THE MEDITERRANEAN: OPPORTUNITIES TO DEVELOP EU-GCC RELATIONS?
Seminar organized in the framework of the Al-Jisr project
Istituto affari internazionali (IAI)
Rome, 10-11/XII/2009

a. Agenda
b. List of participants
c. Speaker's bios
1. Why the European Union needs a 'broader Middle East' policy / Edward Burke, Ana Echagüe and Richard Youngs (11 p.) (Documenti Iai ; 0937)
2. Energy in the Mediterranean and the Gulf : opportunities for synergies / by Naji Abi-Aad (10 p.) (Documenti Iai ; 0935)
3. Investment from the GCC and development in the Mediterranean : the outlook for EU-GCC financial and economic cooperation in the Mediterranean / by Bénédict de Saint-Laurent ; assisted by Pierre Henry & Samir Abdelkrim (21 p.) (Documenti Iai ; 0936)
4. Investment from the GCC and development in the Mediterranean [slides] / Invest Inmed (10 p.)
5. EU and GCC strategic interests in the Mediterranean: convergence and divergence / by Roberto Aliboni (7 p.) (Documenti Iai ; 0933)
6. The growing economic presence of Gulf countries in the Mediterranean region / Abdullah Baabood (7 p.). Estratto da: *Med.2009 : 2008 in the Euro-Mediterranean space*, testo online: http://www.iemed.org/anuari/2009/aarticles/a203.pdf

(2)

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"THE MEDITERRANEAN: OPPORTUNITIES TO DEVELOP EU-GCC RELATIONS?"

10-11 DECEMBER 2009

ROME

Hotel Ponte Sisto - Via dei Pettinari 64

AGENDA

THURSDAY, 10 DECEMBER

1:00 pm *Lunch buffet*

2:00 pm FIRST SESSION - THE MEDITERRANEAN IN EU-GCC RELATIONS

CHAIR: *Christian Koch*, Director of International Studies, GCC-EU Relations, the Gulf Research Center, Dubai

SPEAKER: *Edward Burke*, Research Fellow, Fundacion para las Relaciones Internacionales y el Dialogo Exterior, Madrid

RESPONDENTS:

- *Saad Abdulrahman Al-Ammar*, Director, Institute for DiplomaticStudies, Ministry of Foreign Affairs, Riyadh
- *Hassan El-Sayed Ahmed Nafaa*, Professor of Political Science, Faculty of Economics and Political Science, Cairo University

3:30 pm *Coffee break*

4:00 pm SECOND SESSION - ENERGY IN THE MEDITERRANEAN AND THE GULF: OPPORTUNITIES FOR SYNERGIES

CHAIR: *Alessandro Minuto-Rizzo*, Ambassador, presently Senior Strategic Advisor, Enel, Rome

SPEAKER: *Naji Abi-Aad*, Office of the Deputy Premier, Ministry of Energy and Industry, Doha

RESPONDENTS:

- *Giacomo Luciani*, Director, Gulf Research Center Foundation, Geneva Office
- *Nazim C. Zouiouèche*, Chairman of the Board, Medex Petroleum, Paris

8:00 pm *Welcome Dinner*

Friday, 11 December

9:00 am — Third Session - Investment from the GCC and development in the Mediterranean: the outlook for financial and economic EU-GCC cooperation

Chair: *Hassan El-Sayed Ahmed Nafaa,* Professor of Political Science, Faculty of Economics and Political Science, Cairo University

Speaker: *Bénédict de Saint-Laurent,* General Delegate, Anima Investment Network, Marseille, France

Respondents:

- *Abdulmuhsin bin Abdulaziz Al-Akkas,* Former Member of the Saudi Cabinet, Riyadh
- *Franco Zallio,* Senior Consultant, Mediterranean and the Middle East - Russia, Milan

10:30 am — *Coffee break*

11:00 am — Fourth Session - EU and GCC Strategic and Political Interests in the Mediterranean: Convergence and Divergence

Chair: *Michael Bauer,* Research Fellow, Center for Applied Policy Research, Munich

Speaker: *Roberto Aliboni,* Vice President, Istituto Affari Internazionali, Rome

Respondents:

- *Riad Kahwaji,* Chief Executive Officer, Institute for Near East and Gulf Military Analysis, Dubai
- *Stefano Silvestri,* President, Istituto Affari Internazionali, Rome

12:30 am — Round Table: conclusions

Chair: *Stefano Silvestri,* President, Istituto Affari Internazionali, Rome

- *Sheikh Jaber Duaij al Sabah,* Ambassador of Kuwait in Italy, Rome
- *Dominic Porter,* Deputy Head of Unit for Relations with Gulf States, Iran, Iraq and Yemen, Directorate General for external Relations, European Commission, Brussels
- *Tim Niblock,* Director, Institute of Arab and Islamic Studies, University of Exeter, UK
- *Stefano Queirolo Palmas,* Head of Gulf Countries Office, Directorate General for the Countries of the Mediterranean and the Middle East, Italian Ministry of Foreign Affairs, Rome

1:30 pm — *Lunch buffet*

End of the seminar

The al-Jisr project is funded to 50 percent by the European Commission and 50 percent from its ten consortium partners representing institutions from Europe and the Gulf region.

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The organisers thank
the Italian Foreign Office and Compagnia di San Paolo (Turin) for their generous contributions

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LIST OF PARTICIPANTS

Naji **Abi-Aad**	Office of the Deputy Premier, Ministry of Energy & Industry, Chairman & Managing Director of Qatar Petroleum, Doha, Qatar
Abdulmuhsin bin Abdulaziz **Al-Akkas**	Former Member of the Saudi Cabinet, Riyadh
Saad Bin Abdurahman **Al-Ammar**	Director, Institute for Diplomatic Studies, Ministry of Foreign Affairs, Riyadh
Soltan Saad **Al-Moraiki**	Ambassador of Qatar in Italy, Rome
Sheikh Jaber Duaij **al Sabah**	Ambassador of Kuwait in Italy, Rome
Roberto **Aliboni**	Vice President, IAI - Istituto Affari Internazionali, Rome
Abdulla **Baabood**	Director, Gulf Research Centre Cambridge, Prince Alwaleed Bin Talal Centre of Islamic Studies, Faculty of Asian and Middle Eastern Studies, University of Cambridge, UK
Luca **Bader**	Chief Executive Officer, IED - Institute for European Democrats, Brussels
Michael **Bauer**	Research Fellow, CAP - Center for Applied Policy Research, Munich
Edward **Burke**	Research Fellow, FRIDE - Fundacion para las Relaciones Internacionales y el Dialogo Exterior, Madrid
Silvia **Colombo**	Junior Research-Fellow, IAI - Istituto Affari Internazionali, Rome
Bénédict **de Saint-Laurent**	General Delegate, Anima Investment Network, Marseille, France

Leonello **Gabrici**	Head of Unit, Euromed and Regional Issues - General Direction, European Commission, Brussels
Ettore **Greco**	Director, IAI - Istituto Affari Internazionali, Rome
Riad **Kahwaji**	Chief Executive Officer, INEGMA - Institute for Near East and Gulf Military Analysis, Dubai
Christian **Koch**	Director of International Studies, GCC-EU Relations, Gulf Research Center, Dubai
Giacomo **Luciani**	Director, Gulf Research Center Foundation, Geneva Office
Elena **Maestri**	Research Fellow, Research Centre on the Southern System and Wider Mediterranean, Faculty of Political Science, Catholic University of the Holy Heart, Milan
Alessandro **Minuto Rizzo**	Ambassador; presently Senior Strategic Advisor, Enel, Rome
Hassan **Nafaa**	Professor of Political Science, University of Cairo
Tim **Niblock**	Director, Institute of Arab and Islamic Studies, University of Exeter, UK
Valeria **Piacentini**	Director, CRISSMA - Research Centre on the Southern System and Wider Mediterranean, Catholic University of the Holy Heart, Milan
Dominic **Porter**	Deputy Head of Unit for Relations with the Gulf Countries, Iran, Iraq and Yemen, Directorate General for External Relations, European Commission, Brussels
Stefano **Queirolo Palmas**	Head Office for Gulf Countries, Directorate General for Mediterranean and Middle East Countries, Italian Ministry of Foreign Affairs, Rome
Abdulaziz **Sager**	Chairman, GCC-EU Relations, Gulf Research Center, Dubai
Stefano **Silvestri**	President, IAI – Istituto Affari Internazionali, Rome
Vera **Soler**	First Secretary, Embassy of Spain in Italy, Rome
Valeria **Talbot**	Research Fellow, Mediterranean and Middle East Program, ISPI - Istituto per gli Studi di Politica Internazionale, Milan
Gabriele **Tonne**	Managing Editor, "*The International Spectator*", IAI - Istituto Affari Internazionali, Rome
Franco **Zallio**	Senior Consultant, Mediterranean and Middle East Countries, Milan
Nazim C. **Zouiouèche**	Chairman of the Board, Medex Petroleum, Paris

OBSERVERS

Caroline **Rey**	Public and Regulatory Affairs, EDISON Spa, Rome
Cristiano **Zagari**	Research Fellow, Nato Defence College, Rome

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c

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The Mediterranean: Opportunities to Develop EU-GCC Relations?"

10-11 December 2009
Rome, Italy

Speakers' bios

NAJI ABI-AAD

Office of the Deputy Premier, Ministry of Energy and Industry, Doha

Before joining Qatar Petroleum and its Board of Directors as Media and Research Strategist in September 2005, Naji Abi-Aad an Austrian citizen born in Lebanon, was acting since 1999 as managing director of Econergy a Beirut-based research centre aiming to carry out studies and reports on the economic and energy development in the East Mediterranean and the Gulf.

He was also working since 1988 as Senior Advisor for the Middle East within the French-based Observatoire Méditerranéen de l'Energie (OME).

Dr Abi-Aad, who studied at the American University of Beirut before been awarded a Ph.D. degree in Energy Economics from Grenoble University in France, was based in Vienna between 1983 and 1999 before moving back to Beirut. During his 22 years of experience, he had been involved in extensive consultations, conferences and studies, particularly on oil and gas in the Middle East, their resources and supply prospects.

Dr Abi-Aad has authored over 80 reports and studies on Middle East energy issues, as well as a book on security of petroleum supply from the region.

ABDULMUHSIN A. AL-AKKAS

Former Member of the Saudi Cabinet, Riyadh

He is member of the Board of the Saudi Economic Association, the Riyadh Chamber of Commerce & industry, the Council of Saudi Chambers of commerce, the Committee of the Development of Foreign Trade.
He is member of the executive Committee of the Gulf Marketing Association in Bahrain;
He is member of the American Political Science Association, USA, International Political Science Association, Canada, the American Management Association, USA, the International Institute for Strategic Studies, London and Founding Member of the National Society for Human Rights
WORK EXPERIENCE:
Aramco's Computer Center and the Dept of Policy and Planning in Aramco and Standard Oil Co, San Francisco; faculty member, College of Administration Sciences, King Saud University, Riyadh; Manager Arabian medical & Hospital Supplies Co. Riyadh; assistant Secretary General of The Riyadh chamber of Commerce and Industry. Elected Secretary General; managing Director Saudi Research & Marking Group.
CURRENT:
Assistant to the Chairman and board Member Saudi Research and marketing Group; director in SR&MG subsidiary's boards in Riyadh, Jeddah and London; member of Majlis Ash shura; chairman of the Foreign Affairs Committee; Minister of Social Affairs From 2005.

CONFERENCES :
Represented the GCC private sector in negotiations with E.C. on economic cooperation. Participated in preparing for GCC- Japan economic Cooperation. Attends conferences on International Politics and International Economics and Strategy in the U.S, Canada and Europe. Participated in Davos/NY 2002. Participated in delegations to UK,Canada, US.

SAAD ABDULRAHMAN AL-AMMAR

Ambassador and General Director, Institute for Diplomatic Studies, Ministry of Foreign Affairs, Riyadh

- 1981 ·1998: Assumed different positions and responsibilities at the Institute of Public Administration, Riyadh, Saudi Arabia (Training Consultation and administration.
- 1998-2000: General Manager for Saudi Employment, Ministry of Labour and Social Affairs.
- 2000-2002: Deputy assistant for Employment Affairs, Ministry of Labour and social Affairs, Riyadh, Saudi Arabia.
- 2002- to date: Ambassador, Ministry of Foreign Affairs. General Director of the Institute of Diplomatic studies.

II. Education:
- 1990-1994: (Ph.D.) in Public Administration, State University of New York at Albany, New York
- 1983-1986: Master of Public Administration (MPA), Pennsylvania State University, □ USA 1986. Thesis: "An Examination of Evaluation Methods of the In-Service Training Programs of the Institute of Public Administration in Saudi Arabia"
- 1977-1981: Bachelor of Business Administration, King Abdulaziz University, Jeddah, KSA.

III. Training History:
Long experience in designing and facilitating training courses in management.

IV. Consultations:
Reorganization of the Ministry of Municipal & Rural Affairs, 1997.
Reorganization of the Saudi Standards Corporation, 1995-1996.
Assessment of work procedures at the Printing and Publishing Department at the Institute of Public Administration, 1986.

V. Professional Associations:
Member of the Board of Directors of the International Labour Organization since May 1999.
Member of the Board of Directors for the General Organization for Technical Education and Vocational training since 1998.
Member of Committee for Case Studies Development, 1996-1998, Institute of Public Administration, Riyadh.
Member of the Board of Editors for the Journal of Public Administration, Published by the Institute of Public Administration, Riyadh. 1996-1997.
Member of American Management Association.
Member of American Society for Training and Development.

ROBERTO ALIBONI

Vice President, Istituto Affari Internazionali, Rome, Italy

He is Head of the Institute's programme on the Mediterranean and the Middle East.

He taught International Economics at the Universities of Naples and Perugia from 1972 to 1979 and held research positions in different Institutes. In 1994, he conceived of and successfully established the Mediterranean Study Commission (MeSCo), the network of Mediterranean Institutes dealing with international and security affairs (transformed in the Euro-Mediterranean Study Commission-EuroMeSCo in 1996). Presently he is Co-President of EuroMeSCo'assembly and member of the

Scientific Council of the Tampere Peace Research Institute-TAPRI. He published numerous articles and books.

ABDULLAH BAABOOD

Director, Gulf Research Centre Cambridge, Prince Alwaleed Bin Talal Centre of Islamic Studies, Faculty of Asian and Middle Eastern Studies, University of Cambridge, UK

He has a general interest in International Economics and Politics, particularly in the areas of globalization and regionalism. His research interest also focuses on the GCC states' economic, social and political development as well as GCC's security and its external relations, especially EU-GCC relations. He has published, presented and attended several int'l seminars and workshops on these topics. Dr. Baabood is a member of a number of academic and professional bodies and holds board memberships for several business organizations and committees. He graduated with a Master's in Business Administration, a Master's in Int'l Relations as well as a Ph.D. in Int'l Relations from the University of Cambridge, UK.

LUCA BADER
Chief Executive Officer, Institute for European Democrats, Brussels

After finishing undergraduate and postgraduate studies in International Relations at the London School of Economics in 2000, Luca Bader moved to Rome to take up the position of Senior Research Fellow at the Italian Institute of International Affairs (IAI). His research at the IAI focused on the international economy, EU-US relations, and EU foreign policy.

In addition he has been a research collaborator with the departments of Political Science at the University of Milan.

In 2004, he began working for the European Democratic Party (EDP-PDE) in the European Parliament with responsibility for expanding the party's membership in Europe and developing relations with aligned political parties, including the US Democratic Party and democratic parties across Asia.

At the same time, Luca was also appointed Head of International Relations of the Margherita Party in Italy.

Since 2006, Luca has advised several Italian ministries and private companies on EU and international affairs. He also writes regularly on Italian and EU affairs for a range of Italian publications.

MICHAEL BAUER

Research Fellow, Center for Applied Policy Research, Munich, Germany

In the Research Group on European Affairs he heads the project Europe and the Middle East. He is the academic supervisor for the European Studies programme of the Munich International Summer University. The regional focus of his research is on the Middle East with a special emphasis on the

Gulf region. In addition, he works on various aspects of international and European security policy, in particular on the issue of counterterrorism.

He has published a variety of papers, articles and books on international security and Middle Eastern politics. His most recent publications include Effectively Countering Terrorism. The Challenges of Prevention, Preparedness and Response (with Cornelia Beyer, Sussex Academic Press 2009), Promoting EU-GCC Cooperation in Higher Education (with Christian Koch, Gulf Research Center 2009), and Europe and the Gulf Region – Towards a New Horizon (with Christian-Peter Hanelt, Bertelsmann Stiftung 2009).

Michael Bauer studied international politics in Munich and Aberystwyth (UK) and holds a degree in educational science from the Munich School of Philosophy.

EDWARD BURKE

Research Fellow, Fundacion para las Relaciones Internacionales y el Dialogo Exterior, Madrid

He analyses political reform trends in the Persian Gulf region, including the GCC states, Iraq and Yemen. In addition to this, he is working on an ongoing project to evaluate the relationship between energy security and democracy in the Middle East.

Prior to joining FRIDE, Edward worked at the Club of Madrid. He has also previously undertaken research on behalf of the Irish Department of Foreign Affairs.

He holds a Masters degree in War Studies from King's College London.

SILVIA COLOMBO

Junior Research-Fellow, Istituto Affari Internazionali, Rome, Italy

She is an expert on Middle Eastern politics and in this capacity she is working on transatlantic relations in the Mediterranean and politics in the Arab World. She also regularly contributes with strategic analyses to the online journal Equilibri.net. She completed a traineeship at the International Secretariat of Amnesty International in London where she focussed on Middle Eastern issues. She holds a Master's Degree in Near and Middle Eastern Studies from the School of Oriental and African Studies (SOAS) in London. She speaks Arabic fluently and travelled extensively in the Middle Eastern region.

BENEDICT DE SAINT-LAURENT

General Delegate, ANIMA Investment Network, Marseille, France

Since November 2006, he is General Delegate of ANIMA Investment Network, a multi-country platform for the economic development of the Mediterranean (www.anima.coop) and head of Invest in Med (www.invest-in-med.eu), a EU-funded programme aiming at boosting investment and trade across the Mediterranean. This €12 million programme is led by ANIMA, associated with enterprise federations (BusinessMed) and Chambers of Commerce and Industrie (Eurochambers, ASCAME).

From 2002 to mid-2007, ANIMA, a EU initiative to develop foreign direct investments (FDI) towards 12 Mediterranean partner countries (MEDA region), achieved an ambitious capacity building programme destined for investment promotion agencies, equipped them with a set of strategic investment intelligence tools and changed the industrial image of the region (via events, surveys, road-shows etc). Over 5 years, FDI entering the MEDA region reached nearly 60 billion US$, up from 10 bn in the 2000s.

He previously developed international investment search with the Invest in France Agency (2001-2002), worked as an investment banker under the Development Bank of Southern Africa (1997-2001, project finance) and as an advisor to the Minister of Transport of Indonesia (1994-1997, PPPs). Before, he managed the French Europrojets R&D Centre (1988-1994, intelligent transport systems) and served as a senior economist at the World Bank (1987-1988, infrastructure projects), SCET (1986, privatisation of public transport in Tunisia) and BCEOM (1983-1985, transport master plan of Morocco). He started his career as an engineer under CETE-méditerranée (1975-1983, transport studies, urban planning, environment), MATRA (1971-1974, automated transport systems) and SOGREAH (urban development).

Born in 1948, he is a Civil Engineer (Ecole Centrale de Paris, France, 1970) and holds a Ph. D. in Economics, University of Paris-I Sorbonne (1974).

IAI

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LEONELLO GABRICI

Head of Unit, Euromed and Regional Issues - General Direction, European Commission, Brussels

Expérience solide dans le domaine des relations extérieures et de la politique d'information et de communication de la Commission.
Depuis novembre 2008 :Commission européenne, Bruxelles
Direction Générale Relation Extérieures; Chef d'Unité EuroMed et questions régionales. RELEX F1
Coordination générale des activités Euro-Med et en particulier responsable de la révision des stratégies communautaires pour façonner le passage de l'acquis du Processus de Barcelone vers celui de l'Union pour la Méditerranée.

2002 – 2008 : Commission européenne, Bruxelles
Direction Générale Relations Extérieures; Chef d'Unité Maghreb. RELEX F4
Responsabilité générale des relations avec les pays du Maghreb et en particulier élaboration de la Politique européenne de voisinage, y compris négociation de ses Plans d'Action. Programmation de l'aide financière bilatérale y compris la transition des anciens programmes indicatifs nationaux (MEDA) vers ceux du nouvel instrument financier de la PEV.

1999 – 2002 : Commission européenne, Bruxelles
Porte-parole d'Antonio Vitorino, Commissaire chargé de la Justice et des Affaires intérieures, chargé de l'ensemble des relations avec les médias et le public des pays membres et des pays tiers.

1997 – 1999 : Commission européenne, Bruxelles
Direction Générale Relations Extérieures IB; Assistant du Directeur Général,
chargé de la coordination générale et, en particulier, du suivi des questions politiques pour la Méditerranée, l'Amérique Latine, l'Asie

1996 – 1997 : Commission européenne, Bruxelles
Direction Générale Relations Extérieures - Direction "Amérique Latine"; Chef d'Unité adjoint, responsable de la coopération économique bilatérale en Amérique latine et de la conception et gestion des programmes régionaux dans les domaines du développement économique dirigés vers la société civile.

1993 – 1996 : Commission européenne, Bruxelles
Direction Générale des Relations Extérieures, Assistant du Directeur pour l'Amérique latine
Responsable de dossiers à thèmes horizontaux spécifiques et, en particulier, de la liaison avec les Etats membres

1989 - 1993 (Brésil) : Délégation de la Commission européenne à Brasilia
Conseiller politique économique et commercial
Suivi des relations commerciales bilatérales et coordination des programmes de coopération économique

1986 - 1989 (Ouganda) :Délégation de la Commission européenne à Kampala
Conseiller développement rural : Spécialement chargé de la mise en oeuvre de la "Karamoya Authority", entité administrative décentralisée en liaison directe avec la Présidence de la République du pays.

1985 - 1986 (Angola) : Chef d'un projet conjoint CE / Haut Commissariat pour lesRéfugiés des Nations Unies
pour la réinsertion de 20.000 personnes déplacées, y compris la coordination avec les autorités civiles et militaires locales

1982 - 1985 (Brésil) : "Cobrex-Agropecuaria Malabar", Etat de Bahia
Gestion d'une société à capitaux mixtes helvético-brésilienne dans le secteur agro-alimentaire.
Etudes

1982 : Diplôme d'Ingénieur Agronome (Grande distinction)
Spécialisation en Sociologie et Economie

Faculté de Sciences Agronomiques de Gembloux (Belgique)

ETTORE GRECO

Director, Istituto Affari Internazionali, Rome

He also is Editor of the institute's journal The International Spectator. He heads the transatlantic program of the IAI. He worked as visiting fellow at the Brookings Institution from January 2006 to July 2007. He taught at the universities of Parma and Bologna. From 2000 to 2006 he worked as correspondent for the Economist Intelligence Unit. From 1993 to 2000 he directed the IAI's program on Central and Eastern Europe. He was also Deputy Director of the IAI from 1997 to 2008.

He is the author of a number of publications on the EU's institutions and foreign policy, transatlantic relations and the Balkans. He has been a free-lance journalist since 1988.

RIAD KAHWAJI

Founder and Chief Executive Officer, Institute for Near East and Gulf Military Analysis (INEGMA), Dubai, United Arab Emirates

Until late 2008, Riad was the Middle East Bureau Chief for Defense News, the largest selling international defense publication based in VA, USA. Previously he worked for Jane's Defense Weekly as Middle East Correspondent from 1999 to 2001. He also contributed on regular basis to various Jane's publications like Jane's Intelligence Review and Jane's Sentinel and Jane's Islamic Affairs

Analyst. He has regular defense analysis articles published in the leading pan-Arab Al-Hayat newspaper and other professional periodicals. His professional journalistic career covering the Middle East region started in 1988. As CEO of INEGMA, Riad has organized over the past few years several international defense/security conferences and security workshops. He is still very active in organizing international security and defense conferences in the region. He has taken part in many track-2 meetings on Middle East security, and even organized a number of them.

He also produced several documentaries on military and geopolitical issues to leading pan-Arab television stations.

Riad, a Lebanese with a British nationality, has an MA degree in War Studies from King's College, the University of London, and a BA in Mass Communication from Phillips University, Oklahoma, USA. He is married to Sawsan Traboulsy and has two daughters, Assele and Masarra.

CHRISTIAN KOCH

Director of International Studies, Gulf Research Center, Dubai, United Arab Emirates

Prior to his appointment, he worked as Head of the Strategic Studies Section at the Emirates Center for Strategic Studies and Research, Abu Dhabi. Dr. Koch received his Ph.D. from the University of Erlangen-Nürnberg, Germany with a thesis on the role of voluntary association in the political development of Kuwait. He also studied at the American University in Washington, D.C. and the University of South Carolina. Dr. Koch has published on various issues related to Middle East political development and Gulf strategic issues and is a regular contributor to regional newspapers and media.

