyquarterly.com/Improving_education_in_the_Gulf_1946#.

Gulf students of exchange programmes in Europe, such as ERASMUS MUNDUS. A specific partnership between some EU universities and seven Gulf universities already exists for MA, PhD and Post-Doc students, as well as staff members, under the patronage of ERASMUS MUNDUS. Yet, less than one hundred people participate in the programme on a yearly basis. Also an important objective is to raise the number of Gulf students studying full-time in the EU, something that necessitates an increase in the number of partnerships among GCC and EU universities. Finally, to assist in the education reform in the Gulf states, it is desirable for EU universities to share best practices regarding student and staff management, curricula redaction and research programmes.

With regards to research, GCC countries have distinguished themselves from other Arab countries for their availability to host foreign, mainly American, universities and centres. Hence, the EU, with the implementation of the Joint Action Programme, aims at achieving the highest degree of cooperation via the identification and implementation of relevant research partnerships and technology transfers.[42]

Conclusions: Challenges and Opportunities to Revamping EU-GCC Relations

The difficulties encountered by EU-GCC relations are the result of a host of factors, ranging from structural inefficiencies on both the EU and the GCC sides and the lack of a frank dialogue on political and governance-related issues, to imbalances created by the global financial and economic crisis and the events of the Arab Spring. A number of obstacles need to be overcome with a view to making EU-GCC relations more vibrant and up to the challenges at the regional and international levels. A few concluding remarks are offered here concerning some of the most urgent issues that need to be tackled and the ways of doing so.

The new regional context characterised by the North African transitions, continuous instability in Syria and the confrontation with Iran on its nuclear programme calls for a more concerted effort by the EU and the GCC to turn their cooperation into a progressive force with regard to these issues. The GCC and the EU have always shared similar points of view on all the main regional issues, from Iraq and Afghanistan to Iran's nuclear programme. Nevertheless, the political dialogue between the two regions has mostly remained declaratory and inconsequential on critical security issues. By capitalising on their common views on a number of regional issues, the EU and the GCC should start a more frequent and effective exchange of opinions with a view to developing a pro-active response to the different situations created by the Arab Spring. For example, financial cooperation to answer the tremendous socio-economic challenges facing the southern Mediterranean countries could be one avenue of cooperation between the GCC and the EU in light of the substantial surpluses enjoyed by the first group's economies. By cooperating with the European Bank for Reconstruction and Development (EBRD) and the European Investment Bank (EIB), which have their own projects in the Mediterranean region, the GCC could contribute

42 Joint Action Programme for Implementation of the GCC-EU Cooperation Agreement of 1988, *op. cit.*

where it is most needed. Another way to promote political and security cooperation would be to invest in the existing instruments in the framework of the North Atlantic Treaty Organization (NATO)'s partnerships, i.e., the Mediterranean Dialogue (MD) and the Istanbul Cooperation Initiative (ICI).

Another way to promote EU-GCC relations would be to involve the youth on both sides. In this regard, there is a need to explore the causes of the low rate of participation of GCC students and faculty in EU higher education programmes. As evidenced in the previous section, cooperation in the field of higher education is still poor and this represents one of the main shortcomings in the effort to promote educational exchanges, increase mobility and reciprocal knowledge and even facilitate a greater convergence at the decision- and policy-making levels. Further cooperation in this sector could be facilitated by the liberalisation of visa requirements on both sides.

Cooperation at the political and the human levels could distinctly benefit from any progress in the removal of the roadblock to the conclusion of the FTA. As previously stressed, in many respects the GCC countries have tended to regard the FTA as a litmus test of the EU's seriousness in developing stronger relations between the two blocks. It is obvious that the FTA would represent an important step in the right direction as it would free up resources, rationalise economic relations, provide new incentives for the diversification of the GCC economies and allow political ties to be enhanced to a new level of engagement. To achieve this goal, a great deal of suspicion towards the EU's intentions needs to be dispelled and major efforts need to be made by both parties to lay the ground for such an achievement. Bearing the above in mind, the time may not be right to re-launch FTA negotiations, due to the difficulties that the EU economic and political integration is currently undergoing. In this light, putting too much emphasis (and expectations) on the conclusion of the FTA is not a good idea. Relations should go beyond the FTA and should not be overly dependent on it. This does not mean however that its effective pursuit could not have a positive spill-over effect on the whole confidence-building exercise and cooperation.

In conclusion, with a view to advancing its relations with the GCC the EU needs to be aware of the differences existing among the GCC countries. The GCC does not constitute a single block and disregarding these differences could negatively impinge on EU-GCC relations. The disproportionate weight of Saudi Arabia, economically and politically, is now matched by the other GCC countries' as they become significant players in their own right, either in foreign policy, i.e., Qatar, or in economic terms, i.e., the UAE.

In light of the above, efforts should be made to devise a more strategic relationship centred on a less comprehensive number of topical issues compared to the ones already included in the Joint Action Programme. The Sharaka project aims to disentangle the complex web of EU-GCC relations, with a view to identifying and enlarging the latitude, by both actors to achieve mutual cooperation, provided that there is a will on both sides. By analysing the record of EU-GCC cooperation in a number of different sectors, identified as the most strategic and/or promising ones in the relations between the two groups of countries, the project strives to contribute to the rethinking of EU-GCC relations in view of the upcoming negotiation of a new Joint Action Programme. We believe that there is a huge potential to develop EU-GCC relations, provided obstacles are overcome, challenges confronted and the potential for cooperation fulfilled.

ABOUT THE AUTHORS

Silvia Colombo is a Research Fellow at the Istituto Affari Internazionali (IAI), Rome, and coordinator of the Sharaka project.

Camilla Committeri is an M.Sc. student in International Relations at Sciences Po, Paris, an M.Sc. student in International Political Economy at the London School of Economics and Political Science (LSE), London, and former stagiaire at the Istituto Affari Internazionali (IAI) Rome.

ABOUT SHARAKA

Sharaka is a two-year project implemented by a consortium led by Istituto Affari Internazionali (IAI).

The project, partially funded by the European Commission, explores ways to promote relations between the EU and the Gulf Cooperation Council (GCC), through the implementation of policy-oriented research, outreach, training and dissemination activities. The overall project aim is to strengthen understanding and cooperation between the EU and the GCC, with particular attention to the strategic areas identified in the Joint Action Programme of 2010, such as trade and finance, energy, maritime security, media and higher education.

For more information visit *www.sharaka.eu*