He is the editor of Unfulfilled Potential: Exploring the GCC-EU Relationship (Dubai: Gulf Research Center, 2004) and of the Gulf Yearbook (2005 to 2008 Edition) as well as co-editor of Gulf Security in the Twenty-First Century (Abu Dhabi: ECSSR, 1997) and A Window of Opportunity: Europe, Gulf Security and the Aftermath of the Iraq War (Dubai: Gulf Research Center, 2005. Dr. Koch also serves as a contributor to Jane's Sentinel Publications on Gulf issues. He is a member of the advisory board of the German Orient Foundation since January 2007.

GIACOMO LUCIANI

Director, Gulf Research Center Foundation, Geneva

Professorial Lecturer of Middle Eastern Studies at the SAIS Johns Hopkins University Bologna Centre and Visiting Professor, Graduate Institute of International and Development Studies (Geneva).

Prof. Luciani's career has been marked by repeated "trespassing" between academia, industry and government. He has been economist at the Bank of Italy (1972-74), founded and directed the Institute for Research on International Economics (IRECI), and worked for the Italian Institute of International Affairs (1977-86). From 1990 to 2000 he worked for ENI, the Italian Oil Company. He has taught at UCLA (1986-88), the Institut d'Etudes Politiques in Paris (1994-97), the Robert Schuman Centre of Advanced Studies at the European University Institute in Florence (2000-6), and the College of Europe (2007-8). He has consulted for various international organisations, companies and Gulf governments.

His research interests include Political economy of the Middle East and North Africa and Geopolitics of energy. His work has focussed primarily on the economic and political dynamics of rentier states and issues of development in the GCC countries.

He is a member of the Oxford Energy Policy Club, the Geneva Petroleum Club, and the Energy, Oil and Gas Club of the Institut Français du Pétrole (IFP). He is a frequent speaker at conferences and events organised by leading institutions in the field of energy affairs.

Prof. Luciani leads the work on security of oil supplies within the SECURE project (Security of Energy Considering its Uncertainty, Risk and Economic implications), a large research effort involving 15 research centres funded by the European Commission, which started at the beginning of 2008 and will extend over three years. He will also participate in the POLINARES (POLIcy for NAtural RESources) project led my the University of Dundee, another large research effort involving 11 institutions and funded by the European Commission under FP7, which will start in January 2010.

ELENA MAESTRI

Research Fellow, Research Centre on the Southern System and Wider Mediterranean, Faculty of Political Science, Catholic University of the Holy Heart, Milan

She lectures on "Arabia and the Arabs between Past and Present", as assistant to the Chair of History and Institutions of the Muslim World. She holds a Ph.D. in Political Science and an M.A. in Foreign Languages and Literatures from the Catholic University of the Holy Heart. She specialised in Arabic Language at the University of Bahrain, and, before starting her academic career, she worked in the Saudi petrochemical sector, specialising in corporate communication and external relations.

A frequent visitor to the Gulf, she gained inside knowledge of the Gulf Arab countries from historical, political and socio-economic points of view. Her research focused in particular on tribal and family dynamics, State-formation and State-building in the Arabian Peninsula, the GCC States' institutions and organisations, the non-oil industrialisation process, with specific regard to Saudi Arabia and Bahrain, and human resources development in the area.

She contributed to specialised studies, research papers, articles and books both in Italian and in English, and some of them were translated into Arabic.

ALESSANDRO MINUTO RIZZO

Ambassador; presently Senior Strategic Advisor, Enel, Rome

Alessandro Minuto-Rizzo a distinguished ambassador and diplomat, has much experience in a number of areas, not just international relations.

In particular, he has held terms of office in Washington, Prague, Paris, and Brussels, and has experience in European structural funds, European policies, the European Space Agency, and also the Italian Space Agency of which he has been a member of the Management Board.

He has taken part and chaired a number of committees concerned with economic and industrial issues both in Italy and abroad. In 1994, he was appointed the Prime Minister's personal representative for the finalization of the Trans European Transport and Energy Masterplan.

Since 1997 he has acted as diplomatic adviser to Professor Andreatta the Minister of Defence and his successors; occupying a front line role in the various Balkan crises during this period.

In 2000 he became a founding a member of the Policy and Security Committee of the European Union under the supervision of Javier Solana.

Between 2001 and 2007 he held the position of Deputy Secretary General at the Atlantic Alliance. His mandate was mostly carried out in the political area, especially in relations with sensitive countries such as those in the Gulf and the Southern Mediterranean.

Alessandro Minuto-Rizzo has travelled extensively in Asia and has visited Afghanistan and Pakistan on a number of occasions, chairing the Atlantic Council on several official missions.

He has published a number of articles and essays in specialist journals on Europe, the Atlantic Alliance, Foreign and Defence Policy.

He is currently assisting the top management at ENEL, a multinational company in the energy sector, in their strategic evaluation and geopolitical analysis of countries of interest.

Alessandro Minuto-Rizzo is a teacher of European Security and Defence Policy at LUISS University in Rome.

HASSAN EL-SAYED AHMED NAFAA

Professor of Political Science, Faculty of Economics and Political Science, Cairo University, Egypt

Former Secretary General of the Arab Thought Forum, Amman, Jordan 2007-2009;

Head of the Department of Political Science at Cairo University, Egypt, 1999-2007;

Teacher at Cairo University, Department of Political Science from 1978 to 2007; UCLA, Department of Political Science, Spring 1996; Lecturer in Diplomatic Institutes: various Arab Countries including: Egypt, Jordan, Oman, UAE etc.

Visiting Professor at the University of North Carolina: Fulbright Scholar 1980/1981; Universities of Columbia (Summer 1984), Maryland (Summer 1987); Research Fellow at the G.E Von Grunebaum Center for Near Eastern Studies, UCLA, 1996.

TIM NIBLOCK

Emeritus Professor of Middle Eastern Politics, University of Exeter, United Kingdom

He began his academic career at the University of Khartoum in Sudan (1969-77), where he served as Associate Professor on secondment from the University of Reading.

He has since worked at the Universities of Exeter and Durham. Between 1978 and 1993, he worked at Exeter, establishing the Middle East Politics Programme there.

In 1993 he was appointed Director of the Centre for Middle Eastern and Islamic Studies at the Durham. In 1999 he returned to the University of Exeter and served as Director of the Institute of Arab and Islamic Studies there from 1999 to 2005.

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Full Professor of History of Iran and Central Asia in the Oriental Institute of Naples (Istituto Universitario Orientale di Napoli), Faculty of Political Science, from 1980/1981 to 1984/1985.

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August 2007: Head of the Secretariat, General Directorate for European Union – Ministry for Foreign Affairs, Rome
May 2005: Consul General, Marseilles (France)
November 2002: Minister Counsellor and DHOM, Riyadh (Saudi Arabia)
December 1999: Consul General, Sydney (Australia)
January 1997: Counsellor, General Directorate for Human Resources – Ministry of Foreign Affairs, Rome
November 1992: First Secretary (Political Affairs), Embassy, Madrid (Spain)

May 1989: Second Secretary (Commercial Affairs) and DHOM, Embassy, Luanda (Angola)
March 1986: Enters diplomatic career

Honours:
2004: Order of Merit of the Italian Republic (Knight Commander)
2001: Cross of the Order of Isabella the Catholic (SPAIN)
1997: Lieutenant, Honorary – Italian Coast Guard

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Before joining ISPI she worked at the University of Catania and at the European Parliament in Brussels.

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From 1984 till 2001 he was partner and research director at Fintesa Studi Paese, a private company specialised in country risk analysis.

He earned his B.A. at Turin University and his M.Sc. in Economics at the LSE.

His research interests cover a wide range of issues related to politics, economics and international relations of the Mediterranean region and the Middle East. He has extensively published on these subjects.

NAZIM CHARIF-EDDINE ZOUIOUECHE

Chairman of the Board, Medex Petroleum, Paris, France

From 1999 to 2004: Head of the task force in charge of preparing the new Hydrocarbons law
From 1971 to 2004: Sonatrach
1995-1998: Chairman and CEO, Sonatrach
1995-1997: Chairman of the Mediterranean observatory of Energy.
1994-1995 Chief of staff, Sonatrach
1985-1993: Chief Executive Officer of TMPC, transmediterranean pipeline Company, joint company Eni/Sonatrach, and C.E.O of Mariconsult and Samco.

1979-1985: Executive Vice president and Managing Director Sonatrach in charge of hydrocarbons Division (hydrocarbons Division included Exploration, development and Production, pipeline Transportation, Drilling and Petroleum Services departments, etc).
1977-1982: Member of the Board of Alfor Drilling Company, Sedco/Sonatrach joint company.
1976-1979: Director of Production Division Sonatrach. Responsible of activities regarding production of oil and gas, Executive manager for the development of the giant Hassi R'mel Gas Field.

1971-1976: Manager of Hassi Messaoud District. Hassi Messaoud District included seven major oil and gas fields (Hassi Messaoud, Haoud Berkaoui, El Gassi, Rhourd el Baguel, Rhourde Nouss, El Borma etc...)
From 1968 to 1971: Production Engineer, Elf/Aquitaine, in charge of production operations in El Gassi field.
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Ecole Nationale Supérieure des Télécommunications Paris : MS in telecommunications.
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PAPER

by

EDWARD BURKE, ANA ECHAGÜE AND RICHARD YOUNGS
FUNDACION PARA LAS RELACIONES INTERNACIONALES Y EL DIALOGO EXTERIOR, MADRID

DRAFT VERSION

FRIDE

Why the European Union needs a 'broader Middle East' policy

by
Edward Burke, Ana Echagüe and Richard Youngs

European foreign policy in the Middle East and North Africa (MENA) is a highly fragmented construction. Since the mid-1990s the EU's policies with Maghreb and Mashreq countries have been pursued under the rubric of the Euro-Mediterranean Partnership (EMP), the European Neighbourhood Policy (ENP) and now the Mediterranean Union. This plethora of highly institutionalised initiatives has been developed with negligible linkage to policy in the rest of the Middle East. Relations with the Gulf Cooperation Council remain low key and strikingly disconnected from the EMP. Contrary to its rhetorical emphasis on supporting regional integration around the world, the EU has failed to build its strategy towards Iran and Iraq into a regional security framework. Even more reproachable, given its credibility and influence in the economic sphere has been the EU's inability to foster regional economic integration between the Mediterranean and the Gulf.

Many member states have for long held up the Mediterranean's separation from other dimensions of Middle Eastern policy as a positive distinction of European foreign policy. This overarching policy design certainly seems highly distinctive to the United States, other powers and international institutions who structure their efforts in terms of a Middle East policy rather than separate Mediterranean and Gulf policies. Many European diplomats still argue that organising policy around a Mediterranean logic is a welcome advance on the historical legacy of colonialism.

However, important trends now render the divide between Europe's Mediterranean and Gulf policies increasingly incongruous. We identify here two factors that are of particular importance. First, Gulf states are increasingly active in and interdependent with Mediterranean (Maghreb and Mashreq) states. Second, the Obama administration is making efforts to re-engage more positively with the Arab world in a way that links together challenges in different parts of the Middle East. It makes little sense for the EU to work against the grain of these trends.

In response to these changes, the EU should work towards a single Middle East policy. Splitting up North Africa and the rest of the Middle East for the EU's bureaucratic convenience belies the political logic of the region. The continued resistance of many member states to such a step is a costly mistake. It privileges narrow-minded short-term interest to the detriment of strategic foresight. We suggest six policy questions in relation to which Europe, southern Mediterranean states and Gulf countries can more productively work together under a broader Middle East regional framework.

The Gulf in the Mediterranean

Gulf States are playing an increasingly influential role in the Mediterranean states. This trend has been most recently illustrated by the repercussions of the Dubai debt restructuring announcement on the Egyptian stock exchange.[1] European Middle Eastern policy must begin to react to the deeper linkages taking shape between the Gulf and Mediterranean in a range of areas: economics, politics, social and communications exchanges, remittances and development assistance.

[1] Andrew England, 'First signs of contagion as Egyptian stocks take a battering', *The Financial Times*, 1 December 2009

The long decline and traumatic implosion of Iraq, the isolation of Egypt following its recognition of Israel, and suspicions over Syria's relations with Iran and Hizbullah, combined with the poor economic performance of all three countries, has resulted in the rise of Saudi Arabia as the most influential country in the Arab world. Saudi leadership has yet to prove effective – the country has been late to get involved in Iraq, was thwarted in its attempts to create a unity government in Palestine and had to watch others take the initiative in Lebanon. However, its rising power cannot be ignored. Saudi Arabia has spent millions supporting Lebanon's pro-western Sunni political bloc in its struggle with Hezbollah, is critical to the future stability of Yemen and is seen as the only regional power capable of bringing Arab countries into line with the goal of a comprehensive Arab-Israeli peace deal.[2]

Qatar has also taken it upon itself to act as mediator in regional affairs. It's increasing diplomatic hyperactivity has been viewed as an annoyance by the US, except perhaps for its involvement in negotiations leading to U.N. Security Council Resolution 1701, which called for a ceasefire and the movement of Hezbollah's militia away from the border with Israel. Qatar is seen by the US to be unhelpful in terms of the Arab-Israeli conflict and the challenge of Iranian ambitions, and generally regarded as punching above its weight. Saudi Arabia has also viewed Qatar's mediation efforts, most particularly in Lebanon and Yemen, with a strong degree of scepticism. Ultimately, however, Qatar's ties with Iran, Hamas, Hizbullah and Zaydi Shia rebels in Yemen, as well as its long-standing ties with Israel, give it unique leverage and position in the region.

Economically, MENA trade and investment figures confirm a glaring, and even widening, gap between wealth concentrated in the GCC and the struggles of the Maghreb and Mashreq. The GCC's population is a mere 42.5 million out of a total 345 million for the region, yet it dominates the region's foreign exports earnings. In 2007 $477 billion of the MENA region's total exports of $654 billion were from the GCC countries.[3] The relative peace enjoyed within the Gulf, the decoupling of political disputes from the maintenance of pragmatic economic relations, improved management of energy revenues leading to a degree of economic diversification, and the emergence of the region's only truly successful economic union, the GCC, has resulted in the region rapidly out-performing other countries in MENA. In recent years Saudi Arabia has significantly increased its share of new intra-Arab investments to over 50 per cent.[4]

GCC investments in the region have grown considerably, due to a period of high energy revenues and increased investor confidence following infrastructure and internal market reforms in many Mashreq and Maghreb countries. From 2003 to 2008 GCC countries' investment to the rest of the MENA amounted to over $110 billion.[5] The rapid increase of trade with the rest of the MENA, coupled with rising intra-GCC trade, means that the EU's share of overall investment by GCC countries is declining. Such a trend is corroborated by the Institute of International Finance (IIF), which has reported a 10-15 per cent rise in FDI holdings from the GCC in other MENA countries.[6] The type of GCC investment has also shifted: whereas in the 1970s and the 1980s GCC investments in the MENA were mainly in hydrocarbons and real estate, today they include financial services and manufacturing – these two sectors together add up to the 70 per cent of GCC investments in Egypt for 2007-2008, for example.

The GCC also has a rapidly increasing influence over the development of communications in the region, not least with regard to the proliferation of news and entertainment channels. Arabsat has more than 164 million

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[2] WSJ

[3] World Bank, '2008 MENA Economic Developments and Prospects: Regional Integration for Global Competitiveness', p. 104-114

[4] The Arab Investment and Export Credit Guarantee Corporation, 'Investment Climate in the Arab countries', 2007 p. 2

[5] Samba, 'Tracking GCC Foreign Investments: How the Strategies are Changing with Markets in Turmoil', December 2008, p. 12

[6] Ibid, p. 4

viewers, carrying such channels as al-Jazeera which has a major influence on pan-Arab opinion. An important recent measure led by the GCC states was the establishment of an Arab Network of Regulators (ARNET), which has moved to harmonise regulatory practices including National Information and Communication Technology (ICT).[7]

The value of Gulf investments over those from Europe can be measured in sheer scale. An average Gulf investment in the MENA is $268 million compared to $70 million from Europe.[8] Gulf investors have become a vital source of job creation in the region. GCC investments now constitute a third of foreign holding in Egypt and almost half in Jordan. (In contrast, GCC investors have avoided Algeria due to the complexity of regulations and the erratic behaviour of the government in Algiers.[9]) Despite an ambiguous political relationship with the Iraqi government, the UAE and Kuwait, have recognised the enormous economic potential of Iraq and have been willing to put aside distaste for some of that country's ruling factions to invest heavily – the UAE topped the list of foreign investors for the first nine months of 2009 with holdings of $37 billion, while Kuwait spent $6.8 billion.[10]

The long period of economic decline in the 1980s and 1990s after the misspent boom of the 1970s, during which time the MENA share of global trade fell from 8 per cent to 2.5 per cent, served as a sharp lesson for the region.[11] Despite the failure to negotiate a comprehensive FTA for the MENA, in 2007 intraregional trade constituted 11.1 per cent of total foreign trade. This is still a modest figure, but a significant increase from the stagnant levels of the mid-1990s. In the non-energy sector, intraregional trade now accounts for just under 25 per cent of all exports.[12]

Many problems persist. The negotiation and implementation of a raft of trade agreements aimed at integrating the economies of the MENA has been notoriously slow and ineffectual. Implementation of the Greater Arab Free Trade Area (GAFTA), negotiated in 1997, has varied considerably from country to country. The World Bank estimates that the total gain from GAFTA to the MENA economy has so far amounted to a modest 0.1 per cent boost to regional income, which compares very unfavourably with the benefits of bi-lateral trade agreements with the EU.[13]

In the same way, the lack of integration of the MENA with the global economy represents a missed opportunity for economic growth – the World Bank has calculated that if the MENA maintained its 1985 share of world exports (which was already relatively low), it would have received some $2 trillion in extra export revenues during the period 1986-2003. By extension if a comprehensive MENA FTA existed during this period it would have boosted trade by another 147 per cent.[14]

However, while such problems exist, the emerging opportunities of deeper intra-MENA integration reflect an incipient trend that the EU should lock onto. The reasons for the non-emergence of a free trade area in the

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[7] World Bank, '2008 MENA Economic Developments and Prospects: Regional Integration for Global Competitiveness'

[8] Pierre Henry, Samir Abdelkarim and Benedict de Saint-Laurent, (2008), Foreign direct investment into MEDA in 2007: the switch by ANIMA Investment Network

[9] M. Mohieldin, 'Neighbourly Investments', *Finance and Development*, December 2008

[10] Dunia Frontier Consultants, 'Private Foreign Investment in Iraq: Update November 2009', Dubai: November 2009

[11] Allan Dennis, 'The Impact of Regional Trade Agreements and Trade Facilitation in the Middle East North African region', Washington DC: World Bank Policy Research Working Paper 3837, February 2006, p. 1

[12] World Bank, '2008 MENA Economic Developments and Prospects: Regional Integration for Global Competitiveness'

[13] Allan Dennis, 'The Impact of Regional Trade Agreements and Trade Facilitation in the Middle East North African region', World Bank: Policy Research Working Paper 3837, February 2006, p. 12

[14] Ibid, p. 8

MENA include the frequency of war and severe political disagreement in the region, high transportation and communication costs and perhaps most importantly, the preponderance of a corrupt and bloated public sector. In some ways, external actors have added to the problems: the lure of trade agreements with the US, the EU and other external powers have shifted the focus away from intra-regional efforts.[15] The GCC has been quick to complain over not being consulted on EU initiatives in the Maghreb and Mashreq, such as the Union for the Mediterranean – although it has itself been generally reactive and unimaginative in its relations with other Arab states.[16]

Although the proportion of expatriate Arab workers in Gulf has declined considerably since the 1970s and 1980s, remittances to other Arab countries remain a vital source of income, totalling $31 billion in 2008. The MENA region mainly relies on two regions, the GCC and the EU, as a source of remittances. Egypt and Morocco receive the highest volume of remittances in the MENA region. Remittances to Lebanon, Jordan and Egypt are predominately derived from expatriate labour in the GCC, while those of Morocco and Algeria are mostly from the EU. Iraq and Syria are exceptions to the Mashreq-Maghreb divide, as for these states both the EU and GCC are an important source of remittances. As a share of GDP for countries in the region, Lebanon ranks highest with 20 per cent and 400,000 expatriates in the Gulf alone, followed by Jordan at 14 per cent, and Morocco at 8 per cent.[17]

There is, finally, a growing trend of MENA dependence on aid from the Gulf region. In 2007 alone Jordan received $565 million in aid from Saudi Arabia.[18] There is also an increasing awareness within the GCC of the leading role the Gulf must play in preparing the MENA for the challenges the region will face in the future - 80m new jobs alone will have to be created in the region by 2020 to avoid severe political and social upheaval in an already combustible regional environment.[19] There have been some encouraging signs that the Gulf is increasing its aid to the MENA.

GCC member states' aid is predominantly distributed bilaterally rather than through multilateral channels. The main multilateral institutions in the region are the Arab Fund for Economic and Social Development (Arab Fund), the OPEC Fund for International Development (OPEC Fund), the Arab Monetary Fund (AMF) and the Islamic Development Bank (IDB). Of these, the IDB distributes the largest amount of multilateral assistance in the region, providing 38 per cent for the region compared to 30 per cent for the Arab Fund, 17 per cent for the AMF and 10 per cent for the OPEC Fund. The Saudi Fund for Development operates almost exclusively in the form of bilateral loans from a capital base of $8.2 billion.[20] The Kuwait Fund for Arab Economic Development also provides similar loans to recipient governments. In total the Kuwait Fund has provided 17 per cent of Arab financial aid during the last thirty years, compared to 4 per cent of the Abu Dhabi Fund for Arab Development.[21] The Saudi Fund allocates half its budget to Arab countries, similar to that of the Kuwait Fund but less than the 79 per cent distributed to Arab recipients by the Abu Dhabi Fund. The OPEC Fund by contrast concentrates its $3.5 billion capital on projects in sub-Saharan Africa, contributing only 17 per cent of its annual budget to the MENA region.[22] In 2007 the ruler of Dubai, Sheikh Mohammed bin Rashid al-Maktoum, donated $10 billion towards supporting the education of young Arabs in the region.

The GCC member state Development Funds that provide loans and other forms of assistance generally do not maintain an in-country team to monitor the use of funds and there are few reporting obligations on the part of

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[15] Ibid, pp. 7-8

[16] Speech by Prince Turki al-Faisal, Eurogolfe conference, Venice, 17 October 2008

[17] International Monetary Fund, 'World Economic and Financial Surveys, Regional Economic Outlook Middle East and Central Asia', May 2009

[18] *Arabian Business*, 'Amman on a mission', 21 February 2007

[19] *The Financial Times*, 'Restive young a matter of national security', 2 June 2008

[20] See the website of the Saudi Fund for Development www.sfd.gov.sa

[21] E. Villanger, 'Arab Foreign Aid: Disbursement patterns, aid policies and motives', p.9

[22] See the website of the OPEC Fund, www.ofid.org

the recipient country. Yet there are emerging exceptions: Innovative Gulf development organisations such as 'Dubai Cares' have already gained a reputation for close monitoring of projects, working with international NGOs such as Care International and may offer a useful template for other emerging Gulf development agencies.

Obama's re-engagement

A second trend highly germane to the design of European Middle Eastern policy is the evolution of US strategy in the region. The administration of Barack Obama has sought to move beyond the more pernicious elements of the Bush era, by engaging in the Middle East with a new tone and a more sophisticated effort to link the region's problems together in a more holistic strategy. The EU needs to seize this as an opportunity, and support such efforts rather than undercut them by stubbornly prioritising the institutional structures of its own fragmented Middle Eastern initiatives.

Institutionally, the US approach to the region reflects a broader approach, with the Bureau for Near Eastern Affairs covering all Maghreb, Mashreq and Gulf countries while singling out Iraq, Palestine, counterterrorism and economic and political reform as particular regional concerns. The EU would be well served to heed this approach, not in an effort to mimic the US, but because it is reflective of geographic and geostrategic reality. By parcelling out the Mediterranean as a Euro-sphere of influence, the EU risks ceding the upper hand (even further) to the US in the Gulf.

The Obama administration has heralded changes in tone and approach, which make it easier for the EU to respond and engage in a broader Middle East policy. Obama's new MENA policies restructure the EU-US-MENA triangle, and require a flexible response from the EU.

There has been a significant change in style, tone and attitude which reflects greater sensitivity, a US willingness to engage and to listen rather than dictate. As Obama stated in an interview with Al Arabiya the US is "ready to initiate a new partnership based on mutual respect and mutual interest." Under-Secretary of State, William Burns, further elaborated: "We have reoriented our approach to diplomacy, focusing on partnership, pragmatism, and principle. This puts a premium on listening to each other, respecting differences and seeking common ground and areas of shared interests."[23] This has also been reflected in the newfound willingness to engage without preconditions mainly with Iran, but also with Hamas, Syria and Hezbollah and in an effort to seek negotiated solutions to long-standing problems.

The Obama administration believes that the challenges which confront the US in the region - regional conflicts, undiversified economies, unresponsive political systems, proliferation of weapons of mass destruction, and violent extremist groups - are all connected and thus should be treated simultaneously, on a pan-regional basis. Similarly in June 2009 Secretary of Defense Gates stated that the array of security issues affecting the Gulf are all interrelated, and thus would be best addressed through a comprehensive approach. Special Representative for Afghanistan and Pakistan Richard Holbrooke has stated that the US seeks to "establish an intellectual strategic base" with the Gulf States to coordinate policy on Afghanistan, Pakistan and Middle East issues. The Obama administration has also declared a willingness to address the Israel- Palestine issue as a vital lynchpin of progress on all other issues in the region.

Gulf states increasingly complain that the potential for deeper US-EU cooperation in the region has been squandered by the competition between member states to secure lucrative bilateral defence procurement deals. While the extent of discussions with European governments is unclear, France, Spain, and Germany have been talking with individual members of the GCC about security issues.[24] The failure of the EU and US to coordinate means that both are beginning to lose out to third players. Up to now, American and European

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[23] Under Secretary of State for Political Affairs at New America Foundation.
[24] (GSA 2009).

military suppliers have provided 90 per cent of the weapons sought by the Gulf countries. But now a potential Russian deal has taken shape to sell $2 billion worth of tanks and helicopters to Saudi Arabia. In 2007 Russian President, Vladimir Putin visited Saudi Arabia, the first official visit by a Russian Head of State to the kingdom.

It is no longer expedient for the EU to sit back in the knowledge that the Gulf region is a US sphere of influence. Despite Obama's "punt on multilateralism" it is unlikely that the US administration will go out of its way to cooperate with the EU in the Gulf. The Obama administration might prefer to work with a more united Europe but it is up to the EU to live up to the rhetoric and forge a strategy in the Gulf that places it in a credible role as interlocutor for both the US and the GCC. To do so it must incorporate the Gulf and the Mediterranean into a common overarching MENA strategy. A more proactive EU role which takes into account the Gulf states' aspirations and builds on its credibility could go a long way towards re-establishing some of Europe's lost influence in the region.

While the Obama administration is seeking to regain credibility, the EU can still play a much-needed role in helping smooth persistent tensions between the US and MENA countries. The US 'has so far failed to come to terms with the GCC states defining their own interests outside of the context of the need for US military protection'.[25] The US still has to realise that the security-for-oil equation is no longer a panacea. The Gulf states feel neglected by the US, especially in terms of dealing with Iran, and annoyed at being asked publicly to provide confidence building measures to Israel. More than anything else the Gulf states want movement on the Palestinian front, for Iran to be contained but not appeased at their expense, and general recognition for their role in the region.On all these concerns, the EU needs to take advantage of the current juncture in US policy, help mediate between Washington and the region, and adapt its own policies to back-up the stated desire for a more holistic approach.

Joining the dots

European Union policy statements and ministerial speeches often refer to the need to link together events and trends in different parts of the MENA region. In 2004 when defining the need for a European Strategic Partnership with the region, the European Council observed that 'Europe and the Mediterranean and Middle East are joined together both by geography and shared history...Our geographical proximity is a longstanding reality underpinning our growing interdependence; our policies in future years must reflect these realities and seek to ensure that they continue to develop positively.'[26]

There is much talk of the need for 'triangulation', between Europe, the Arab Mediterranean and the Gulf. But in practice it is remarkable how far European policy is still divided out into separate 'policy blocks'. One covers the Mediterranean, another the Gulf, another Iraq, another Iran, and yet another Yemen's fragile state status. The disjuncture between the Mediterranean and Gulf components is especially notable. In 2008, amidst much fanfare, the Union for the Mediterranean was launched. At the same time, the EU's Strategic Partnership with the Broader Middle East was being quietly forgotten. No attempt was made to get these two initiatives 'talking to each other'.

Several member states have been actively hostile towards submerging the EU's Mediterranean policy into a 'Broader Middle East' policy. In a contemporary institutional sense, the 'Mediterranean' is a distinctively European construct. Other powers do not have 'Mediterranean' policies separate from their Middle East strategies. But the reasons for blocking better coordination are not good ones. Southern EU member states must move beyond a defensive position of defending 'Mediterranean primacy' merely because they fear losing

[25] US-GCC relations C.Koch, 2007

[26] See 'Final Report on an EU Strategic Partnership with the Mediterranean and the Middle East', http://www.consilium.europa.eu/uedocs/cmsUpload/Partnership%20Mediterranean%20and%20Middle%20East.pdf

a privileged EU focus on their immediate neighbours in North Africa. GCC states increasingly seek EU support for initiatives in the Middle East that dovetail with their own activity.

A broader and less fragmented approach to the Middle East would be especially valuable in relation to six policy challenges:

1) *Iraq, Iran and Regional Security*
It is often pointed out that the MENA is the only region lacking an institutionalised security framework. The EU should seek to exercise what influence it has to rectify this situation. It has the potential to play such a role by harnessing its firmly institutionalised 'collective security' arrangements in and with the southern Mediterranean as a template to extend into the broader Middle East. In particular this would entail triangulating EU-Mediterranean-GCC strategies towards Iran and Iraq. GCC states have for some time pushed the EU to assist more generously and determinedly in Iraq's reconstruction and stabilisation; Gulf states feel that the EU's reluctance to engage fully in Iraq, to take GCC concerns over the direction of that country into account and to include the GCC in their planning for future strategy in that country represents one of the major strategic blockages in relations with Europe.[27] Gulf concerns over events in Iraq and Iran, including fear of increasing Iranian influence, represent one of the region's most pressing strategic pre-occupations – one they feel Europe still has little empathy for.

The EU's aims in this sense must of necessity be modest. But some concrete moves could begin to move security deliberations in this more pan-MENA direction. The Strategic Partnership for the Mediterranean and Middle East agreed in 2004 has been a profound disappointment, having delivered little in tangible terms that helps broaden out Europe's policies across the MENA. New and much more concrete steps should be implemented. For example, the EU could hold joint meetings of its EU-Mediterranean and EU-GCC security dialogues, and use this as an opportunity to provide an incentive to Iraq and Iran to participate in the first steps towards a broader collective security architecture. This would constitute a major upgrading of the current 'Iraq and its Neighbourhood' multilateral initiative. By addressing Gulf concerns in this way, the EU would be more likely to convince GCC regimes to deploy their own vast financial resources to help stabilise Iraq.[28] And it must be the case that a more unified EU-GCC-Mediterranean alliance would have much more chance to influence developments in Iran in a positive direction.

2) *Palestine*
Saudi Arabia and Egypt hold key roles in the Middle East peace process. There is some competition between their respective approaches and initiatives, that risks being highly prejudicial. Here the EU might find a role in mediating and ensuring that such competition between Mediterranean and Gulf initiatives does not begin to harm the prospects for peace. The EU should also move to reassure Saudi Arabia that rejection of the Fatah-Hamas Mecca Agreement in 2007 by the Bush Administration represented a major missed opportunity to establish a working relationship between the two Palestinian factions and that the EU seeks a strengthened cooperation with Riyadh on this crucial issue. The EU also urgently needs to engage other GCC states, not least Qatar, on its vision for a peaceful resolution of the Israel-Palestine, urging caution where necessary and harmonising efforts where possible. A *sine qua non* to an improved EU-GCC political relationship on this issue is for the EU to take a firm position against the continued expansion of Israeli settlements within the Palestinian territories.

3) *Trade relations* :
The EU has been pursuing two free trade areas, one with the Mediterranean, another with the Gulf. The former is due for completion in 2010, but is well behind schedule. The free trade agreement with the GCC is

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[27] Oxford Research Group, King Faisal Center, Saudi Diplomatic Institute, 'From the Swamp to Tierra Firma: The regional role in the stabilization of Iraq', June 2008
[28] Bertelsmann Stiftung, *Europe and the Gulf Region – Toward a New Horizon,* Discussion paper presented at the 12th Kronberg Talks, Riyadh, May 2009, p. 16

still not signed, after nineteen years of talks. The EU should re-energise efforts to sign both these outstanding trade deals, and demonstrate greater flexibility to this end. But over the medium term, the two respective EU FTAs could and should be joined. It is well known that inter-regional interdependence slumbers at a lower level in the Middle Eastern than in another other region. Joining the separate strands of EU commercial relations together could help correct this dearth. Iraq's putative Partnership and Cooperation Agreement could eventually be linked into this widened area of trade liberalisation. The EU could in this way use the undoubted leverage of its common commercial regulations and norms as a means of enhancing integration within the broader Middle East region – so vital in political and strategic terms for Europe and the region itself.

4) *Responses to the financial crisis.*
The crisis is arriving in force on North Africa's shores. The EU and the GCC have a joint interest in helping the Mediterranean weather the storm. It will harder for each to help effectively on their own. Several European governments now work with Saudi Arabia within the G20. They should form an alliance to address together prudential regulatory weaknesses in the southern Mediterranean. The same implies the other way around too: the regular diálogue and engagement the EU has built up in the Mediterranean could be extremely helpful in shoring up European efforts to reach further and deeper into the Gulf. Much more cooperation is needed on international currency issues too. The fall-out over the Dubai debt crisis in December 2009 also points to a need for an enhanced economic dialogue. With the GCC inching towards a possible single currency this is an obvious area of under-explored 'lesson sharing'. It is an area of policy cooperation that needs to be triangulated with a Mediterranean dimension too, to reflect the growing economic and financial interdependence of different parts of the MENA region.

It is here that the EU should enhance cooperation with Gulf development funds, to pool efforts to palliate the effects of the financial crisis and encourage the economic and social reforms necessary to sustained recovery. In an effort to support regional economic integration across MENA the EU could extend some of the funding projects and measures which have proved most effective in its relations with the Mediterranean countries, namely those relative to the economic basket. Coordination of regulatory and legal reform, building standards and capacity, judicial training and reform, bureaucratic reform, technical cooperation and capacity building in cross-border projects, twinning, and administrative secondments

5) *Energy*
Today it makes little sense for the EU to pursue separate energy dialogues and policies in the Mediterranean and Gulf. Policy-makers do recognise this. The prospective pan-Arab pipeline, which the EU has promised to support, requires a restructuring of European energy policy. Iraq, holding some of the world's largest oil and gas deposits and a with a egregiously low reserve-to-production ratio, is perhaps the energy partner in the Middle East where Europe is underperforming most. In January 2008, Commissioners Benita Ferrero-Waldner (External Relations) and Andris Piebalgs (Energy) spoke of a new "EU-Iraq energy partnership", noting that the EU was "keen to see Iraq play a full role in the Arab gas pipeline which will supply the EU including through the Nabucco." These encouraging statements have not been followed up by a regular high-level political and energy dialogue with Iraq, neither has significant assistance been forthcoming to improve Iraq's creaking infrastructure in order to link it for export to European markets.[29] There is also potential for the EU to link GCC energy exports through an enhanced pipeline grid via Iraq to European markets.

The Commission has proposed extending the structure of both the ENP Energy Treaty and the Euro-Med Common Energy House to the GCC states, as well as offering the latter the kind of energy agreement offered to Algeria and Egypt. Cooperation between Europe, the Arab Mediterranean and the Gulf has begun on the issue of solar energy. However, the continued impasse in trade negotiations between the EU and the GCC undercuts the prospects for other aspects of policy cooperation on a broader Middle basis. The EU has proposed a Memorandum of Understanding on energy cooperation; the GCC states have rejected the idea,

[29] Edward Burke, 'The Case for a New European Engagement in Iraq', *FRIDE Working Paper*, January 2009

insisting that an FTA is the precursor to deepening other areas of cooperation. A long-standing bi-annual EU-GCC energy experts meeting has been diminished rather than expanded in recent years, with officials of a lower level than was previously the case presiding on both sides. The Commission has sought to deepen energy cooperation at the bilateral level with individual GCC states, but here the potential is limited to technical issues such as reducing flaring and energy-efficient product development. Elaborating a triangulated EU-Med-GCC energy strategy would offer the potential for unblocking some of these frustrating and persistent shortcomings.

6) *Counter-terrorism*
Saudi Arabia's well-known influence over Islamist trends across the Mediterranean means that it must be brought into any comprehensive European efforts to deal with radicalisation. GCC cooperation is also critical to stopping the flow of money to *jihadi* groups in places such as Algeria, Palestine and Lebanon. The EU and the GCC also face a mounting terrorist threat emanating from Yemen. The GCC is the largest donor to Yemen and critical to the future stabilisation of that country. Although Saudi Arabia has been reluctant to engage in bi-lateral talks on Europe's concerns in Yemen, other GCC countries have shown a more open approach. Enhanced cooperation on these issues issue will only arise however out of a trust-building dialogue and strategic thinking with the Gulf on major political concerns in the region, an approach that has been evidently lacking to date.

In sum, the overarching institutional logic should be one of graduated regionalism. This does not mean abandoning existing initiatives, such as the EMP or ENP. But it does mean shifting the balance of diplomatic effort to deepen the linkages between the Mediterranean, Gulf, Iran and Iraq. A better and clearer balance is required between bilateral, sub-regional and 'broader Middle East' dynamics. These different levels must be made to lock into and reinforce emerging pan-regional dynamics, rather than cutting across them. The ENP offers at least a partial model of 'bilateralism-within-regionalism', which could be useful within the broader Middle East too. The MENA region is changing; US policy in the region is changing too. If the EU fails to move with these changes, instead sticking fast to its own idiosyncratic institutional structures, this head-in-the-sand stubbornness will soon consign it to irrelevance.

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THE MEDITERRANEAN: OPPORTUNITIES TO DEVELOP EU-GCC RELATIONS?

ROME, 10-11 DECEMBER 2009

Hotel Ponte Sisto
Via dei Pettinari, 64

PAPER

by

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Energy in the Mediterranean and the Gulf

- Opportunities for Synergies -

Dr Naji Abi-Aad, Qatar Petroleum*

The Mediterranean is expected to play an increasingly important role in global energy flows in the coming decades. European oil imports from Russia, Central Asia and North Africa are expected to increase in the context of an overall stagnation of European oil consumption. This might mean less but still considerable volumes of oil from the Gulf would come into Europe.

For natural gas, Europe's desire to diversify from what is perceived as an excessive dependence on Russia would play in the hands of Gulf exporters of liquefied natural gas (LNG), among others, at a time when supplies from the North African coasts are expected to be stable, if not declining. Prospective pipelines linking the Gulf to Europe would notably strengthen their gas ties.

Important potential synergies between Europe and the Gulf exist in the development of renewable energy sources, especially solar and wind energies, and in investment required to meet domestic electricity demand, which is growing very rapidly in every Gulf country. Several innovative technologies for power generation have been sought by Gulf States, including coal and nuclear energy, with the aim of leaving oil for export and the scarce natural gas for petrochemical feedstock use.

Crude Oil & Refined Products

Most projections about oil supplies over the next two decades suggest the role of the Organisation of Petroleum Exporting Countries (OPEC) to increase, and specifically that of the Gulf suppliers, which includes the six member countries of the Gulf Cooperation Council (GCC), namely Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates (UAE).

However, considerable disparities are found in the details, regarding the speed and extent at which increasing supplies from the Gulf will be needed or observed. In fact, future oil supply and export from the region will be shaped not only by global oil demand and the strategies of consuming countries, but will also — and perhaps more significantly — be affected by the future oil supplies from the other sources, including Russia, Central Asia, West Africa, and other non-Gulf OPEC countries such as Nigeria, Venezuela, Libya, and Algeria.

Many other key factors should be affecting the prospects for oil supply and export from the Gulf. Those include proven reserves, undiscovered resources, supply costs, oil prices, government policies, industrial development, and especially the level of investment realised not only for expanding production capacity and export infrastructure, but also for maintaining the existing ones.

The huge oil reserve base in the Gulf is a well-known fact of the global petroleum industry. According to the latest issue of the BP Statistical Review of World Energy, the six GCC countries contain huge proven reserves of crude oil, estimated in early 2009 at around 498 billion barrels, representing about 40 per cent of the world's total (while the region's population represents less than 1 per cent of the global one). The average reserves-to-production ratio for Gulf oil, a measure often used as an indication for near-term supply capability, was estimated in the year 2008 at 73 years, compared to a global average of 42 years.

When evaluating the undiscovered petroleum resources in the region, the United States Geological Survey (USGS), the only public source estimating those resources around the world, argued through its latest figures

* The views expressed in this paper are those of the author and do not represent those of Qatar Petroleum, where he is currently working

released in the year 2000 that the GCC has an undiscovered crude potential of some 162 billion barrels (mean), or around 17 per cent of the world's total.

Oil development and production is a relatively cheap undertaking in the Gulf, which has the lowest average production cost in the world. Likewise, the investment required to raise oil production capacity in the region is much less than in many other parts of the world, although it has been growing steadily in recent years, necessitating considerable amounts of capital.

Moreover, every GCC country enjoys free and unrestricted access to the open sea, with an extremely well-elaborated export pipeline infrastructure, linking oil and gas fields and reservoirs with petroleum marine export terminals and loading platforms.

In contrast to those positive factors, the GCC share in global oil production (less than 23 per cent in 2008) is much lower than its share in world total reserves. Oil reserves in the Gulf have been underexploited when compared to those in North America, Europe, and Russia. This state of affairs shows no sign of changing, although there is little doubt that the existing reserve base in the Gulf would allow for much higher production levels.

However, basing an extrapolation of future Gulf production and exports on reserves, geology, and production potential is fundamentally wrong. Basing the same on production trends in recent years is equally incorrect. That was recently shown during the 2003 war in Iraq, when Saudi Arabia alone increased its production by close to 2.5 million barrels per day — equal to the total production level that the Caspian region is now yielding, after 20 years of lengthy negotiations and billions of dollars of investment.

When looking at the oil markets of the European Union (EU), GCC producers face strong competition there from Russia, Central Asia, and Iraq, and especially from Mediterranean riparian producers, notably Libya and Algeria. In fact, the rapid development of North African petroleum resources following the recent political détente with Tripoli has helped alleviating the competitive weakness of Europe in securing adequate imported oil (and gas) supplies.

European oil imports from Russia, Central Asia and North Africa are thus expected to increase in the context of an overall stagnation of European oil consumption. This may mean that less oil from the Gulf would come into Europe. Gulf oil would rather be primarily directed to the emerging economies of Asia, whose demand is to rapidly increase, and to North America.

Thus, the EU-GCC oil exchanges are clearly influenced by three main factors:

• The fact that oil reserves in the GCC are exploited less intensely than in other oil producing countries, as manifested by the fact that the Gulf share in global production is much lower than that of its reserves (23 per cent as opposed to 40 per cent);

• The fact that the EU is the preferred destination for oil from Russia, Central Asia, and North Africa, primarily for logistical considerations, while Gulf oil is mostly directed to Asia and North America; and

• The fact that the EU is diversifying its primary sources of energy, relying relatively less on oil and more on natural gas and coal.

These factors have limited the direct European dependence on Gulf oil exports. But considering that the market for oil is global, the EU will still be reliant on GCC oil production and exports, although indirectly, because the latter are essential to the orderly function of the global oil market, and because the Gulf producers are the marginal suppliers of world oil.

On the scene of refined products, the push by many GCC countries to build new oil refineries in the region has been hit by delays, surging costs and gloomy demand prospects. Gulf States have had to go back to the drawing board on a number of projects, and revamp planned scopes. But so far none of the many new refineries planned for the area has been scrapped. In fact, despite fears that the recent economic and financial crisis and the ensuing recession is eroding demand growth, GCC national oil companies are continuing with most of their downstream expansion plans.

There is a need to better understand which portion of that increase in Gulf refining capacity has been dedicated for export, and to which destinations. The GCC has maybe to synchronize that refining export capacity with the expected needs in consuming countries, including the European markets. This issue may be of significant interest and an area for discussion and coordination between the EU and the GCC.

Trade of crude oil and refined products between the GCC and the EU will continue to play a decisive importance on the volume and direction of oil flows to and through the Mediterranean. GCC oil flows beyond Europe (especially to North America) are also impacting the transit role of the Mediterranean. Whether it is in the best interest of the riparian countries to see the Mediterranean being used for long-haul oil transit to serve the North American market remains an open question.

In view of the several accidents involving maritime hydrocarbon transportation and the particular vulnerability of the Mediterranean Sea, the already heavy maritime oil transport across the sea and its straits, expected to further increase in the future, is causing serious concerns. Preoccupations are routinely expressed concerning the vulnerability of passage through the so-called "dire straits", which in turn has led to several proposals for by-passes and alternative logistical arrangements, in particular for reducing the oil flows through the Strait of Hormuz.

An option, if it is shown to be technically, economically and environmentally feasible, would be to consider reducing the maritime oil transportation in the Mediterranean by developing pipelines. In fact, the EU has already expressed the desire to reduce dependence on tanker transport of oil across the Mediterranean, and favour instead more reliance on pipelines.

Nevertheless, all those export outlets and supply and logistic chains remain vulnerable and highly exposed. That fact attracted increasing attention, especially when adding to it the actual or perceived geopolitical factors and security threats. All that could lead to a cooperative EU-Gulf approach towards building strategic stocks.
In the Gulf oil producing countries, the potential for carbon capture and sequestration (CCS) is very significant. CCS is appealing to the GCC hydrocarbon producers where existing petroleum fields offer an excellent opportunity for carbon storage, with the added advantage that the injection of carbon dioxide (CO2) is also a form of enhanced oil recovery (EOR), used in the ageing oil fields in the region.

The impact of CCS on the establishment of energy intensive industries, favouring proximity to fields that facilitate storage, is very important, especially in the process of industrial development. Interest in CCS also means that the GCC countries should have a strong awareness about the market for carbon rights, sponsored by the EU, and in the recognition of CCS as an accepted form of emission reduction, generating tradable Certified Emission Rights (CERs) under the Clean Development Mechanism (CDM) of the United Nations.

GCC producers can well collaborate with the EU for developing CCS related actions, such as promoting projects for CO2 infrastructure development at country level, or building up CO2 storage sites and pipelines for multi-user access. The potential for CDM projects in the GCC countries could well be another item under the umbrella of EU-Gulf synergies.

Natural Gas

The Gulf region enjoys a large gas resource base, especially when compared to its current and foreseeable level of demand. While the area historically played a marginal role in the world gas market (mostly in the South-East Asian markets), its growing potential as a major international gas region has been increasingly recognised.

The GCC holds huge proven natural gas reserves, estimated at the beginning of 2009 by BP Statistical Review of World Energy at an aggregate figure of 43,120 billion cubic metres. This accounts for around 23 per cent of the world's total. A major portion of those reserves is concentrated in a small number of giant fields, a fact making the development of those structures easier and cheaper. Nevertheless, the size of proven gas reserves widely differs from one GCC country to another, from a low of 90 billion cubic metres in Bahrain to a large of 25,460 billion cubic metres in Qatar, mostly located in its North Field, the world's largest non-associated gas field.

In the GCC, the average reserves-to-production ratio for natural gas is extremely high, estimated at around 169 years in 2008, when compared to the global average of 60 years. It is also interesting to note that the total proven reserves of natural gas in the region, as estimated in early 2009, are alone sufficient, even if no further discoveries were made, to satisfy current worldwide gas demand for more than 14 years.

However, most of the proven gas reserves in the GCC — with the exception of those found in Qatar — are in associated form, found and eventually produced together with oil. Natural gas output in these countries is thus closely linked to that of crude oil. That leaves, in the GCC, only Qatar with a huge scope for expanding gas output and export.

When looking at the potential resources in the Gulf, most of the analysts working on the region believe that enormous resources of natural gas are still to be discovered there, considering that the emphasis was historically on oil exploration, and that natural gas reserves in the area have been underestimated to a large extent. According to the USGS in the year 2000, the total undiscovered gas resources in the six GCC countries amount to around 23,309 billion cubic metres (mean), or nearly 16 per cent of the world's total.

Considering the enormous potential of natural gas in the Gulf, little has been done so far to exploit its reserves. Gas production in the GCC is still of minor importance when compared to the region's reserves and output potential. Gas production in the area represented just 8.3 per cent of the world's total in 2008, when the region produced only 0.6 per cent of its gas reserves, compared to the world's average of 1.7 per cent. Therefore, the growth of the gas industry in the Gulf can be considered to be still in its early stages.

The growing domestic gas consumption in the GCC has partly driven the gas development there; only exports to the major consuming zones will allow the region's vast reserves to be fully utilised and valorised. Moreover, growing local gas demand in the area will in no way hinder the capacity of the Gulf to export increasing gas volumes into international markets.

In 2008, the GCC had still a marginal share (around 9.2 per cent) in the international gas trade, mainly comprising LNG exports from Qatar, Oman and Abu Dhabi to European and especially Asian markets, and piped volumes from Qatar to the UAE and Oman (through the Dolphin pipeline). The share of the GCC in the international LNG trade was around 26 per cent, with Qatar accounting for nearly 68 per cent of the gas exported from the region.

The GCC, and especially Qatar, is keen to play a key and growing role on regional and international gas markets in the near future. Indeed, that country has the strong will, supported by vigorous and dynamic policies aimed at expanding its natural gas exports, while being blessed by a low cost of production and a strategic geographical location in relative proximity to the major markets of Europe and Asia. Consequently,

Qatar, already the world's largest LNG exporter, will see its annual LNG exports increasing from around 40 million tons in 2008 to some 77 million tons by late 2010.
In the other GCC LNG producers, namely Abu Dhabi and Oman, the lack of gas feedstock, due to modest non-associated gas reserves and growing domestic demand, has led to the underutilisation of their gas liquefaction plants, a situation that is not likely to change in the future.

Although there is no doubt that the GCC will play a growing and crucial role in regional and international gas markets, many challenges have to be faced by the its gas exporters, especially the medium and long-term impacts of the recent global economic and financial crisis on gas demand and prices.

In addition, natural gas has been suffering from the emergence of competitive energy sources, such as unconventional gas, the development of which is rapidly spreading from its strong base in the United States to Europe (Germany), Asia (China and India) and Australia, and from the development of clean coal technologies that would enhance the exploitation of the huge coal reserves found all around the world.

Meanwhile, the Gulf has been facing a growing competition from other LNG developers, especially from within Asia, its main LNG market niche. That rivalry is likely to become intense, with the aim to secure the earliest possible place in the Asian gas market, and with projects trying to avoid being delayed, having also in mind that long distance gas pipelines would eventually compete with LNG.

Facing all those actual and potential problems, the target for Gulf expansion has been oriented into old/new opportunities in Asia, which the Gulf is confident will remain for decades from now its main gas export niche, especially if only part of the energy demand resulted from the growing economic activities in the region was fulfilled by natural gas. Gulf gas producers have also focused on European markets.

There, in the EU, medium and long-term energy outlook show an increase in natural gas demand, although that growth would be much lower than that seen in the region during the past three decades. Some analysts do even believe that the growth in the European gas demand is far from certain. In fact, the increase in the power demand for gas, which is the main driving force for the steep rise in European gas consumption, could well be challenged by the call on coal, especially if an environment-friendly coal technology became widely available, and if the gas prices stayed into their relative high levels, by following those of oil.

Having said that, there is little doubt that the main existing external gas suppliers to the EU countries, namely Russia, Norway and Algeria, will continue to meet most of the incremental European demand, and to remain the main pillars of natural gas supply to the region. Indeed, those gas exporters are already tied to the European market by transportation infrastructure, notably pipelines, which are currently in the process of being expanded. They therefore enjoy a very significant advantage for satisfying additional European demand. It is in fact much easier to increase the capacity of an existing pipeline than to build one from scratch. And it is much easier for an established supplier that already has sales in a market to decide to build an entirely new pipeline, than it is for a new supplier that has no market share at all to build its first pipeline. New gas suppliers will then have substantial barriers to overcome before acquiring weight in the EU gas market.

While taking those facts into consideration, the EU is well decided to diversify its sources of gas supply. A recent communication by the EC on the security of gas supply underscores the political will that exists to enhance the prospects for gas trade with new suppliers, including the Gulf countries. In that communication, the European Commission clearly declared that the EU has a common interest in continuing and deepening the development of strategic relations with external suppliers and transit countries in order to mitigate both political and technical risks associated with future supplies to the EU and to ensure multiple import pipelines supplying Europe.

In fact, diversifying the LNG supply sources and connecting other producers to the European gas network have to be priority objectives, because if things were left to the market, the outcome is almost certain to be simply an increasing reliance on consolidated suppliers in the short-and even long-term. However, the end result would be a tight oligopoly, and consequently relatively higher prices, diminishing to almost nil the positive impacts of the under-established competitive gas market in the EU. Europe would become even more dependent on barely three countries.

New and prospective gas exporters to Europe particularly include the Gulf producers, especially Qatar, but also the Central Asian countries, from which several pipeline projects (such as Nabucco) have recently been considered. Other suppliers clearly comprise Mediterranean producers, such as Libya and Egypt.

Libya, which is already linked to the European gas network through the Green Stream pipeline to Italy, could see its gas exports growing in the future if additional gas reserves were found and developed in the country. That would also lead to increased LNG exports from its liquefaction plant.

In Egypt, where two liquefaction plants are already supplying European markets with LNG, and from where the Arab Gas Pipeline (AGP) originates to supply the East Mediterranean Arab countries (Jordan, Syria and Lebanon), serious doubts have been raised about the medium- and long-term gas export capabilities of the country.

In fact, Egyptian gas reserves are relatively modest compared to the country's gas export plans and its rapidly growing domestic needs, with the government highly encouraging the use of natural gas in substitution of petroleum products in almost every economic sector. That recently led Cairo to prioritise the allocation of natural gas for domestic use and industry against exports by imposing a moratorium in mid-2008 (for an initial two-year period) on new gas export deals. This situation would only change if major new gas reserves were discovered there.

Back to the Gulf, and while increasing its LNG exports to Europe may well contribute to the diversification of EU gas supplies, a more competitive European gas market requires the establishment of physical pipeline links with the GCC, either directly or through connections with the various existing and planned gas pipelines around the Mediterranean, such as the AGP and Nabucco. Indeed, it is extremely important for the holders of the Gulf large gas reserves to build strong physical links with one of the main markets for natural gas in the world.

A salient feature of all pipeline projects from the Gulf to Europe is that they must first land in Turkey. Turkey is also the essential bridge for many gas export schemes from other countries or regions, which are ultimately aiming at reaching the EU market. Turkey is — in and of itself — a rapidly growing and important gas market.
With respect to LNG transit, it is important to emphasise the central role of Egypt and its Suez Canal, which has to be transited by every Gulf LNG carrier to Europe. If Gulf LNG directed to the United States would also transit the Mediterranean, LNG shipments of 40-60 billion cubic metres/year across the Suez Canal and the Mediterranean could easily be envisaged for 2020. Those volumes could eventually reach 100-150 billion cubic metres/year by 2030.

Power & Water

Many GCC countries are still at a stage of development where rapid GDP growth translates into large increases in the demand for electricity and desalinated water. As economic development proceeds, increased urbanization and industrial expansion will lead to even higher demand for those vital products, estimated to grow at an annual average rate of 7 per cent over the next 15 years.

As a result, the capacity of power generation and water generation in the region is expected to more than double within the next 12 to 15 years. The additional power generation capacity for the period 2007-2011 alone, some 14 gegawatts (GW) above the current estimated level of 65 GW, translates into a 5-year cumulative investment of about US$25 billion. Over the next decade, Saudi Arabia only would invest around

US$80 billion for expanding its power generation and transmission sector. All that would widely open the door for opportunities for EU involvement in the Gulf power investment, in capital terms, as Independent Power Producers (IPPs) or through other forms, or by transferring the latest power technologies, not only for electricity generation but also for power transmission and interconnection.

One of the power generation technologies sought by the countries of the Gulf is the nuclear energy. By looking at ways for establishing a nuclear component to their power generation fleet, GCC countries aim at leaving oil for export and natural gas (which is in deficit in many countries there) for petrochemical feedstock use.

In the field of nuclear energy, Europe is obviously a potential technological partner. The EU has significant competencies in the nuclear field, directly derived from the EURATOM treaty. Thus, nuclear energy offers an evident and important, if delicate, area for cooperation between the EU and the Gulf, not only for generating power generation, but also for desalinating water.

In fact, according to the World Nuclear Association's website, small and medium sized nuclear reactors are also suitable for water desalination, through the use of low-pressure steam from the turbine and hot sea water feed from the final cooling system.

Clean energy technologies, especially those related to the economic and efficient use of coal in power generation and water desalination would constitute another area of synergy between the Gulf and the EU where many countries have been using coal for centuries and are now developing cleaner coal technologies. In fact, with some countries in the Gulf experiencing constraints in gas supply, there has been a tendency to think of coal as an alternative fuel for firing their new power plants. This is especially true for Oman, and to a lesser extent for Abu Dhabi.

In the field of power transmission and interconnection, the benefits of interconnecting national electricity networks have been well valued in the GCC, and as a result a regional grid is in the process of being established. However, the limited surplus of generation capacity currently available and the coincidence of peaks in member countries will make it difficult to fully exploit the benefits of a GCC power grid.

Nevertheless, power interconnections beyond the GCC itself, with other Middle Eastern and North African countries, are envisaged, thus potentially establishing a continuum of interconnection from the Gulf to Europe through the Mediterranean electricity ring. Together with the improved ability to transmit electricity over longer distances, conditions would be created under which centrally located generation capacities may serve alternative markets situated all-around, exploiting hourly or seasonal differences in peak load demand. In that field of power transmission and interconnection, opportunities for synergies between the GCC and the EU surely exist.

Renewable Energy Sources (RES)

There is a fast growing awareness of the potential of renewable energy sources (RES) in the Gulf, especially solar and wind energies, and consequently very considerable prospective exits for technological, industrial and policy cooperation with the EU.

GCC countries have studied and developed interesting activities regarding the development and promotion of RES. Saudi Arabia has been working on a plan to be a main centre for solar energy research and to subsequently become a major megawatt exporter. Masdar City, the US$15-billion future energy initiative in Abu Dhabi, where the headquarters of the UN International Renewable Energy Agency (IRENA) are now located, is to be the world's first carbon-neutral, waste-free, car-free city that will depend completely on renewable energy and re-used water. Other related activities in the Gulf are mostly research or pilot programmes, such as the use of solar energy for desalinating water, the development of advanced photovoltaic systems, the utilisation of wind power for pumping water and generating electricity, and the establishment of RES maps.

The use and development of RES, based on the specific potential of the GCC (in particular solar and wind energies), could make a significant contribution to environmental protection, on regional and global level, and would indirectly help in guaranteeing oil and gas supplies from the region. At the same time, the GCC countries have the opportunity, through RES applications, to support the development of many of their remote towns, villages and settlements.

For those purposes, the GCC could well need to introduce and develop instruments for the growth and expansion of RES in its member countries. The EU has well developed such instruments, which are either price-based mechanisms (feed-in tariff, fiscal incentives and investment grants), or quantity-based mechanisms (quota/time gain compensation (TGC) and tender schemes). Cooperation between the GCC and the EU in that field could therefore be useful and valuable for both regions.

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THE MEDITERRANEAN: OPPORTUNITIES TO DEVELOP EU-GCC RELATIONS?

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Hotel Ponte Sisto
Via dei Pettinari, 64

PAPER

by

BÉNÉDICT DE SAINT-LAURENT, ASSISTED BY PIERRE HENRY & SAMIR ABDELKRIM
ANIMA, MARSEILLE

Investment from the GCC and development in the Mediterranean.
THE OUTLOOK FOR EU-GCC FINANCIAL AND ECONOMIC COOPERATION IN THE MEDITERRANEAN

Bénédict de Saint-Laurent, assisted by Pierre Henry & Samir Abdelkrim, ANIMA

The Gulf and the Mediterranean: the beginning of an affair?
During the last decade, Gulf investors have become a major player in the Mediterranean, sometimes surpassing Europe. Since the inception of the ANIMA observatory (January 2003), they have invested some 70 bn Euro in almost 700 projects (a ratio close to €100m per project, a rather big ticket), mostly in Mashreq and in Maghreb. They had announced even more (€160 bn), but this was partly communication and, of course, the crisis has reduced some ambitions. The acceleration has been recent (2006 and 2007), mainly thanks to the Emirates and somehow linked to a real estate/tourism bubble.

This paper tries to answer a set of questions:
- Is the trend of Gulf involvement in the Mediterranean economies sustainable?
- What are the specifics of these investments? Do they differ from projects originating in Europe or in the USA? What sort of value do they bring to the region and the countries' economy?
- Could a triangular (Mediterranean-Gulf-Europe) co-operation be envisaged, as a complement to the rather modest interest of Europe for its Southern and Eastern neighbours? How could a real partnership be developed, based on mutual interests?

In this paper, the Gulf is defined as the Gulf Cooperation Council (GCC) countries (Bahrain, Emirates, Kuwait, Oman, Qatar, Saudi Arabia), when *MED countries* (or MED-10) are Algeria, Egypt, Israel, Jordan, Lebanon, Morocco, Palestinian Authority, Syria, Tunisia and Turkey. Libya is sometimes added to this list (MED-11), as well as Cyprus and Malta for 2003 and 2004 (MED-13).

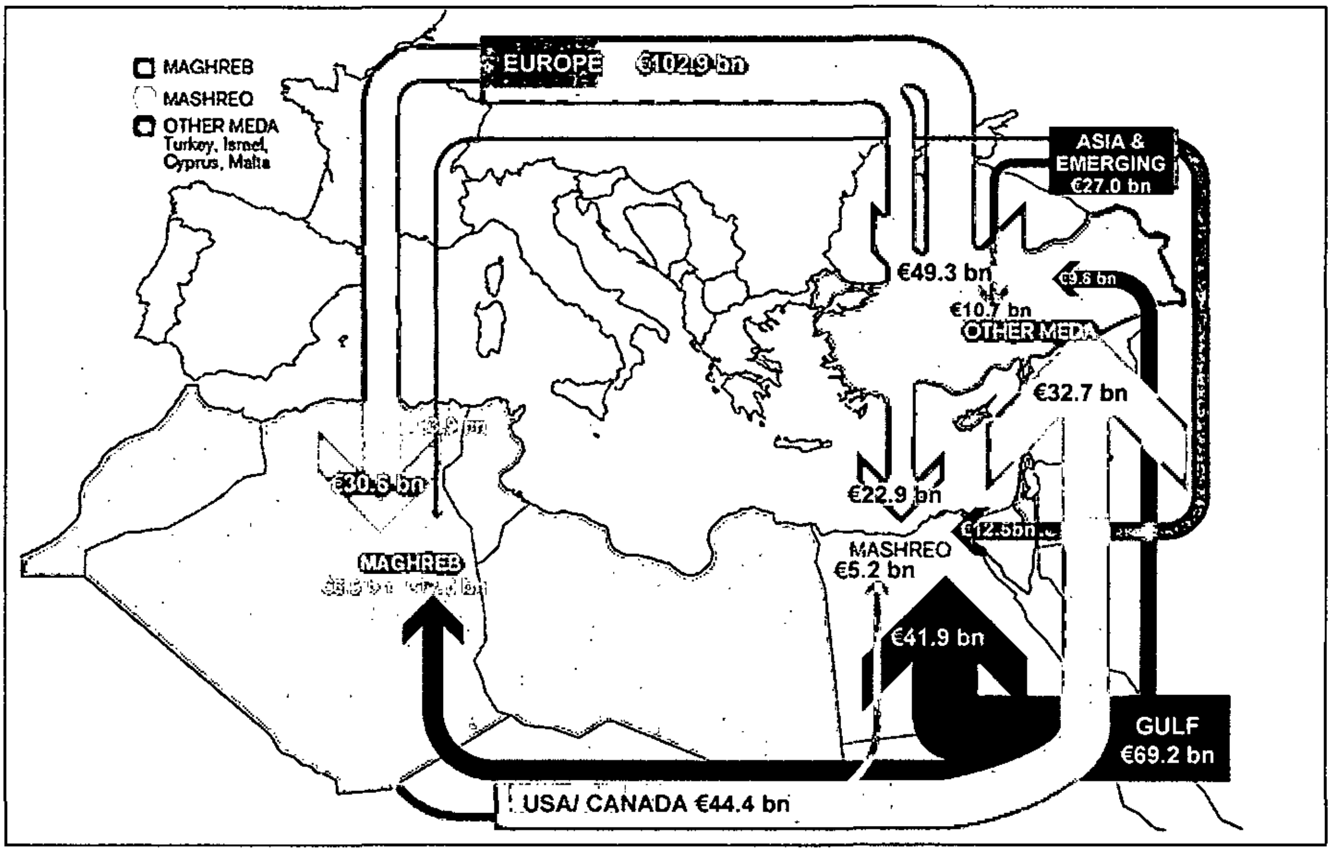
Global picture of FDI in MED countries
Four major players are involved in the FDI (foreign direct investment) business towards MED countries: Europe, the former colonial power and traditional investor; North-America, interested in resources and main sponsor of Israel; the Gulf, concerned in terms of Arab brotherhood and also looking for geographical/profitable expansion; and the MED countries themselves, poorly integrated, but developing some in-roads for industrial networking (see for instance the projects of Orascom of Egypt in construction or telecoms and the strategy of Turkish firms in Mashreq).
Once relatively neglected at world level in the early 2000s (less than 1% of global FDI inflows when they represent 4% of population), the MED countries have recovered a more significant attractiveness in the 2004-2008 period (around €40bn in FDI per year, or 3 to 4% of the world market). Two countries have accounted for most of this recovery, Turkey, a new EU candidate and Egypt, benefiting from strong reforms since 2004. However, the whole region is on an upward trend, for external reasons – proximity with Europe at a time of high energy costs and the search for lower labour costs – and internal reasons –continued growth since 2000, pressure of domestic demand, full conversion to market economy and business realism (e. g. Syria), clever public investment programmes (Tanger-Med, e-government in Jordan, Tunisian technopoles etc.). The smaller countries (Jordan, Lebanon, Tunisia and, above all, Israel) have relatively better FDI performances than the larger ones.

The MED region has received around €255bn in FDI in the last 6.5 years (Jan. 2003-Oct. 2009[1]), according to the ANIMA observatory. These figures are similar to the UNCTAD records[2], which represent a different reality

[1] 2009 is counted here as a half-year. This paper is based on data collected until October 2009, but the total might represent 50% only of yearly flows, since numerous projects are identified after a year-end review with peers.

(macro-economic flows registered by the central banks, when ANIMA collects all the announcements made by companies). The main beneficiaries are, as was already mentioned, "other MEDA" (Israel/Turkey/Malta/Cyprus), capturing 40% of the flow, Mashreq (34%) and Maghreb (26%).
The geography of these flows, represented in the map below, illustrates the diversity of investment preferences of the principal FDI-issuing regions. Europe invests especially in Turkey, in the Maghreb and in Egypt, the Gulf mainly in Mashreq. The United States concentrates on Israel. These strong affinities are initially the product of geography, the most significant flows being established between the closest blocs (Europe-Maghreb or Europe-Turkey, Gulf-Mashreq). But physical geography can be overcome or reinforced by cultural or historical affinities: privileged business connections of the family and patrimonial capitalism of the Gulf with Jordan, Lebanon, Syria or Egypt, intimate relations between the USA and Israel.

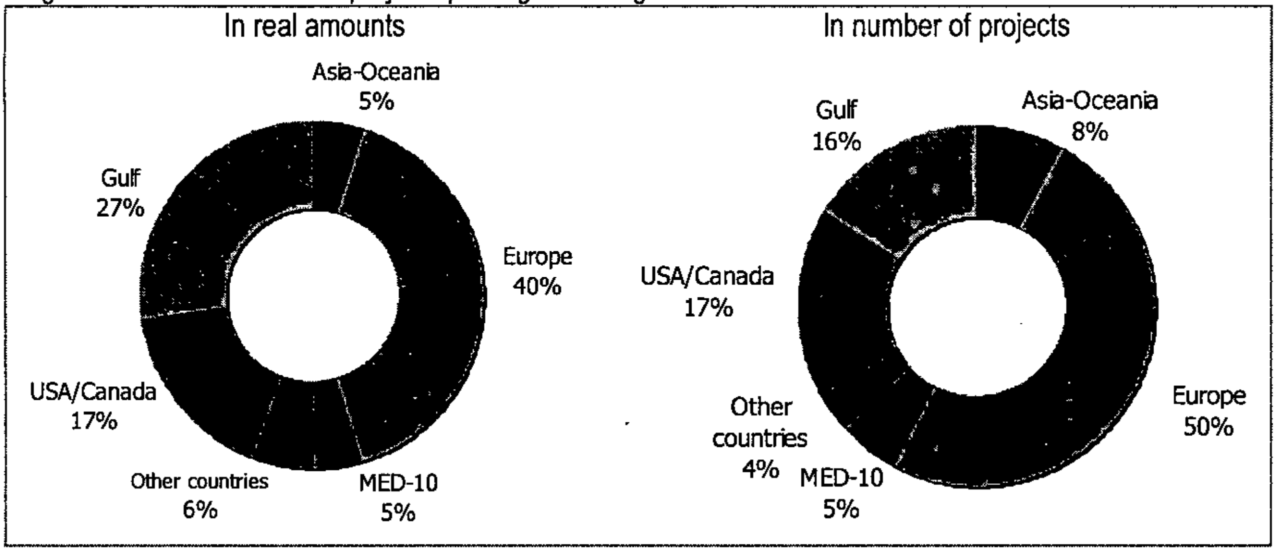
Figure 1. Main FDI inflows into MED countries, per origin and sub-region of destination
Source: ANIMA Observatory, cumulated FDI amounts (real) over 2003-2009, in €bn. IEMed map



Among the 4,222 projects recorded by ANIMA over the 6.5 year period 2003-2009, 681 projects originated in the Gulf (16% in numbers, but 27% in amounts), making this issuer second to Europe in the Mediterranean FDI market (Figure 2).

[2] UNCTAD, World Investment Report, published every year in September. Average of €29.2 bn/year of FDI into Med-10 for 2003-2008, vs. 36.9 for ANIMA, same period.

Figure 2. Distribution of FDI projects per region of origin in real amounts and in numbers



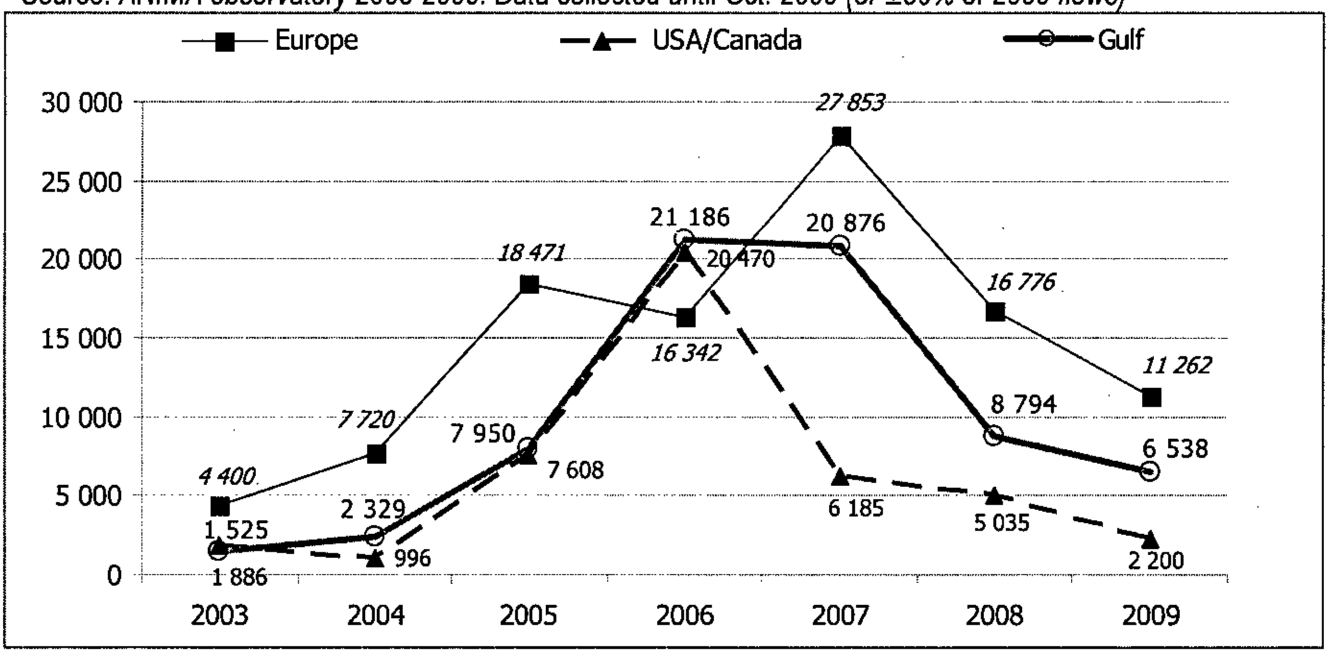
Gulf State and EU investments in the Mediterranean

3.1. A recent Gulf boost, sometimes oversold

Europe and the Gulf dominate foreign investment flows in the Mediterranean, with a different historical background. Europe (and particularly France, which has the leading share of FDI) always had vested interests in the region –remember Rome... For the first time, the investors from the Gulf (GCC) surpassed Europe in 2006 as the main issuers of FDI. With the surge of European investments registered in 2007, and the net decline in North American projects, the Gulf now seems to have joined Europe as a sustainable second investment pillar, together accounting for two-thirds of the FDI inflows registered over 2003-2009.

Figure 3. FDI inflows from main investing regions, real FDI amounts in € millions

Source: ANIMA observatory 2003-2009. Data collected until Oct. 2009 (or ±50% of 2009 flows)



When comparing FDI announcements with actual projects (as empirically measured by ANIMA, considering the likelihood of project implementation, its breakdown into realistic stages and the news updates), it appears that Gulf investments show the biggest differences between gross and real flows (Figure 4). Only 43% of the projects seem deemed to be achieved, vs. 71% for EU projects and 78% for North-American projects. This is partly linked to the sectors in which the Gulf invests (construction), more prone to cancellations.

Figure 4. Cumulated FDI inflows over 2003-2009 (until October) as announced by projects' promoters, ANIMA-MIPO, in € million

Region of origin	Real FDI, €m	% total	Gross FDI, €m	% total	Ratio real/gross
Asia-Oceania	12 496	5%	24 269	6%	51%
Europe	102 928	40%	145 304	34%	71%
MED-10	11 938	5%	20 173	5%	59%
Other countries	14 542	6%	20 251	5%	72%
USA/Canada	44 380	17%	56 612	13%	78%
Gulf	**69 198**	**27%**	**160 346**	**38%**	**43%**
Total	255 482	100%	426 955	100%	60%

Gross FDI: as announced by project promoters (total investment over several years)
Real FDI: as revised by ANIMA, especially for major projects which are generally phased into several stages (only the yearly amount is taken into account)

Not surprisingly, the recent economic history of Mashreq and mainly Maghreb (further from Middle-East base) contains several examples of Gulf projects which have been either postponed or cancelled (Figure 5). The collection of information concerning the difficulties met by these projects and their official status is not easy – but the fact is that sub-contractors and local staff are not paid or are laid-off. Difficult discussions often take place with Governments.

Figure 5. Examples of postponed or cancelled Gulf projects (source ANIMA observatory)

- Algeria. **Emaar Properties** (UAE). Ambitious tourism project in Colonel Abbes, west of Algiers, to be developed on an area of 109 hectares (€2.9bn). Project cancelled due to difficulties in mobilising land.
- Algeria. **Mubadala Development + Dubal** (UAE). JV formed by Mubadala Development and Dubal to own 70% in a US$ 5 billion aluminium smelter project, with 30% for Sonatrach-Sonelgaz. Project stalled (increase in construction costs up to $7bn, Sonatrach request to have at least 49% of the project share etc.).
- Algeria. **Snasco** (Saudi Arabia). Cité de la Mer in Oran (Algeria), a US$500m project now questioned by local authorities (10 ha of prime land on the seashore)
- Jordan. **National Industries Group/Noor** (Kuwait). A BOT led by a Kuwait/Spanish consortium to re-build the Amman Zaral railway (€ 228m). Concession cancelled and project postponed due to financial difficulties.
- Libya. **Emaar Properties** (UAE) Zowara-Abu Kemash Development Zone a free zone and tourism mega-project close to Tunisia, delayed since 2007 "as details are worked out".
- Morocco. **Sama Dubai** (UAE). US$ 2bn Amwaj project in the Bouregreg Valley, Rabat. Contract interrupted by the promoter in January 2009 due to lack of funds.
- Morocco. **Dallah al-Baraka** (Saudi Arabia). Taghazout resort near Agadir, one of the major tourism centres to be developed according to Government plans, later sold to Colony Capital (USA) and now totally abandoned (after villages have been moved and landscape modified).
- Tunisia. **Dubai Holding/Sama Dubai** (UAE) Century City and Mediterranean Gate mega project in Tunis' southern lake area, US$ 14 to 25 billion over 15 years. Project postponed for an indefinite period.
- Tunisia. **Gulf Finance House** (Bahrain). US$3 billion Tunis Financial Harbour, supposed to be the Maghreb's first offshore financial centre, announced in 2007. Work has not started so far.

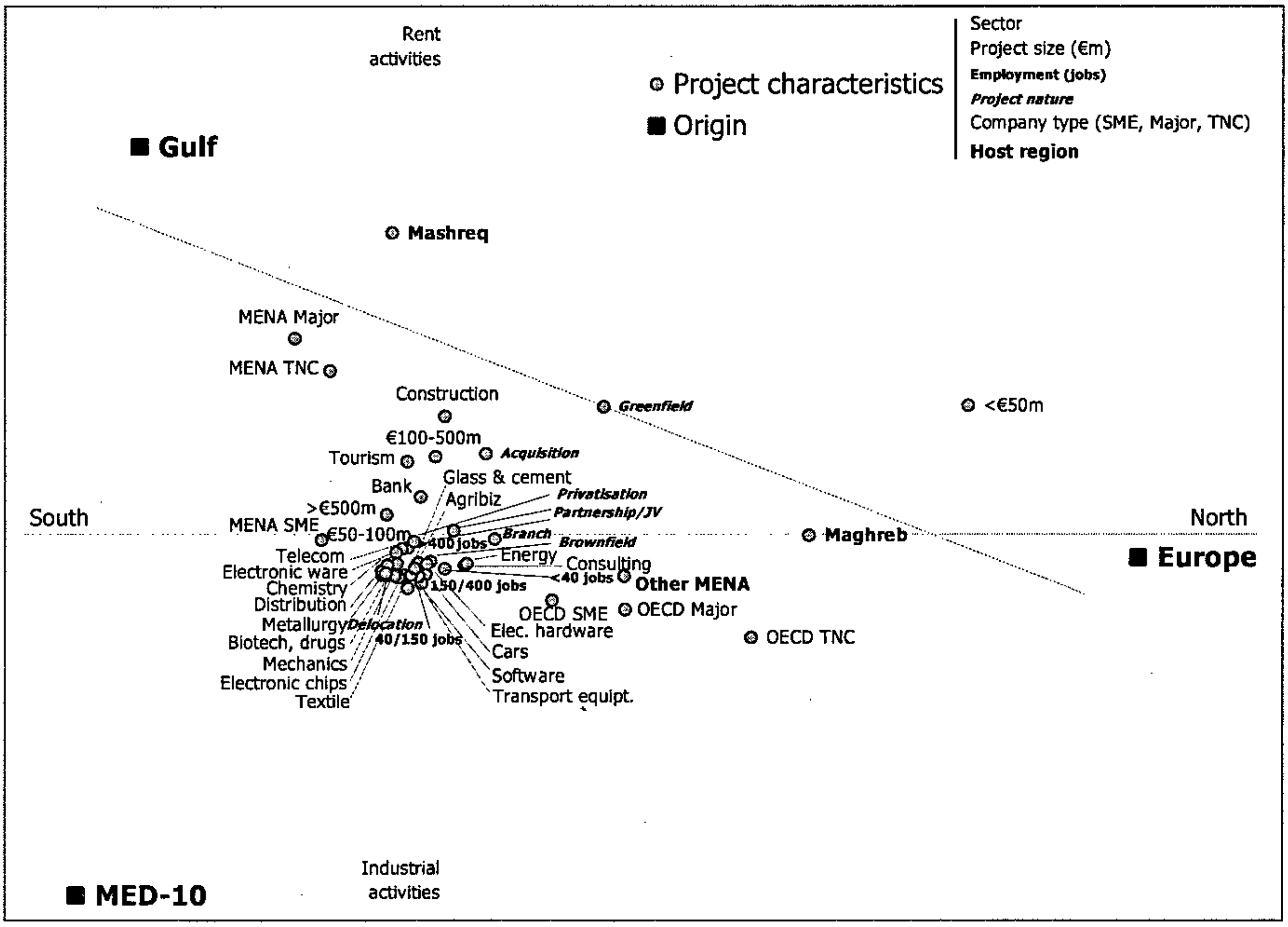
3.2. Comparison of Gulf and EU FDI profiles in the Mediterranean

In order to qualify the Gulf investments, it is useful to compare their characteristics with those of European FDIs.

By using a multivariate analysis, it is possible to present a mapping of the ANIMA FDI base (Figure 6), illustrating the differences in projects issued respectively by the Gulf and Europe (and MED countries themselves). In this mapping, the closer the two items, the more similar their profiles. It is not surprising to discover an almost perfect triangle, where Europe on the right opposes the Gulf and MED countries on the left.

The y axis seems to depict the rent producing activities (construction, tourism, bank, telecom etc.) vs. the industrial activities (cars, textile, electronics, drugs etc.), with a clear attraction of Gulf investors for the first and Europeans for the second.
Similarly, the largest projects (in amount and jobs) are on the Gulf side, whilst the smallest projects are on the European side. The nature of projects is less distinct, but privatisation and acquisition lean towards the Gulf, when branches, greenfields and partnerships are more on the EU side. The positioning of the issuing and receiving regions is spectacular, along the dotted third axis: Mashreq is clearly in the Gulf field, whereas Maghreb belongs to the European area of influence.

Figure 6. Mapping of FDI projects from GCC, MED and Europe into MED countries
(Principal components analysis on 2,991 FDI projects of which 2,078 from Europe, 681 from the Gulf and 232 from MED countries themselves –January 2003 to October 2009, ANIMA observatory. The projects from other origin, America, Asia etc. are not represented)



3.3. Sectoral preferences

As confirmed by Figure 7 below, Gulf direct investments are concentrated on a few sectors which generate economic rents: construction (public works, real estate, transport & utilities) represents 40% of real FDI flows (and above 66% of gross announced), while telecoms represent 15%, banks 11.5% and tourism 10.6%. These four sectors account for 78% of Gulf investments. Energy (more of a European/American obsession) and, in general, industrial sectors are less attractive. European direct investments in MED economies are more balanced.

Figure 7. Sector share of cumulated FDI amounts, Gulf vs. Europe and North America, 2003- October 2009, ANIMA observatory

Sector	Gulf, €m	% Gulf	% EU	% USA/ Canada	Comment
Public works, real estate, transport, utilities	27 964	**40.4%**	7.4%	6.7%	THE major sector for Gulf investors
Telecom & internet operators	10 580	**15.3%**	**15.1%**	1.3%	A strong interest (Oger, Watanya etc.)
Bank, insurance, other financial services	7 981	**11.5%**	**18.6%**	**12.0%**	Numerous creations of JVs and branches
Tourism, catering	7 348	**10.6%**	6.9%	2.1%	Numerous resorts
Energy	4 146	6.0%	**23.2%**	**18.9%**	Gulf not so interested in energy
Chemistry, plasturgy, fertilizers	2 810	4.1%	1.2%	2.7%	Petrochemicals
Glass, cement, minerals, wood, paper	2 363	3.4%	**11.6%**	1.3%	Cement plants
Agro-business	1 722	2.5%	3.4%	3.0%	Some interest in distribution (malls) and agro-business
Distribution	1 644	2.4%	3.6%	1.0%	
Other or not specified	1 536	2.2%	0.8%	1.2%	
Car manufacturers or suppliers	532	0.8%	2.2%	0.5%	Weak Gulf investment in these industrial sectors
Metallurgy & recycling of metals	265	0.4%	1.2%	0.0%	
Textile, clothing, luxury	167	0.2%	0.5%	0.9%	
Drugs	57	0.1%	1.2%	1.6%	
Electric, electronic & medical hardware	25	0.0%	0.8%	6.3%	
Furnishing and houseware	24	0.0%	0.0%	0.0%	
Aeron., naval & railway equipt.	12	0.0%	0.2%	0.1%	
Mechanics and machinery	7	0.0%	0.4%	7.4%	
Data processing & software	10	0.0%	0.8%	**16.8%**	Very weak Gulf involvement in these hi-tech sectors – Huge US FDIs in Israel
Consulting & services to comp.	5	0.0%	0.3%	0.2%	
Biotechnologies		0.0%	0.2%	0.8%	
Electronic components		0.0%	0.1%	**15.2%**	
Electronic ware		0.0%	0.4%	0.0%	
	69 198	100.0%	100.0%	100.0%	

3.4. Greenfield projects often oversized

The size of Gulf projects in the Mediterranean is twice that of EU projects (€102m vs. €49m, ANIMA average 2003-2009). When considering the gross amount (announced at project launch), the difference is even bigger (€235m vs. €70m). The pharaonic dimension of some of these projects can be measured in Figure 8 below (top 20 projects, some already stopped). However, it would be foolhardy to consider Gulf investors only as conquerors with deep pockets, expecting high returns in the short term, contributing little to a sustainable MED growth and on the contrary fuelling property speculation. Several Gulf projects carry a remarkable design, add a real value to MED economies and are sustainable (e.g. in logistics).

The majority of the Gulf projects detected are launched by large private or public holdings[3].

[3] However, the detection of projects is more difficult for the Gulf than for Europe, insofar as the Gulf business environment is less conducive to transparency and publicity. Medium and small projects might therefore go unnoticed by the ANIMA observatory. Gulf SMEs could therefore be under-represented.

Globally, the 681 Gulf-originated projects have created 121,000 announced jobs (direct jobs), or 178 jobs per project, against 93 for European projects. The sustainability of these jobs is difficult to judge, but it can be assumed that part of the jobs created by Gulf investments might last only the time of the completion of the facilities (real estate projects), while EU projects usually generate more sustainable jobs in services or industry.
Gulf investors express a strong preference for *greenfield* projects (creation of new facilities, 93% in amounts, vs. 73% for Europe and 41% for North-America). *Brownfields* (extension of an existing unit) are ignored by Gulf investors, whereas they represent almost 30% of American projects. The remainder of the *modus operandi* for the Gulf investors goes to JVs/partnerships (6%) and branches (1%).

Figure 8. Top Gulf investments announced in the MED countries (gross amounts)

- Egypt, 2006 (DP World, United Arab Emirates): €7bn. Dubai Ports World intends to invest in several projects in Egypt, including a new seaport and a container terminal at Eastern Port Said.
- Jordan, 2009 (Al Maabar, United Arab Emirates): €6.8bn. The consortium to build under a BOT the country's biggest real estate project, Marsa Zayed, which implies moving Aqaba port.
- Egypt, 2009 (Barwa Real Estate, Qatar): €6.65bn. The real estate company to develop a mixed-use community project over 8.4 km² in New Cairo.
- Turkey, 2005 (Oger, Saudi Arabia): €5.1bn. Saudi Oger to get 55% of Turk Telekom for US$ 6.55 bn; its Italian partner investing only EUR 137 mln.
- Tunisia, 2008 (Abu Dhabi Investment Authority (ADIA) / Abu Dhabi Investment House (ADIH) + Gulf Finance House, United Arab Emirates): €4.6bn. ADIH to launch in Tunis its Porta Moda real estate project land plots provided by Gulf Finance House.
- Egypt, 2007 (Damac, United Arab Emirates): €4.07bn. The UAE-based promoter to invest EGP 30 billion in a project in New Cairo, the first phase being called Hyde Park.
- Jordan, 2006 (Horizon Development, Lebanon): €4bn. A US$ 5bn mixed-use real estate development in Aqaba on the Red Sea by Horizon Development.
- Tunisia, 2006 (Bukhatir Investment, United Arab Emirates): €4bn. Bukhatir Investment to start the construction of the US$ 5bn Tunis Sports City project, expected to create up to 40,000 new jobs.
- Egypt, 2005 (Emaar Properties, United Arab Emirates): €3.2bn. Dubai property giant plans four-billion-dollar Cairo scheme.
- Turkey, 2005 (Dubai International Properties, United Arab Emirates): €3.2bn. The firm to invest five billion dollars in projects in Istanbul.
- Algeria, 2007 (Emaar Properties, United Arab Emirates): €2.9bn. The developer to invest an ambitious tourism project in Colonel Abbes, west of Algiers, to be developed on an area of 109 ha.
- Syria, 2005 (Emaar Properties, United Arab Emirates): €2.7bn. Emaar launches Damascus Hills for US$ 3.4 billion, which includes luxury flats and a 'Digital City'.
- Egypt, 2006 (Majid Al Futtaim, United Arab Emirates): €2.4bn. After Dubai, Majid al Futtaim launches its Festival City concept in Cairo, a USD 3 bn project.
- Egypt, 2006 (Etisalat, United Arab Emirates): €2.34bn. Emirates telecom Etisalat has won the bid to run Egypt's third mobile network, paying 16.7 billion Egyptian Pounds for the licence.
- Morocco, 2006 (Al Qudra Holding, United Arab Emirates): €2.2bn. Al Qudra announces project investments with Addoha and Somed of more than US$ 2.72bn over the next 10 years.
- Libya, 2009 (Gulf Finance House, Bahraïn): €2.16bn. The promoter to team up with State-owned ESDF (60/40) to launch Energy City Libya in Sabratha, an economic zone for oil and gas firms.
- Tunisia, 2006 (Dubai Holding / Tecom-DIG, United Arab Emirates): €1.78bn. Tecom-Dubai Investment Group acquired 35% of the capital of Tunisie Télécom.
- Egypt, 2007 (Majid Al Futtaim, United Arab Emirates): €1.7bn. The UAE-based group plans to invest £E12.5 billion over the next 5 years for 12 new outlets for retail and commodity distribution.

- Egypt, 2006 (Shaheen, Jordan): €1.6bn. Jordan's Shaheen to develop the US$2 billion 'Serrenia' tourist resort at Sahl Hasheesh through Vantage Real Estate Development.
- Tunisia, 2009 (Qatar Petroleum, Qatar): €1.6bn. The group which won in 2006 the BOO contract for the refinery of Shkira, plans to launch its construction in 2009 and finish in 2011.

3.5. FDI geography: Emirates and Mashreq first

The Emirates are leading the league of Gulf investors into MED countries (52% in amounts, Figure 9), followed by Kuwait and Saudi Arabia (respectively 18% and 17%). Bahrain (7.6%) and Qatar (4.4%) are trailing, whilst Oman is almost absent.

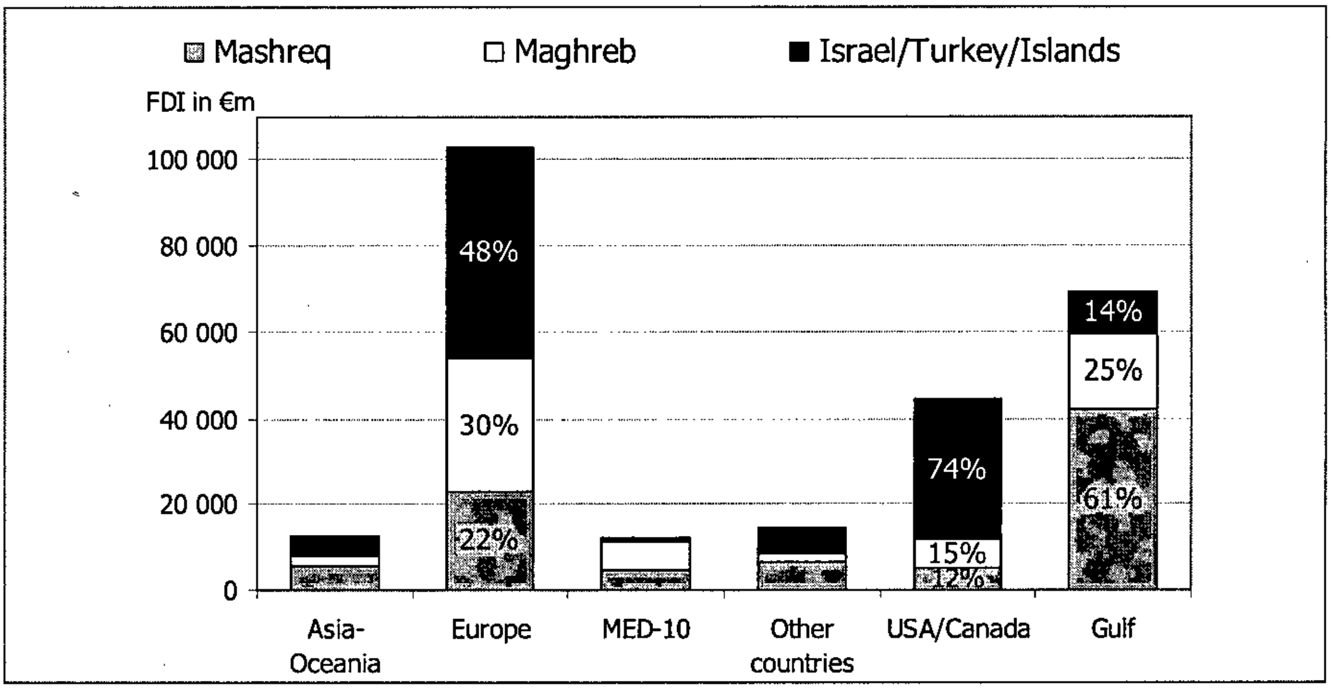
In terms of sub-region, Maghreb is 2.4 times less attractive to the Gulf than Mashreq. The good "Other MEDA" score is linked to telecoms and construction investments in Turkey.

Figure 9. FDI flows per country of origin in the Gulf, in €m, 2003- October 2009 ANIMA observatory

Country of origin	Mashreq	Maghreb	Other MEDA	Total
Bahrain	1 374	1 585	66	3 024
Kuwait	7 794	3 488	1 322	12 604
Oman	7	365		373
Qatar	3 938	1 083	230	5 251
Saudi Arabia	6 292	1 617	3 945	11 854
United Arab Emirates	22 529	9 347	4 216	36 092
Total	41 934	17 485	9 779	69 198

In terms of the sub-region of destination, Figure 10 below sums up the differences between Gulf, European and American portfolios.

Figure 10. Cumulative FDI inflows (real) 2003- October 2009, by region of origin and sub-region of destination), ANIMA observatory



3.6. Big companies ...

About thirty private or public holdings are the source of the bulk of Gulf FDI in the Mediterranean (Figure 11). Some are already global brands, others aspire to such status.

Figure 11. Major investors from GCC in MED countries

Saudi Arabia	Kuwait	Bahrain	UAE	Qatar
▪ Savola ▪ Bin Laden ▪ National Commercial Bank (Alahli) ▪ Al Rajhi ▪ Dallah al Baraka ▪ Nesco ▪ Oger	▪ KIPCO ▪ NBK ▪ Global Investment House ▪ M.A. Kharafi ▪ Zain ▪ National Industries Group (Noor) ▪ Al Aqeelah	▪ Ahli United Bank ▪ Gulf Finance House ▪ Batelco	▪ Aramex ▪ Abraaj Capital ▪ Damac ▪ Dubai Holding ▪ DP World ▪ Majid al Futtaim ▪ Emaar ▪ Etisalat ▪ Dubal	▪ Diar ▪ Qtel

These Gulf champions have changed a great deal. They have attracted CEOs and top executives from the greatest multinational companies (half of the top management of Dubai Ports World is Anglo-Saxon for example) and their personnel is trained with the most modern management sciences. Their investment strategies have been rationalised and are now less related to prestige and more to profitability and long term expansion strategies.
These big companies often ally themselves to big local companies or public-owned structures and generally do not interact much with local SMEs.

Some other Gulf financing vehicles
Private investment by companies is the most frequent investment mode, but this corporate capital injection may be complemented by other instruments: private equity funds (experiencing strong growth in the region), sovereign wealth funds (extremely powerful in the Gulf, despite recent downturns), Sharia-compliant funds, NGOs and charities. The investments made via these instruments are recorded in the ANIMA FDI observatory.

4.1. Private equity funds: growing activism of Gulf in MED markets
A recent ANIMA survey[4] region provides an in-depth monitoring of Private Equity (PE) activity in the MED region, from Morocco to Turkey, from 1990 to 2008. This study shows that Gulf investors account for 22% of the equity committed (Figure 12), while European investors are trailing (only 3%). Again, the Emirates are leading among Gulf countries, followed by Kuwait, Saudi Arabia and Bahrain.

The noteworthy trend is the massive involvement of Gulf funds in the MED region. While there were "only" 45 funds from the Gulf in MedFunds survey (14% of total), they raised US$6.8bn (22% of total equity committed).

The real impact of this offensive is, however, limited by two aspects: 1. only a low share of the amount subscribed is actually invested (around 20% in early 2008 for the US$15bn raised in the 3 previous years, according to the real portfolios detected by ANIMA) and 2. these funds often target MENA (Middle East North Africa) as a whole and do not focus only on the MED countries.

[4] Med Funds Survey: an Overview of Private Equity in the MEDA. Invest in Med /ANIMA April 2008

Figure 12. PE funds by country and region of origin, 1990-2008 (ANIMA MedFunds survey)

Region of origin	Country of origin	Total funds (number and %)		Committed equity (amounts, US$m, & %)	
Euromed		**8**	**3%**	**392**	**1%**
Europe	UK, FR, BE, I, Spain	**13**	**4%**	**914**	**3%**
Gulf countries	Bahrain	6	2%	1 178	4%
	Kuwait	6	2%	1 535	5%
	Saudi Arabia	8	3%	1 252	4%
	UAE	25	8%	2 800	9%
Total Gulf countries		**45**	**14%**	**6 765**	**22%**
MED-11	Algeria	1	0.3%	2	
	Egypt	17	5%	1 955	6%
	Israel	141	44%	11 162	36%
	Jordan	4	1%	432	1%
	Lebanon	4	1%	58	0.2%
	Libya	1	0.3%	20	0.1%
	Morocco	21	7%	1 187	4%
	Tunisia	9	3%	84	0.3%
	Turkey	7	2%	823	3%
Total MED-11		**205**	**64%**	**15 723**	**51%**
North America	USA/Canada	**46**	**14%**	**7 164**	**23%**
Other countries	Australia/ S. Africa	**3**	**1%**	**40**	**0%**
Total		**320**	**100%**	**30 997**	**100%**

Gulf funds tend to be much larger in size than their counterparts in MED (Figure 13), while US and European funds tend to be more balanced in size. 69% of MED funds have raised equity under US$100m, with 49% under US$50m.

The UAE, and especially Dubai, are leaders in both size and number of funds, with major PE firms such as Abraaj Capital (5 funds), Al Mal Capital (3 funds), Shuaa Partners (2 funds), Injazat Capital (2 funds), or Millennium Private Equity (2 funds). Among the Top 10 of Med/ MENA funds, ranging from US$500m to US$2bn in equity raised, 6 come from the Gulf.

In spite of the equity raised, deals seem to rarefy in the region. According to the Financial Times[5], "Middle East funds made 69 investments worth US$3.9bn in 2007 but in 2008 only about $500m worth of deals were made, far less than the capital raised."

Figure 13. Gulf funds by size (ANIMA MedFunds survey)

Out of 45 funds	Country of origin	< $50m	$50 to 100m	$100 to 500m	> $500m	Announced funds	Total
Gulf countries	Bahrain	2%	4%	4%	2%		13%
	Kuwait		2%	7%	2%	2%	13%
	Saudi Arabia	2%		9%	2%	4%	18%
	UAE	11%	7%	22%	4%	11%	56%
Total		**16%**	**13%**	**42%**	**11%**	**18%**	**100%**

4.2. Sovereign Wealth Funds

Gulf-originated investments in MED assets have grown quickly in recent years, to the point where MED economies have often competed for a "fair share of Arab investment". Initially created to stabilise Gulf economies dependent on volatile oil prices, the Sovereign Wealth Funds (SWFs) took riskier positions when the prices were booming (2006-2008). They started looking for investment diversification and higher returns – hence their relatively massive interest in Mashreq and Maghreb (see for instance Figure 14).

[5] "Middle East private equity sees lower returns" by Robin Wigglesworth, the Financial Times, 22/01/2009

Figure 14. Example of potential investment of a SWF in Mashreq

CAIRO, JUNE 1, 2009 - Egyptian Investment Minister, Mahmoud Mohieldin, said that the Abu Dhabi Investment Authority (Adia) is carrying out a study to finance 52 new investment projects in Egypt at a cost of $28 billion. He added that special committees from Adia will visit Egypt in the next two months to proceed with the projects, which will focus mainly on infrastructure, agriculture and housing. Bilateral trade between the two countries increased to $1.4 billion in 2009 compared to $825 million in 2007. The UAE's exports to Egypt account for $900 million while Egypt's exports to the UAE stand at some $504 million. UAE's investments in Egypt have doubled over the past four years and the number of UAE companies operating in Egypt has gone up to 425 from 233. The UAE is the third largest investor in Egypt after the UK and Saudi Arabia. (ANSAmed).

With the global financial crisis and the collapse of global equity markets, most GCC SWFs have registered significant losses. This led them to abandon or reduce several projects and to consider investing at home rather than abroad.

Despite an estimated loss of around 30% during the recent financial crisis, the GCC SWFs still represent a considerable capitalisation (Figure 15). Among the world SWFs (assets valued at US$ 3 811.7 bn in October 2009), the SWFs from GCC represent $1402.8 bn, or 36.8%. They include the 1st, 3rd, 7th and 13th most powerful funds worldwide.

Figure 15. The top 35 Sovereign Wealth Fund as of October 2009 (source SWF Institute)

Country	**Fund Name**	**Assets $bn**	Inception	**Origin**	*Ratio to forex reserves*	*Transparency Index**
UAE - Abu Dhabi	**Abu Dhabi Investment Authority**	**627**	**1976**	**Oil**	**13.9**	**3**
Norway	Government Pension Fund – Global	445	1990	Oil	8.8	10
Saudi Arabia	**SAMA Foreign Holdings**	**431**	**n/a**	**Oil**	**1.1**	**2**
China	SAFE Investment Company	347.1	**	Non-Commodity	0.2	2
China	China Investment Corporation	288.8	2007	Non-Commodity	0.1	6
Singapore	Governt. of Singapore Investment Corporation	247.5	1981	Non-Commodity	1.4	6
Kuwait	**Kuwait Investment Authority**	**202.8**	**1953**	**Oil**	**10.6**	**6**
Russia	National Welfare Fund	178.5	2008	Oil	0.4	5
China	National Social Security Fund	146.5	2000	Non-commodity	nil	5
China /Hong Kong	Hong Kong Monetary Authority Investment	139.7	1993	Non-Commodity	1	8
Singapore	Temasek Holdings	122	1974	Non-Commodity	0.7	10
Libya	*Libyan Investment Auth.*	*65*	*2006*	*Oil*	*0.8*	*2*
Qatar	**Qatar Investment Authority**	**65**	**2003**	**Oil**	**8.6**	**5**
Australia	Australian Future Fund	49.3	2004	Non-Commodity	1.8	9
Algeria	*Revenue Regulation Fund*	*47*	*2000*	*Oil*	*0.3*	*1*
Kazakhstan	Kazakhstan National Fund	38	2000	Oil	1.1	6
Ireland	National Pensions Reserve Fund	30.6	2001	Non-Commodity	36.6	10
Brunei	Brunei Investm. Agency	30	1983	Oil	1	

Country	Fund Name	Assets $bn	Inception	Origin	*Ratio to forex reserves*	*Transparency Index**
France	Strategic Investment Fund	28	2008	Non-Commodity	0.2	New
South Korea	Korea Investment Corporation	27	2005	Non-Commodity	0.1	9
US - Alaska	Alaska Permanent Fund	26.7	1976	Oil	0.5	10
Malaysia	Khazanah Nasional	25	1993	Non-Commodity	0.3	4
Chile	Social and Economic Stabilization Fund	21.8	1985	Copper	0.9	10
UAE - Dubai	**Investment Corporation of Dubai**	**19.6**	**2006**	**Oil**	**1.8**	**4**
UAE - Abu Dhabi	**Mubadala Development Co.**	**14.7**	**2002**	**Oil**	**0.3**	**10**
Bahrain	**Mumtalakat Holding Company**	**14**	**2006**	**Oil**	**2.9**	**8**
UAE - Abu Dhabi	**Int'al Petroleum Investment Co.**	**14**	**1984**	**Oil**	**n/a**	**n/a**
Iran	Oil Stabilisation Fund	13	1999	Oil	0.2	1
Azerbaijan	State Oil Fund	11.9	1999	Oil	0.6	10
US - New Mexico	New Mexico State Investment Office Trust	11.7	1958	Non-Commodity	0.2	9
Canada	Alberta's Heritage Fund	11.1	1976	Oil	0.4	9
Nigeria	Excess Crude Account	9.4	2004	Oil	0.2	1
New Zealand	New Zealand Superannuation Fund	8.6	2003	Non-Commodity	0.8	10
Brazil	Sovereign Fund of Brazil	8.6	2009	Non-commodity	nil	new
Oman	**State General Reserve Fund**	**8.2**	**1980**	**Oil & Gas**	**0.3**	**1**
Total (including 16 smaller funds)		3 811.7				

* *Linaburg-Maduell*

The difference between SWFs and purely private GCC investors lays in their *vision of national interests*, over returns. This is clear for instance for Mubadala or Dubai Investment Corp from the Emirates, which support the Emirates strategy of upstream industry diversification (e g. aluminium, a by-product of UAE cheap energy, or logistics, alongside the world ambitions of Dubai Port World or the Emirates airline).

This is confirmed by the 2009 WIR Report (UNCTAD), according to which the recent oil price boom "led some SWFs to adopt a new approach, using part of their financial surplus to invest in industries that their governments perceive as particularly relevant for the development and diversification of their national economies. This led the more proactive SWFs to seek greater involvement in managing the companies in which they invested. (...) Mubadala, for instance, created in 2002, has over the past few years used its assets to develop a network of international and domestic partnerships in numerous industries, including energy, automotives, aerospace, real estate, health care, technology and infrastructure and services. These are industries that benefit the United Arab Emirates' overall economic development objectives. For example, in acquiring a 5% stake in Ferrari in 2005, it improved the potential for increased tourism in Abu Dhabi in the form of the Ferrari theme park".

4.3. Islamic finance and charities

The ANIMA FDI observatory has noticed a strong growth in Islamic finance in recent years (1 project in 2004, 2 projects in 2005, 15 in 2006, 7 in 2007, 9 in 2008). Among these 34 projects having landed in MED countries, 28 came from the GCC: 11 from Kuwait (€ 802m), 6 from the Emirates (€ 85m), 4 from Qatar

(€ 123m), 4 from Bahrain (€ 629m), 3 from Saudi Arabia (€ 36m). Around half of them are dealing with insurance. 16 are branches, 9 are JVs, 7 are acquisitions and only 2 are greenfields (pure creation of a new business).

Concerning charities, a few investments are generated by non-profit NGOs such as the Aga Khan Fund (3 projects in Syria, especially in microfinance or in the rejuvenation of a prestigious hotel in Old Damascus) or the Al Waleed foundation (projects in Egypt or Lebanon). Some other projects have a patrimonial or environmental dimension (restoration of medinas, museums etc.), but are integrated into wider profitable ventures.

It is obvious that in the Mediterranean, as in the rest of the world, business opportunities and returns remain the primary purpose for investment. While certain investment projects are launched for reasons of political prestige or in the name of Arab solidarity, the business presence of Gulf investors in the Mediterranean, seen as a booming and lucrative market, is fundamentally profit-oriented.

4.4. Gulf investments in the Northern rim (European economies)

Though this is not the focus of this paper, it is worth providing some information on the Gulf FDI strategy towards the Northern Mediterranean rim (Europe).

In Europe, in spite of the temptation to capture part of the oil-based Gulf liquidity to buffer the effects of the credit crunch, Gulf direct investments are carefully considered when originating from Sovereign Wealth Funds governed by potentially political motives. Before the ongoing crisis, Gulf FDI into Europe remained limited though progressing strongly. According to the latest Eurostat figures, Near & Middle Eastern[6] FDI into the EU fell to €5.5 billion in 2007, after the 2006 peak of €10.7 bn, that is respectively 1.5% and 5.3% of total extra-EU inward FDI for the 27 European countries (the USA alone invested €194 bn into the EU in 2007).

MED investments in Europe are probably not very different in volume, but with specific patterns (much smaller projects, more job creations). The direct flow to Europe is unknown, but, according to UNCTAD, the total FDI outflows from Maghreb, Mashreq and Turkey were respectively US$1.85, 8.6 and 12.3 bn in 2006, 2007 and 2008 (plus US$14.9, 7.0 and 7.8 bn for Israel, same years). The average yearly amount invested in Europe may be estimated to around US$5 to 10 bn, or €3.5 to 7 bn.

According to extrapolations based on data provided by the Invest in France European FDI projects observatory[7] (which excludes most M&A and non-productive FDI), Gulf and Med-based investors issued in EU-27 about €12 billion of direct investment in 263 projects, creating more than 11,000 jobs over the period January 2001-March 2008. Two thirds of the extrapolated amounts came from the Gulf, while 79 % of projects and 90% of job creations came from MED investors, mostly from Israel and Turkey. Conversely, European investments in the Gulf may be estimated at around €10 bn per year in the last period[8].

MED trade relationships with GCC and EU

The trade patterns between MED countries and respectively Europe or the Gulf resemble FDI patterns (Figure 16). Globally, the MED countries are tied to the EU, mainly for their exports (almost 50%) and a little less for their imports (40%). The GCC bloc represents only around 3% of both exports and imports, but is significant for Mashreq (exports from Jordan, Lebanon and Syria). North America absorbs a good share of Algerian, Israeli and Jordanian exports.

Maghreb has a strong trade orientation towards Europe, especially Tunisia and Morocco, less for Algeria; the trade relationships with the Gulf are very limited. Mashreq is less dependent on the EU for its trade and relies more on the Gulf (especially Jordan, Egypt, Syria, Lebanon).

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[6] Eurostat, Near & Middle East (AE, AM, AZ, BH, GE, GJ, IL, IR, IQ, JO, KW, LB, OM, QA, SA, SY, YE)

[7] AFII-Vigie observatory, data covering January 2000 to March 2008.

[8] This estimate is fragile (absence of origin-destination matrix) and based on the following assumptions: the total inward FDI into GCC for the last six years amounts to US$199.5 bn, or €25 bn per year (UNCTAD). Based on the EU share in M&As (the biggest investment driving force in this region), or 38%, the EU share of FDIs into GCC would be €9.5 bn per year.

Figure 16. External trade of MED countries, 2007 (source: CASE, UN Comtrade)

	Value 2007 *	Share of external trade				
	US$m	EU-25	GCC	NAFTA	Intra-MED	RoW
EXPORTS						
Algeria	*52 760*	**43.6%**	0.0%	**38.0%**	5.4%	13.0%
Egypt	16 200	**28.8%**	4.1%	7.1%	**12.3%**	47.8%
Israel	54 065	**29.0%**	0.1%	**36.8%**	3.0%	31.1%
Jordan	5 725	3.2%	**17.1%**	**27.8%**	**15.3%**	36.7%
Lebanon	3 574	**17.1%**	**20.5%**	2.8%	**23.4%**	36.2%
Morocco	13 864	**71.9%**	0.8%	3.5%	3.5%	20.3%
Palestine Territory	513	5.2%	1.5%	1.0%	**92.0%**	0.3%
Syria	*9 174*	**43.0%**	**16.3%**	2.6%	**23.8%**	14.2%
Tunisia	15 029	**79.2%**	0.6%	1.2%	9.6%	9.3%
Turkey	107 136	**51.9%**	5.2%	4.4%	7.1%	31.5%
MED countries	278 040	**46.6%**	3.3%	**18.3%**	6.9%	24.9%
IMPORTS						
Algeria	*20 985*	**51.1%**	0.8%	**10.1%**	5.8%	32.2%
Egypt	27 063	**22.3%**	**14.1%**	**10.1%**	5.3%	48.3%
Israel	59 039	**36.2%**	0.0%	**14.7%**	3.1%	45.9%
Jordan	13 511	**24.2%**	**24.9%**	5.2%	**12.3%**	33.4%
Lebanon	12 251	**35.0%**	8.6%	**10.1%**	**13.5%**	32.7%
Morocco	30 149	**51.4%**	6.4%	7.0%	7.4%	27.9%
Palestine Territory	3 141	7.8%	0.2%	1.0%	**78.4%**	12.6%
Syria	*10 862*	**24.4%**	9.9%	2.6%	**12.2%**	50.9%
Tunisia	18 980	**64.3%**	1.2%	4.1%	9.5%	20.9%
Turkey	169 792	**37.4%**	1.9%	5.5%	3.1%	52.1%
MED countries	365 773	**39.9%**	3.2%	7.3%	5.8%	43.8%

* When in *italics*, figures of 2006 or 2005. Palestine has a high intra-MED trade because of transhipment via Israel, but the figures are small.

The intra-MED trade is extremely limited. MED is trailing other economic blocs in this respect, despite a recent positive trend (Figure 17). Although significant efforts have been pursued during the last 5 years to reduce trade barriers among MED countries (bilateral agreements, signature of the Agadir Agreement in 2004 between Tunisia, Morocco, Egypt and Jordan), a lot remains to be done (Figure 18). Trade between the Agadir or Arab Maghreb Union signatory countries remains low. Narrow local markets prevent local SMEs from specialising their industry and thus becoming competitive in regional and international markets.

Figure 17. Intra-bloc exports as a share of total exports among prominent regional integration agreements (source: World Bank, IMF)

Economic bloc	2000	2005	2007
Intra-MED trade	4.5%	6.2%	6.9%
PAFTA (Pan Arab FTA)	7.2%	9.9%	10.6%
ASEAN	23%	25.3%	25.2%
MERCOSUR	16.4%	11%	12.8%
SADC (Southern Africa)	9.5%	9.3%	10.1%

Figure 18. Share of total trade with partners in regional agreements (imports plus exports, source: World Bank, IMF, 2006)

Country	Agadir Agreement	Arab Maghreb Union
Algeria	Not member	1.2%
Libya	Not member	2.7%
Morocco	1.2%	2.2%
Tunisia	1.4%	6.7%
Jordan	3.0%	Not member
Egypt	1.5%	Not member

Finally, for strategic reasons of energy and security, the trade relationships between EU and GCC are not totally exempt of difficulties and distrust. In 2007, the EU-GCC volume of trade amounted to US$105 bn (vs. $275 bn for EU-MED trade, $21 bn for MED-GCC trade and $40 bn for intra-MED trade). EU imports from GCC are mainly hydrocarbons, when EU exports to GCC are mainly transport equipment and machinery, from cars or aircraft to desalination plants. Both parties experience a long history of stop-and-go relationships, with the 1988 Cooperation Agreement still pending for the full implementation of a free trade area.

The existing MED-EU-GCC co-operation

In terms of economic relationships, a MED-EU-GCC triangle presents great logic, as it mixes:

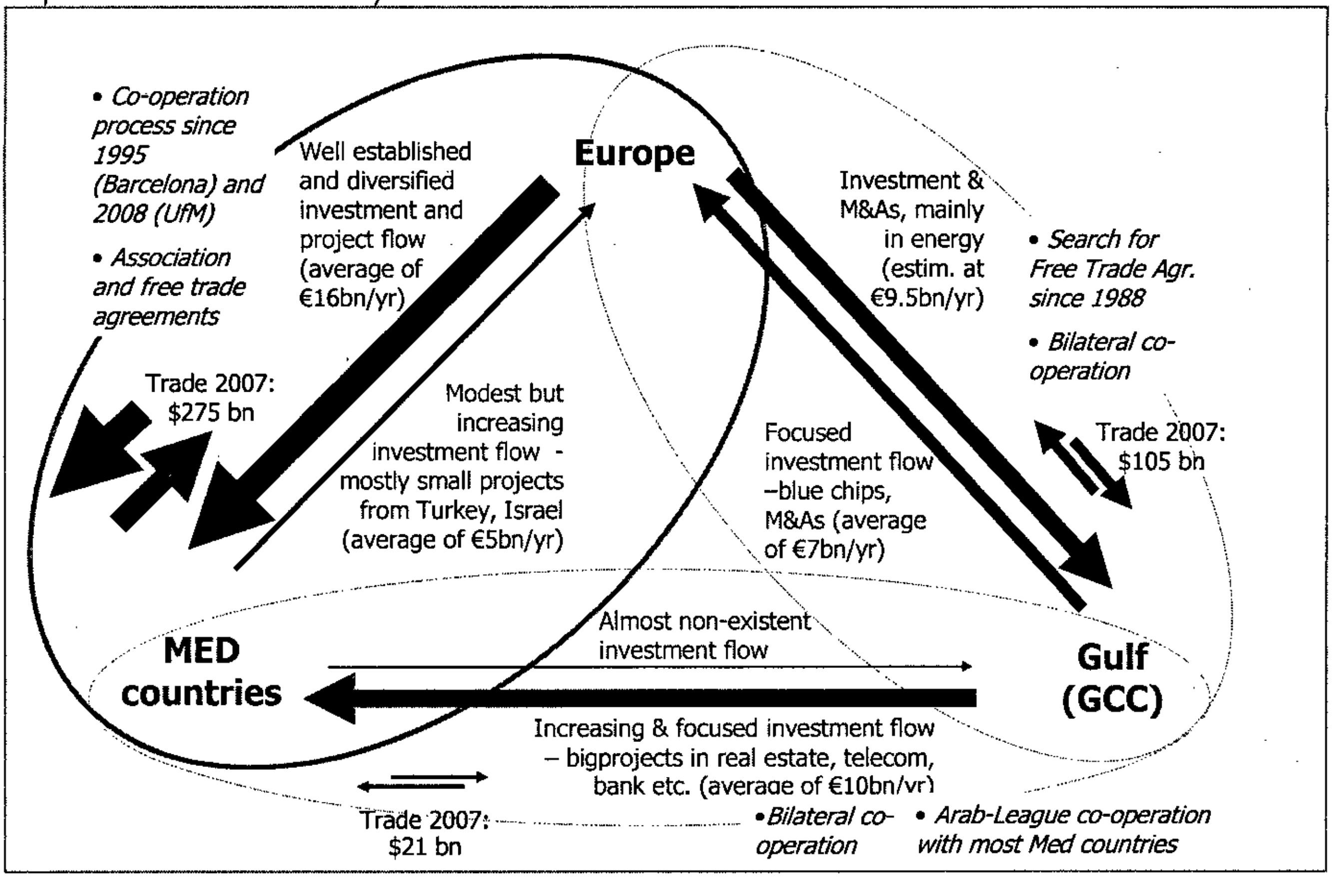
- The know-how, technology, savings surplus and labour needs of Europe;
- The human and natural resources, but also gaps in infrastructure, social needs and consumption of MED countries;
- The energy, financial resources, need for secure investments and a safe neighbourhood for the Gulf States.

The above analysis shows that this triangle -similar to that of Japan-China-ASEAN, but much less well-integrated - starts existing as a reality for business operators, but is rather unbalanced (see Figure 19) and seems still far from an *organised co-operation playing field*. Furthermore, the triangle has a strong side (EU-MED), an average side (EU-GCC) and a relatively weak side (MED-GCC).

The main reasons explaining the unachieved status of this co-operation (and thus the lack of synergy) are:

- The huge cultural differences not only between Europeans and their Southern and Eastern neighbours, but maybe even more between North-Africans and 'Arabs' (as the Gulf population is designated in Maghreb);
- The large imbalances in demographics, migration policies, human rights and social contract (EU reluctance on migrations, Gulf net importer of labour, two-level citizenship etc.);
- The more or less hidden mistrust or that shown by various stakeholders (and expressed for instance in the refusal of some Gulf investments in Europe -see the Italian presidency proposal for a ceiling of 4% in major companies-; a similar rejection sometimes exists in MED countries against Gulf operators perceived as having benefited from too favourable deals);
- The lack of MED willingness for political and economic integration (compared with the EU and GCC achievements or efforts to create a Customs Union, a possible common currency etc.);
- The differences in the fate of each country, depending on whether or not it benefits from oil and gas resources...

Figure 19. Imbalances in the EU-MED-GCC triangle economic relationships (FDI and trade flows are not represented at the same scale)



Because of this context, it is clear that EU-MED-GCC relationships are not optimised:

- The EU, still the major investor and donor in the MED countries, does not fully play its expected role – limited private investment except from Latin countries, atomisation of aid in narrow bilateral programmes (wished by the MED countries themselves), lack of EU vision and political will (most MED countries perceived the "new neighbourhood" policy as downgrading) and above all, insufficient structural funds for a real convergence (less than €100 per capita since 1995 for the 270 million MED population, vs. around € 500 per capita for the Marshall plan -Western Europe 1948-1951-, €1,000 per capita over 5 years for the 8 central European States who joined the Union in 2004 and over € 30,000 per capita for German reunification). The UfM is a positive (though awkward) attempt to resuscitate the sleeping (but technically efficient) Barcelona process, with high risks of political obstructions, partly mitigated by the primacy given to projects.
- The Gulf-MED relationships play a complicated psychological game -the relative contempt of rich oil producers in the face of the pride of their MED counterparts. From 2003 to 2007, the pouring of multibillion projects into Maghreb was warmly welcomed by local decision-makers – who can resist mega-projects in countries suffering from unemployment and lack of productive capital? The best pieces of land and the most profitable operations were offered. Since then, the non-completion of some projects, the feeling that urban heritage, natural land, facilities, licences, plants and other opportunities were given to foreigners and the counter-lobbying of some national competitors have modified the balance of forces. The financial crisis is often a good occasion for an in-depth revision of once idyllic relationships. Closer to the Gulf and more integrated in its hinterland, the Mashreq did not experience such a disappointment. Officially, all over the Arab MED countries, the co-operation goes on, but practically, the signals sent by the companies mean a much more cautious attitude from both sides.
- The EU-GCC relationship is plagued by the non-signature of the long-expected FTA agreement. Both parties need the other in order to become partners. The trade volume has still increased in recent years (but less rapidly than the Asian-GCC trade). Hindered by its stringent requirements (region-to-region dialogue mirroring the EU concepts, human rights, removal of all trade barriers), the EU is losing ground to

China, India, ASEAN. Politically, the EU decision-makers have difficulties in considering GCC as an equal partner, rather than a mere oil supplier. The same risk exists in the case of trilateral economic co-operation – reducing the Gulf to the simple role of financier, without seeing (for instance) its major strategic role of bridge to Asia (the former route to India). The shadow of Uncle Sam, more pragmatic and quicker to decide, makes European strategy even more difficult to define and implement (see for instance the EU reluctance vis-à-vis the Greater Middle East initiative of former President Bush, hence the non-integration of the Gulf in the UfM process, despite French attempts).

Three proposals for an improved Euro-Gulf-MED relationship

7.1. Building confidence via a permanent dialogue platform

Confidence is certainly the element missing for the creation of a trilateral environment delivering all the expected synergies. Western institutions (World Bank, OECD) have designed instruments to measure the real business conditions and the status of reforms (Doing Business etc.). Remarkable progress has been possible in the implementation of the rule of law, protection of investors, property rights etc. (e. g. in Egypt, "best reformer" in 2007). However, the inner feeling of numerous operators (e. g. in Northern Europe, where business applies more stringent standards) is that they would not enter the market until the game becomes totally fair.

In this field, provided it is followed by concrete action on the ground, the political message could be decisive. One proposal could be to launch a permanent MED-EU-GCC dialogue aimed at closing the economic divide between the 3 regions. The ASEM (Asia-Europe Meetings) -an informal process of dialogue and co-operation bringing together EU-27, the EC, 16 Asian countries and the ASEAN Secretariat[9] – could serve as example. The idea is to create synergy through enhanced inter-regional linkages, spurring the further economic growth of the regions concerned and using minister-level meetings to exploit this potential.

Making a better world from the three economic sets represented by EU, MED and GCC would imply *making the problems of some a solution for others*. This seems possible for instance in terms of the satisfaction of the social needs of the MED population (housing, public transport, water management etc.) which may generate markets for EU or GCC suppliers looking for growth – provided that a viable business model can be implemented. The future lack of workers in Europe or the surplus in EU savings (and even more in the GCC) correspond to the excess of workers in MED countries -also looking for investment. The current gap in GDP per capita between the two rims of the Mediterranean is good neither in terms of business development nor in terms of security. This is why *economic convergence* is a priority and a win-win game for all parties concerned.

7.2. Developing SMEs

Convergence cannot happen without the *massive creation of value-added activities in MED countries in the two next decades* (the period when the most populous young generations will enter the job market –later on, pressure will decrease). 3 to 5 million jobs are to be offered each year in the MED region (270 million inhabitants now). The ANIMA observatory shows that FDI creates around 100,000 direct jobs per year and maybe 2 or 3 times more indirect jobs. This is not sufficient. If the MED countries are to rapidly close their gap with Europe, it cannot be only via public projects (though catalyst projects such as Tanger-Méditerranée, or global internet coverage, are necessary) or via the mega-projects or regular projects developed by transnational companies from Europe or the Gulf.

Most of the job creation will come from the *informal sector* (hence the importance of microfinance) and from *SMEs:*

- Existing SMEs to be reshuffled so that they may grow, become international, be transformed into large companies for the best of them; this is a domain addressed by professional networks, coaching or capacity building (despite its limitations) and private equity funds;

[9] The ASEM dialogue addresses political, economic and cultural issues, with the objective of strengthening the relationship between these regions, in a spirit of mutual respect and equal partnership. www.aseminfoboard.org

- And SMEs especially non-existent in these new fields linked to services and ICT. These start-ups cover a wide range, from franchise or activities transferred by diaspora entrepreneurs to hi-tech companies or JVs with foreign partners. Financing is a major obstacle for most of these ventures, which generally cannot provide collateral guarantees and are out the scope of private equity funds (equity gap under US$2 million).

The EIB and the UfM are currently studying a *Mediterranean Business Development Initiative,* which could lead to the creation of instruments such as an SME agency, new guarantee schemes, funds for microfinance or seed capital, etc. (and later on, a more ambitious Development Bank). These improvements are welcome, provided they find a practical route for implementation. The challenges are multiple: donors (EIB, WB, AfDB, SWFs) are talking billions, but this would rapidly saturate a still limited SME market. In addition, there is a need for a down-to-local capillarity to get in touch with the 20 million (or more) MED SMEs. This implies implementing a full transformation chain (major institutions- banks - funds of funds - branches - investment offices - local funds etc.). Another challenge is to make capital available at acceptable cost (due diligence to low costs). This in turn implies training investment bankers all over a region where commercial banks are poorly engaged in the financing of industry and where mature capital markets seldom exist (scarce outputs, lack of instruments such as forward currency coverage, weak stock exchanges etc.).

The challenge is also technical –improve projects, generate a flow of thousands of yearly projects to be submitted to banks and therefore multiply the incubators, clusters, technoparks, networks where nascent companies can be nurtured, informed, coached, internationalised. The SME challenge in MED countries can be compared to a soccer match where two teams (the entrepreneurs and the investors) cannot really meet because the playing field does not exist yet. This type of platform (information, matchmaking) is precisely what the Invest in Med programme is proposing to the MED Business Development Initiative.

This is an area where EU, GCC and MED countries could co-operate. Beyond finance, the value possibly added by the Gulf partners (not really strong in terms of SME experience) lies in the complementarities suggested by their industrial positioning (e. g. logistics, aluminium chain, niche tourism etc.).

7.3. A sustainable investment charter for the Mediterranean

North Africa, Southern Europe and the Middle East have woven century after century a complex fabric of cultural, economic and political relations. Pending the completion of a physical infrastructure which will further strengthen this proximity (power grids, telecommunications, pipelines, trans-Maghreb motorway, projects of a bridge between Egypt and Saudi Arabia and of a tunnel under Gibraltar) and the advent of a tentative great Euro-MENA free trade area, *cross investments (private equity, foreign direct investment or sovereign holdings) constitute a strong means to bind these 3 blocs in the long term,* while fostering the material convergence of their economic interests.

The considerable Gulf investments in MED countries create an opportunity for a real lift-off. However, the frequent choice of rent sectors represent a risk: the absorption capacity is limited; the crowding-out effects which affect local operators may feed resentment towards foreign interests; the rapid urbanisation and the establishment of polluting industrial facilities, or mega-resorts on the Mediterranean seashore, involve significant environmental risks. The unbalanced economic development which is taking place may generate a hidden cost for the community.

A major positive step forward would for all to work all together –EU, GCC and MED beneficiaries- on a *sustainable investment charter for the Mediterranean.* Improving the quality of FDI is essential in a fragile eco-system –a closed sea or the overcrowded band occupied by most Southern dwellers, with many millionaire cities. The MED governments would be entitled to maximise the positive impact of FDI in terms of local content, sustainability, or social care, in exchange of the preferential treatment often granted to investors (land at low prices, tax exemptions etc.). This is more or less, the approach followed by the development banks (EIB, WB, etc.) in the projects they support, mostly major infrastructure. The challenge would be to generalise this *concern* for *sustainability* and *social responsibility* to all projects, public and private, big and small, in order to make the Mediterranean a pilot area, at world level, for exemplary, long-term and balanced development.

In conclusion, if a full participation of the Gulf in the two pillars of the UfM process (the political secretariat and the union for projects associating pionneer groups) would seem difficult at the moment, it would be interesting to offer GCC a partnership based on the second pillar (projects, with variable geometry). A reasonable share for the Gulf States of the capital of the future Mediterranean Development Bank would be a perfect illustration of concrete cross interests.

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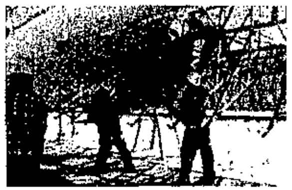
INVEST in med



Investment from the GCC and economic co-operation in the Mediterranean

IAI Seminar, Rome, 10-11 December 2009

Bénédict de Saint-Laurent, ANIMA /Invest in Med

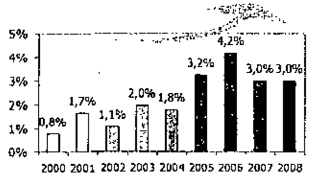
Investment Network

Issues raised

- Is the trend of Gulf involvement in the Mediterranean economies sustainable?
- What are the specifics of these investments?
  - Do they differ from projects originating in Europe or in the USA?
  - What sort of value do they bring to the region and the countries' economy?
- Could a triangular (Mediterranean-Gulf-Europe) co-operation be envisaged?
  - As a complement to the rather modest interest of Europe for its Southern and Eastern neighbours?
  - How could a real partnership be developed, based on mutual interests?

MED countries FDI recovery

MED share of world FDI



- FDI increase
  - Around €40bn in FDI/year in 2004-8
  - Vs. €10 bn/yr in the 2000s
- Two countries get the most
  - Turkey as EU candidate
  - Egypt, benefiting from strong reforms since 2004
- The whole region is on an upward trend
  - External reasons: proximity with Europe at a time of high energy costs and search for lower labour costs
  - Internal reasons: continued growth since 2000, pressure of domestic demand, full conversion to market economy and business realism (e. g. Syria), clever public investment programmes (Tanger-Med, e-government in Jordan, Tunisian technopoles etc.)
  - Small countries (Jordan, Lebanon, Tunisia and, above all, Israel) have relatively better FDI performances than the large ones

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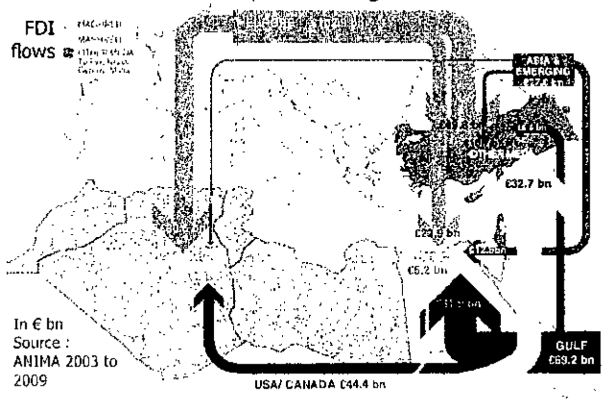
Global picture of FDI in MED countries

- The MED region has received around €255bn in FDI in the last 6.5 years (Jan. 2003-Oct. 2009)
  - Source: ANIMA records -€36.9 bn/year of FDI into Med
  - Vs. UNCTAD records - average of €29.2 bn/year
- Main beneficiaries
  - Israel &Turkey capture 40% of the flow
  - Mashreq 34%
  - Maghreb 26%
- Four major players involved
  - Europe, the former colonial power and traditional investor
  - North-America, interested in resources and main sponsor of Israel
  - The Gulf, concerned in terms of Arab brotherhood and also looking for geographical/profitable expansion
  - The MED countries themselves, poorly integrated, but developing some in-roads for industrial networking

in med

A new economic map is being drawn...



in med

Major MED telecom deals

For mobile networks, over €30 bn invested over 6 years !

Source: ANIMA observatory

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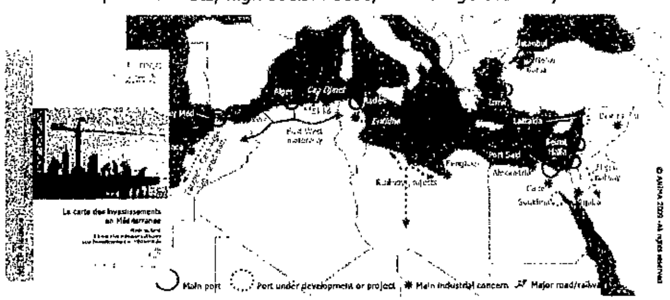
MED countries investment map

- A recent ANIMA survey shows major public strategies for *attracting investment and projects in the Mediterranean*
- The MED region will not become the plant of the world, but may benefit from a remarkable positioning -close to EU, languages, competitive costs, high social needs, knowledge economy



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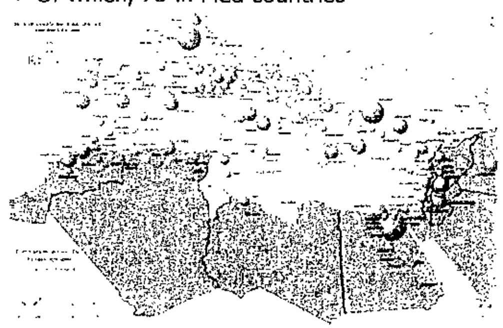
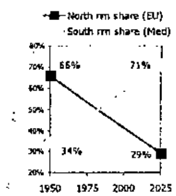
Challenges: huge urban needs

- In 2025, 100 cities over 1 m pop.
- Of which, 75 in Med countries





Shift in global Euro-Med population share:

the Southern rim now hosts more inhabitants

Map by M.Joannon and L.Tirone. Year 2000 data. Source: Geopolis data base

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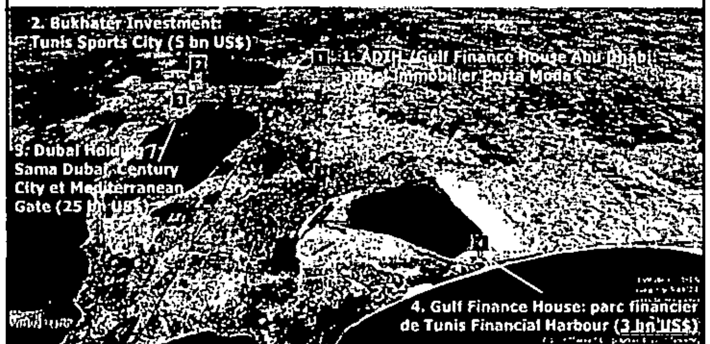
Some projects for the Greater Tunis



Selection among 40 projects in Tunis *(ANIMA observatory)*

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Gulf investors: major players in the Mediterranean

- Sometimes surpassing Europe
  - €70 bn (ANIMA observatory, since January 2003)
  - Almost 700 projects
  - €100m per project, a rather big ticket
  - Announcements: even more (€160 bn)
- Acceleration is recent (2006 and 2007)
  - Mainly thanks to the Emirates
  - Often linked to a real estate/tourism bubble

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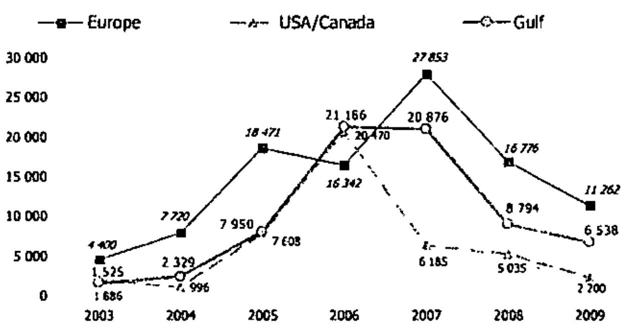
Changes in FDI flows from the main origins



In € million. Source: ANIMA observatory 2003-2009. Data collected until Oct. 2009

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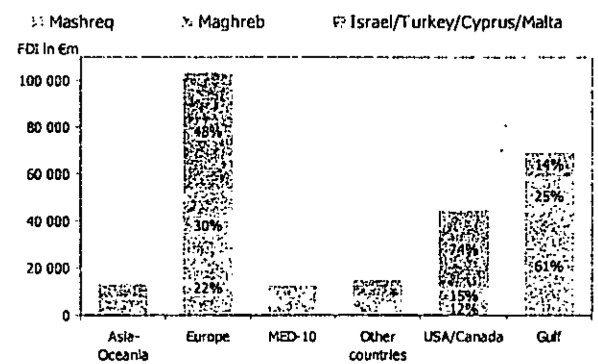
FDI per region of origin & destination



Source: ANIMA observatory 2003-2009

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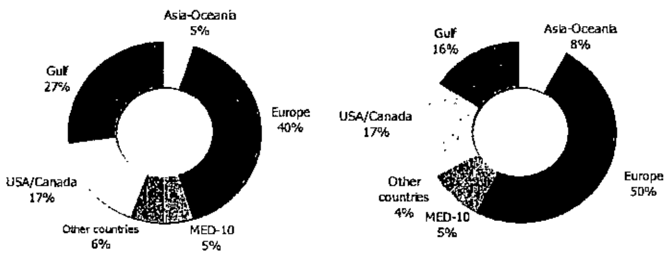
Distribution of FDI projects per origin

- In real amounts
- In number of projects



Source: ANIMA observatory 2003-2009

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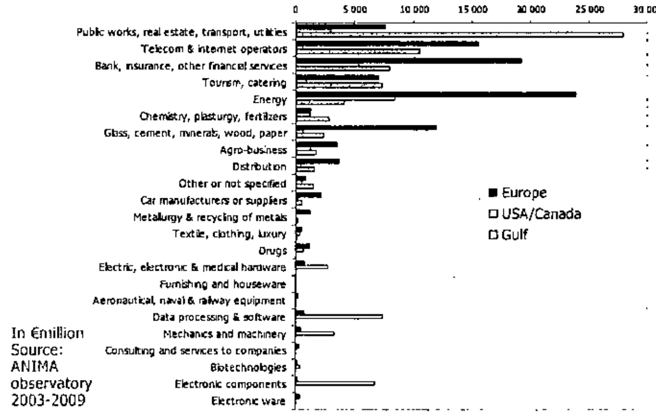
Main FDI sectors



In €million
Source: ANIMA observatory 2003-2009

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Sectoral preferences

- Gulf direct investments are concentrated on a few sectors which generate economic rents
  - Construction represents 40% of real FDI flows (and above 66% of announced FDIs)
  - Telecoms 15%
  - Banks 11.5%
  - Tourism 10.6%
- Energy is more of a European/American obsession
  - In general, industrial sectors are less attractive

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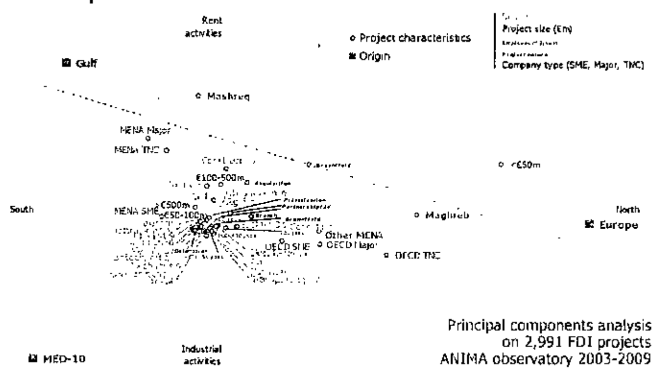
Mapping of FDI projects from GCC, MED and Europe into MED countries



Principal components analysis on 2,991 FDI projects ANIMA observatory 2003-2009

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Gulf: greenfield projects often oversized

- 681 Gulf-originated projects have created 121,000 announced jobs (direct jobs)
  - Or 178 jobs per project
  - Vs. 93 for European projects
- Strong preference for *greenfield* projects
  - Creation of new facilities, 93% in amounts
  - Vs. 73% for Europe and 41% for North-America
- Size
  - Twice the size of EU projects: €102m vs. €49m
  - Pharaonic dimension of some projects
  - But several Gulf projects carry a remarkable design, add a real value to MED economies and are sustainable (e.g. in logistics)
  - Most projects are launched by large private or public holdings

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FDI should shift from quantity to quality

- Ambiguous impact on MED economies
  - Remarkable recovery in terms of volumes (need for jobs!)
  - But a poor development model (sub-contracting, mass tourism, garbage plants...)
  - Limited & declining job creation (100,000 direct jobs /yr)
  - Creation of wealth, but limited redistribution, brain drain etc.
- Contradictions economics vs. sustainability
  - The weaker an economy, the least it can dominate major operators
  - Southern rim = dominated space: obligation to accept both jobs and pollution..
  - Financial rules favour short-term projects
    - High interest rates penalising future positive cash-flows
    - Externalities poorly considered (predation of natural goods etc.)
  - The « new operators » often do not care about persons...

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Announcements vs. actual projects

- Empirically measured by ANIMA
  - Gross: announcements –Real: implemented
  - Considering the likelihood of project implementation, its breakdown into realistic stages and the news updates
- Gulf investments show the biggest differences between gross and real flows
  - 43% of the projects go to completion
  - vs. 71% for EU projects and 78% for North-American projects
- This is partly linked to the sectors in which the Gulf invests (construction), more prone to cancellations

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Examples of Gulf projects in stand-by

- Algeria. Emaar Properties (UAE)
  - Ambitious tourism project in Colonel Abbes, west of Algiers, to be developed on an area of 109 hectares (€2.9bn). Project cancelled due to difficulties in mobilising land
- Algeria. Mubadala Development + Dubal (UAE)
  - JV formed by Mubadala Development and Dubal to own 70% in a US$ 5 billion aluminium smelter project, with 30% for Sonatrach-Sonelgaz. Project stalled (increase in construction costs up to $7bn, Sonatrach request to have at least 49% of the project)
- Jordan. National Industries Group/Noor (Kuwait)
  - A BOT led by a Kuwait/Spanish consortium to re-build the Amman-Zarat railway (€ 228m). Concession cancelled and project postponed due to financial difficulties
- Morocco. Sama Dubai (UAE)
  - US$ 2bn Amwaj project in the Bouregreg Valley, Rabat. Contract interrupted by the promoter in January 2009 due to lack of funds
- Tunisia. Dubai Holding/Sama Dubai (UAE)
  - Century City and Mediterranean Gate mega project in Tunis' southern lake area, US$ 14 to 25 billion over 15 years. Project postponed for an indefinite period

FDI geography: Emirates and Mashreq first

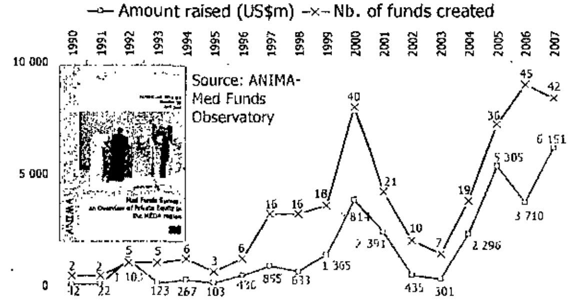
- Origin
  - Emirates = 52% in amounts
  - Kuwait and Saudi Arabia (respectively 18% and 17%)
  - Bahrain (7.6%) and Qatar (4.4%) are trailing
  - Oman is almost absent
- Destination
  - Maghreb is 2.4 times less attractive to the Gulf than Mashreq
  - The good "Other MED" score is linked to telecoms and construction investments in Turkey

Other Gulf financing vehicles

- Private equity funds: growing activism of Gulf in MED markets
  - Gulf funds much larger in size than their counterparts
  - Emirates, especially Dubai, are (were?) leaders
  - In spite of the equity raised, deals seem to rarefy in the region: US$3.9bn in 2007 but in 2008 only about $500m worth of deals
- Sovereign Wealth Funds
  - SWFs took riskier positions when prices were booming (2006-2008)
  - Started looking for investment diversification and higher returns – hence their relatively massive interest in Mashreq and Maghreb
  - Despite recent 30% loss, the GCC SWFs still represent a considerable capitalisation: $1402.8 bn, or 36.8% of world funds
  - *Primacy of national interests* over returns (eg. Mubadala)
  - Emirates strategy of upstream industry diversification (e.g. aluminium, a by-product of UAE cheap energy, or logistics, alongside the world ambitions of Dubai Port World or the Emirates airline)

MedFunds: Gulf appetite for private equity

- A strong acceleration in 2005-2007 (100 new funds, US$15bn)
- New resources for enterprises
- But *equity gap* (50k€ -1.5 million €) and difficult exits...



A must: SME development & financing

Source: FEMISE

- The biggest part of the yearly 3-5 million jobs to be created *will result from SME development*
- If the MED countries are to close rapidly their gap with Europe, it will be via a combination of:
  - Public projects such as Tanger-Med or Algerian highway — Needed in terms of facilitating framework
  - Big projects developed by major companies — FDI: 100 000 direct & 300 000 indirect jobs/yr
  - Projects by existing SMEs able to *move upwards* — Should create 1 or 2 million jobs/yr?
  - Projects by new start-ups — Might create 0.5 to 1 million jobs/yr?
  - Informal sector — Will continue to play a major role
- The benefits of SMEs
  - Grow faster, are more flexible and more innovative
  - Use labour as their first resource- SMEs= between 48% (Morocco) & 61% (Jordan) of total Med workforce

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Islamic finance and charities

- Strong growth in Islamic finance in recent years
  - 1 project in 2004, 2 projects in 2005, 15 in 2006, 7 in 2007, 9 in 2008)
  - Among these 34 projects having landed in MED countries, 28 came from the GCC
  - 11 from Kuwait (€ 802m), 6 from the Emirates (€ 85m), 4 from Qatar (€ 123m), 4 from Bahrain (€ 629m), 3 from Saudi Arabia (€ 36m)
- Charities
  - Some investments generated by non-profit NGOs
  - Aga Khan Fund (3 projects in Syria, especially in microfinance or in the rejuvenation of a prestigious hotel in Old Damascus)
  - Al Waleed foundation (projects in Egypt or Lebanon)
  - Some other projects have a patrimonial or environmental dimension (restoration of medinas, museums etc.), but are integrated into wider profitable ventures...

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Trade: MED & Gulf could do better...

- Distribution of trade in 2007

	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
EXPORTS							
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Turkey	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
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MED	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Source: Center for social and economic research (CEPS), Comtrade

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MED trade relationships with GCC and EU

- Resemble FDI patterns
  - Globally, the MED countries are tied to the EU, mainly for their exports (almost 50%) and a little less for their imports (40%)
  - The GCC bloc: 3% of both exports and imports, significant only for Mashreq (exports from Jordan, Lebanon and Syria)
  - North America absorbs a good share of Algerian, Israeli and Jordanian exports
- Proximities...
  - Maghreb has a strong trade orientation towards Europe, especially Tunisia and Morocco, less for Algeria; the trade relationships with the Gulf are very limited
  - Mashreq is less dependent on the EU for its trade and relies more on the Gulf (especially Jordan, Egypt, Syria, Lebanon)
- Intra-MED trade is extremely limited
  - MED is trailing other economic blocs in this respect, despite a recent positive trend (from 4.5% of trade in 2000 to 6.9% in 2007)

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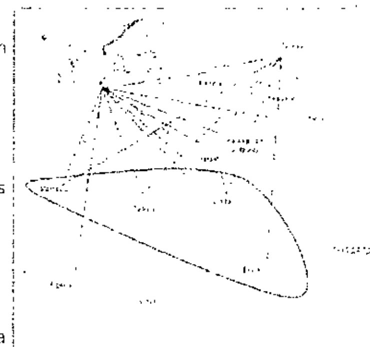
Agreements in the Euro-Med Area (2008)

- Bilateral agreements
  - Every 1% tariff reduction = 0.3% GDP increase in the MPCs
- PAFTA (1998)
  - Positive impact on trade flows between its members and on imports from non-members
- Agadir Agreement (2006)
  - Intra-regional trade up 462% over the past 6 years (but started from a very low base)



Source: CEPS, WTO, RTA notified agreements

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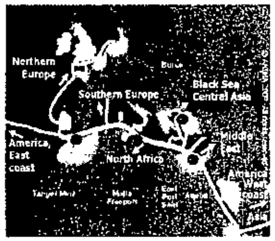
Strategies: e-commerce and global logistics

- Positioning of MED on ICT value chain
  - Neither cheap electronics (Asia for mass production)
  - Nor Indian software workshop
  - But assets in call centres
- E-commerce could use this experience
  - Languages, proximity with EU (Ro-Ro), same time zone
  - Trained staff and good telecom platforms
  - Challenges: secured low-cost shipments, safe card transactions
- Mediterranean logistics
  - A strategic geolocation on major container routes
  - New poles able to produce, assemble, export to EU
  - Competitive resources



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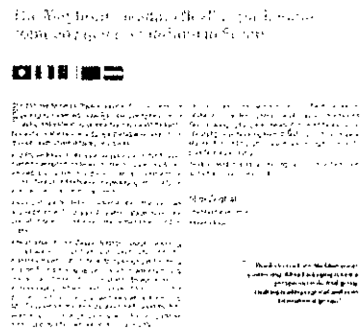
When MED companies eye the EU market...

- Extract of the Invest in Med collection of success stories
- Business co-operation is already a social and human reality
- Our goal: to demonstrate the Euro-Med integration mutual benefits



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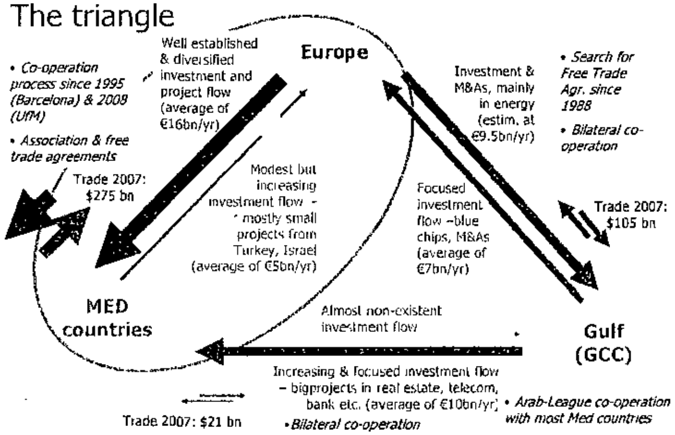
The triangle



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The existing MED-EU-GCC co-operation

- A great logic, as it mixes
  - The know-how, technology, savings surplus and labour needs of Europe
  - The human and natural resources, but also gaps in infrastructure, social needs and consumption of MED countries
  - The energy, financial resources, need for secure investments and a safe neighbourhood for the Gulf States
- This triangle -similar to that of Japan-China-ASEAN, but much less well-integrated - starts existing as a reality for business operators
  - But is rather unbalanced
  - Still far from an *organised co-operation playing field*
  - Furthermore, the triangle has a strong side (EU-MED), an average side (EU-GCC) and a relatively weak side (MED-GCC)

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Main reasons for lack of synergy

- Huge cultural gaps: EU-South, but also South-South
- Large imbalances in demographics, migration policies, human rights and 'social contract'
- The more or less hidden mistrust
  - Refusal of some Gulf investments in Europe
  - Rejection in MED countries of Gulf operators benefiting from "too favourable deals"
- The lack of MED willingness for political and economic integration
  - Compared with the EU and GCC achievements or efforts to create a Customs Union, a possible common currency etc.)
- The differences in the fate of each country
  - Depending on whether or not it benefits from oil and gas resources

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Non-optimised EU-MED-GCC relationships...

- The EU, still the main investor/donor in MED, but...
  - Limited private investment - except from Latin countries
  - Atomisation of aid in narrow bilateral programmes
  - Lack of EU vision and political will ("new neighbourhood" policy)
  - Insufficient structural funds for a real convergence
  - Political difficulties (i. e. UfM)
- Gulf-MED relationships, a complicated psychological game
  - Initially warmly welcomed
  - Disappointment
  - Financial crisis = good occasion for a revision of once idyllic relations...
- EU-GCC relationship
  - Plagued by the non-signature of the long-expected FTA agreement
  - EU is losing ground to China, India, ASEAN
  - Need to become partners: EU should consider GCC as an equal–not only as a mere oil (or finance) supplier

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Three proposals for an improved Euro-Gulf-MED relationship

- Building confidence via a permanent dialogue platform
  - Cf. ASEM -an informal process of dialogue and co-operation bringing together EU-27, EC, 16 Asian countries & ASEAN
  - Making a better world from EU, MED and GCC would imply *making the problems of some a solution for others*
- Developing SMEs
  - Convergence cannot happen without the *massive creation of value-added activities in MED countries in the two next decades*
  - EIB & UfM studying a *Mediterranean Business Development Initiative*
  - Could lead to the creation of instruments such as new guarantee schemes, funds for microfinance or seed capital,
  - Need to build/reinforce networks where nascent companies can be nurtured, informed, coached, internationalised
- An Investment charter focusing on FDI quality
  - Making the Mediterranean a pilot area for sustainable projects...

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ANIMA in brief

ANIMA Investment Network

- **From a EU project to a Euro-Med organisation**
  - ANIMA I –mostly capacity building (60 seminars) and Mediterranean think tank (27 studies & observatories), www.animaweb.org (1 million visitors/year)
  - Ongoing projects: Medibtikar (Innovation for MED SMEs, €7.3m), Invest in Med (Euro-Med investments & partnerships € 12m), PACEM (Euro-Med cities co-operation €1.5m)
  - Future projects: MedValley (economic developt. for sustainable territories, €2m), MedGeneration (mobilising economic diasporas, €2m), MedVenture etc.
- **The ANIMA network counts 75 members from 20 countries**
  - 16 national and 10 regional IPAs (South and North)
  - 9 government bodies or agencies (e. g. Central Bank of Italy) and 5 co-operation agencies (ACC1O, Ubifrance etc.)
  - 17 Euromed networks (business schools, engineer schools, EBN, AFAEMME etc.)
  - 3 think tanks (Inst. de la Méditerranée, IEMed, IPEMed) and 2 international organisations (OECD, UN-WAIPA)
  - 10 business organisations (e. g. BusinessMed, INSME, etc.)
  - Several private companies in the ANIMA Club
- **ANIMA is part of the `MedAlliance` with BusinessMed and CCIs (Eurochambres, ASCAME)**

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A MedAlliance dedicated to MED development

- Joint business + government efforts
- Leverage via networks: through 2,000 economic development organisations, access to the 40 million Euro-Mediterranean SMEs

MedAlliance

Economic development agencies	Chambers of commerce & industry	Business organisations	Special members
	EUROCHAMBRES	BUSINESSMED	gtz

Their members/200 mobilised so far/Potential of 2,000+ field operators

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Delegated initiatives

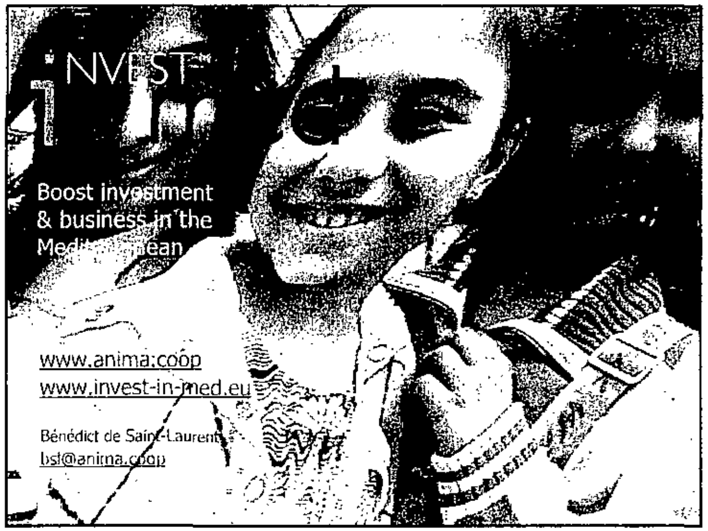
- MedAlliance field operators take the lead

50 projects supported so far, e.g.:
- MovieMed (cinema)
- Euromed Postal (e-commerce)
- MedTracking (container tracking)
- MedBest (eco-tourism)

- Catalyst for high potential niches in the Mediterranean countries
  - I.e. agri-food

•Organic agriculture		*Transversal issues*
•Cereals		•Privatisation/concession
•Horticulture	+	•Access to business from diasporas, youth, women...
•Med products (olive oil)		•Franchise
•Catering (tourism, airlines)		•Branding, image
•Cooked recipes		•Access to finance etc.
•Fisheries etc.		

- Calls for *initiatives* every 6 months: around 15 pilot projects supported per round
- Objectives
  - Develop FDI and sustainable partnerships among EU and Med operators
  - Contribute to a Mediterranean positioning in global value chains



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Istituto Affari Internazionali

AI-JISR PROJECT

SEMINAR

THE MEDITERRANEAN: OPPORTUNITIES TO DEVELOP EU-GCC RELATIONS?

ROME, 10-11 DECEMBER 2009

Hotel Ponte Sisto
Via dei Pettinari, 64

PAPER

by

ROBERTO ALIBONI, ISTITUTO AFFARI INTERNAZIONALI, ROME

DRAFT VERSION

EU AND GCC STRATEGIC INTERESTS IN THE MEDITERRANEAN: CONVERGENCE AND DIVERGENCE

Roberto Aliboni

The European and Arab countries gathering respectively in the European Union (EU) and the Gulf Cooperation Council (GCC), while sharing a number of important strategic and political interests, have developed distinctly different broad patterns of strategic concerns and relations in the last twenty to thirty years.

Both of them have special concerns for their respective neighbourhood, on the one hand, and extremely significant global relations, on the other. However, there is no doubt that the GCC countries have gone global more than the European Union, especially on political ground, whereas the European Union has focused on its neighbourhood and structured its neighbourhood framework far more significantly than the GCC. Most importantly, while both the GCC and the EU countries have a pivotal, yet separate political and security alliance with the United States, the former are now fundamentally oriented towards Asia from a strategic perspective, whereas the EU is oriented towards North America and its own neighbourhood - from the Mediterranean to Russia - with the GCC playing a definitely more distant role.

To a large extent, it could have been otherwise, had the European Union understood the importance and substance of the EU-GCC relations initiated eighteen years ago. During that long lapse of time, the EU failed to realise that the relationship had to be based on developing mutual economic and financial interests. In contrast, for a long time, it mistakenly protected is petrochemical interests and even today is still conditioning the upgrading of mutual relations on the GCC partners' engagement in domestic political reforms, something which is beyond any GCC perspective and has no EU political motivation.

Against this background, EU and GCC have failed to develop a common core strategic relationship and, as said, have distinct orientations today. However, it must also be pointed out that these orientations, as distinct as they may be, are never opposed to one another and continue to have significant point of contacts. As a result, a potential for developing common EU-GCC strategic perspectives – as distinct from a core relationship - still exists. It might be helpful today to explore the existing points of contact in an international political and security perspective. These points could, over time, again offer opportunities that were missed in the last twenty years.

This paper explores these points of contact in the Mediterranean area. In a strategic perspective, the Mediterranean area may bring together the EU and the GCC essentially for two reasons: (a) the strip of territory stretching from Morocco and – sometimes – Mauritania through to the Levant is largely, although not uniquely, part of the Arab world and, at the same time, is seen by the European Union as an important part of its neighbourhood; (b) the Mediterranean Sea is part of the complex system of sea basins and sea routes set at the juncture of Africa, Europe and South-western Asia, so that it is a part of the geopolitical approaches that the European continent and the Arabian peninsula share; in other words, the Mediterranean (linked as it is to the Red Sea via the Suez Canal) is largely yet not uniquely, the platform where EU-GCC relations concretely take place. These two trends - the Arab Mediterranean world and geopolitical approaches to continental masses - can help in looking for strategic and political commonalities between the EU and the GCC.

Economic development and security in the Mediterranean

Recent economic developments illustrate EU-GCC convergence of interest towards the Mediterranean area. Probably the most important development relates to the evolving pattern of world transport as well as the Red Sea/Mediterranean Sea corridor's role in it and the implications of that evolution. Today, approximately 80% of world sea transport moves from South-west and South-east Asia, on the one hand, and goes to the Mediterranean, the Atlantic coasts of Europe, and North America, on the other. The most intensive segment of this route is navigation through the Arabian, the Red and the Mediterranean Seas. Merchandise and goods are unloaded at majors ports in South-west 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 towards the Mediterranean (the most important Arab investment are in Tangiers and Damietta). The EU Commission has long begun to foster the effectiveness of 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 implications of this development in transport and the role the sea approaches to South-west 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 has primary interest. But the same is also true of U.S. allies in Europe, the Mediterranean and the Arab world. Access to such approaches is a major strategic issue globally, but it is obviously of primary and common concern to local areas and countries, that is, among others, both the EU and the GCC.

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 is part of the EU neighbourhood, part of the Arab world and a shared location for investment, and (b) the safety of access to that region. An important dimension of access safety is maritime security: beginning with the fight against piracy in the Arabian Sea and ending with depollution of the Mediterranean.

A shared development potential and the need to provide security to it offer the EU and the GCC an objective platform for strategic cooperation in the Mediterranean.

Today, this potential for strategic convergence is hardly used; more often than not it is ignored. Essentially, cooperation is hindered, despite objective strategic convergence, by the lack of strategic harmonisation and the two parties' failure to grasp opportunities that emerged in the last twenty years. Other stumbling blocks are also worth mentioning, however. The lack of cooperation is partly due to the EU's over-structured Euro-Mediterranean organisation, which tends to limit the EU's actions to the Mediterranean, so that it remains strictly regional and fundamentally exclusive with respect to adjoining regions.

More in particular, the EU's Euro-Mediterranean concept is in itself an obstacle. It encompasses both EU and non-EU countries. At the beginning, in 1995, non-EU countries were both Arab and non-Arab (Cyprus, Israel, Malta and Turkey) and the rationale for bringing Mediterranean countries together was geography and proximity. With Cyprus and Malta now members of the EU and Turkey's candidature for membership, the non-EU countries are now only the Arab countries and Israel so that the rationale is less clear and somehow uncomfortable. In fact, this kind of EU-Israel-Arab collective Mediterranean does not make much sense. In this sense, the European Neighbourhood Policy, with its bilateral emphasis, makes more sense, for it differentiates relations with Israel and with each Arab Mediterranean country in a very loose collective framework.

While the EU must be free to develop its own relations with Israel, of course, these relations should not be an obstacle to relations with the GCC and its member countries, as it is today for the Arab Mediterranean countries. One reason the GCC countries hesitate to enter Mediterranean undertakings with the EU is that the Euro-Mediterranean format compels them to cohabit or involves the risk of cohabiting with Israel. This was a problem with the New Middle East project and the related initiative of instituting a Mediterranean bank for development.

The EU should rethink its policy towards the Mediterranean. The format of this policy should be more flexible and should differentiate between countries and stop obliging countries to buy, along with the EU, into other partners as well. EU cooperation agreements, which are extended only to Mediterranean countries today, should be extended to other 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 a policy "east of Jordan", coherent with its Mediterranean policy, but that initiative came to a dead end.

The GCC countries also hesitate to enter into regional Mediterranean cooperation with the EU for another reason: not only the presence of Israel, but the absence of a shared political perspective in the Mediterranean. Just as the Europeans dislike being a "payer" and not a "player" in U.S. policy towards the Israeli-Palestinian conflict, so the GCC countries do not want to risk being the same in EU Mediterranean or other Western-initiated projects. But this is less an obstacle to the materialisation of the potential for EU-GCC strategic cooperation in the Mediterranean than the result of the lack of such cooperation.

To conclude on this point, there are trends and factors in the Mediterranean that would require and objectively invite EU-GCC strategic cooperation. However, this cooperation is limited and has not emerged 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.

Security and political cooperation in the Levant

Another matter that has strategic potential in EU-GCC relations is the Arab-Israeli, in particular the Israeli-Palestinian conflict. Both the EU and the GCC perceive the conflict as a relevant factor in their security. Saudi Arabia presented a plan for settling the conflict, which was later endorsed by the Arab League and became an Arab initiative. In its official security doctrine (the document endorsed by the European Council in December 2003 and reconfirmed at the end of 2008), the European Union emphasizes that the Israeli-Palestinian conflict constitutes a factor that affects its security.

Yet, two differences between the EU and the GCC are worth considering: the strategic contexts in which the conflict is set by the EU and the GCC, respectively, and the different strategic value of the respective alliances with the United States.

From the EU point of view, the conflict, in particular that between Israel and the Palestinians, is set in the Mediterranean framework (in the Levant, as a Mediterranean sub-region) and affects EU Mediterranean interests, prominently its interest in neighbourhood security. Apart from risks and spill over effects (largely attenuated since the beginning of the 1990s), at present the most important EU concern stemming from the Israeli-Palestinian conflict is the fact that this conflict makes European Mediterranean policies – the Euro-Mediterranean Partnership yesterday and the Union for the Mediterranean today – hostage to the conflict and prevents them from succeeding in stabilising the area. Conversely, from the GCC countries' point of view, the conflict is part and parcel of the Middle Eastern tangle of conflicts. Obviously, there are differences among members states in both the GCC and the EU. However, these differences are more significant in the latter than the former. A number of larger EU member states – with national foreign policies ranging farther afield than the Mediterranean, such as the United Kingdom and France – may have views akin to those of the GCC countries. However, as members of the EU they abide by Brussels' point of view and consider the Israeli-Palestinian conflict chiefly a Mediterranean factor.

In past years, with the changes impressed on the Middle East by the Bush administration's policies and wars, the Israeli-Palestinian conflict has become even more tangled with conflicts in the Gulf and the radical streams undercutting the greater Middle East. The conflict has allowed Iran to magnify its influence in a core Arab area such as the Levant. Today, for the GCC countries, and in general the moderate Arab coalition, the Levant is more integrated than ever in the Middle East. In the EU, attempts were made to changing the perspective (hinted at in the previous section), but they failed. All this prevents the EU and the GCC from having the same strategic perspective on the conflict, although they happen to be very close when it comes to specific policies. In fact, in the framework of the EU-GCC talks, there is a strong, long-standing convergence on the Israeli-Palestinian conflict. However, it is more a diplomatic than a political convergence and, in fact, does not translate into any common initiatives. This is the case, for example, on Hamas: the EU appreciated the Mecca accord and the efforts to integrate Hamas in a national Palestinian government; however, the EU abides by the four conditions set out by the Quartet and, beyond rhetoric, fails to understand how important national Palestinian reunification is for the regional security of the GCC and moderate Arabs. To be more precise, it understands the point, but it does not coincide with the EU's strategic perspectives.

One important reason the two perspectives diverge is the EU's and the GCC's different postures with respect to the United States; more in general, the different relevance of their alliances with the United States. While the transatlantic alliance is based on a community and, for this reason, despite difficulties and shifts, is undercut by primordial identity and security factors, the U.S.-GCC alliance is based on important yet ordinary security considerations.

The difference, when it comes to the Israeli-Palestinian conflict, is reflected by the developments that have unfolded in the framework of the first unfortunate attempt by the Obama administration to revive the Israeli-Palestinian negotiations on final status. Both the EU and the GCC equally appreciated the first steps made in 2009 Spring by the new administration to set the Israeli-Palestinian conflict in the wider Middle East context as a priority to be pursued on a parallel track, rather than – as usual – in sequence with other regional issues (chiefly Iran. To a question from the press on the existence of an "Iran first" approach, the President responded as follows: "If there is a linkage between Iran and the Israeli-Palestinian peace process, I personally believe it actually runs the other way. To the extent that we can make peace between the Palestinians and the Israelis then I actually think it strengthens our hand in the international community in dealing with a potential Iranian threat."). Both saw it as an opportunity to solve a conflict that has distinctive strategic value for both of them.

However, while the Europeans, waiting for Washington, abstained from taking initiatives and engaging in politics, Saudi Arabia and other GCC members quite naturally pursued their own policies in the inter-Arab and Gulf frameworks. To be put it more clearly, while the EU kept on abiding by the kind of "West Bank first" perspective held by the new administration, Saudi Arabia and most GCC countries kept on focusing on the necessity to reintegrate Hamas first in an appropriate inter-Arab context (hence the importance of the October 2009 Saudi visit to Damascus), i.e. focused on inter-Palestinian unity in the context of inter-Arab and regional relations.

In sum, things are seen quite differently by the EU and the GCC: in a Mediterranean vs. Middle Eastern context; in a communitarian transatlantic alliance vs. a non-communitarian Gulf alliance with the United States. (One could add that one reason why the EU hesitates to shift from a Mediterranean to a full Middle Eastern perspective is its alliance with the United States, however, this is not entirely true and could sound unfair to the U.S. because there are powerful intra-EU factors that keep the EU in the Mediterranean. At the end of the day, the transatlantic alliance does not in itself prevent any EU engagement in politics).

In this sense, one can conclude that, while economic cooperation (and its security implications) between the EU and the GCC in the Mediterranean may be based on a strategic rationale, from the point of view of political and security cooperation there is an important convergence yet it strategic rationales hardly coincide. It must be added that, to some extent, differences on political grounds – as already pointed out – may limit economic and security strategic cooperation in the Mediterranean.

Conclusions

Strategic convergence is hard to define. It may be determined by deep-seated factors, such as identity, if not destiny, and the like. More reasonably, history and institutions may make a difference with respect to strategic convergence determined by opportunities and more occasional contingencies.

Ordinarily, strategic convergence is the result of objective as well as subjective factors: there are objective factors fostering strategic convergence, but subjective factors may either encourage or limit such convergence. In the case of the EU and the GCC, while it would be absolutely misplaced to talk about deep-seated factors, identity or destiny (as the EU's bad rhetoric does with respect to Euro-Mediterranean relations), there is an important set of objective factors that could determine a strategic convergence, were the EU and the GCC only willing to consider it. This paper has discussed economic development, transport and security in the Mediterranean, but there are also other factors, such as financial stability and energy relations.

It is true that there are political limits to convergence. However, limits to convergence do not prevent convergence. In the Mediterranean – and elsewhere – EU-GCC strategic convergence is bound to rest on economic and financial factors. It is this opportunity that has not been seized upon in the last twenty years. As they were unable or unwilling to grasp existing opportunities in their relations, the GCC ended up opting for Asia and the EU for its neighbourhood, Russia and North America. Whether the EU and the GCC will recover from these missed opportunities to set up a strategic relation is difficult to say. This should not, however, prevent them from cooperating in more limited strategic areas such as economic development or financial stability in the Mediterranean and elsewhere. This could be a realistic objective to pursue.

The Growing Economic Presence of Gulf Countries in the Mediterranean Region

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Fuelled by a historic record increase in oil prices, the Gulf Cooperation Council (GCC) states' (Bahrain, Kuwait, Qatar, Oman and Saudi Arabia) economies and their financial surpluses continued to grow at an unprecedented rate. Oil wealth has transformed these backwater traditional and conservative states to the forefront of international politics and finance, and Gulf foreign investments have been on the increase over the years. Although the bulk of GCC investments were channelled into the traditional economies of the developed countries of the US and Europe as well as the rising Asian economies of China and India, a growing proportion of GCC investments stayed in the region, including the neighbouring Mediterranean. Indeed, over the past few years, partly because of the geopolitical ramifications following the events of September 11, 2001, GCC investments have started to pour into the Mediterranean region, spurring its economic development.

In 2008, Gulf investments and economic presence in the neighbouring Mediterranean region continued to grow, albeit at a slower pace, due to the recent global economic and financial crisis, which precipitated a fall in the oil price and reduced GCC states' revenues and financial surpluses.

The Global Economic Crisis Slows Down the Process but Does Not Halt It

By 2008, the global financial crisis profoundly changed the global business environment, and the accompanying uncertainty has impacted on the growing trend of global foreign direct investment (FDI). World FDI flows, which, according to the United Nations Conference on Trade and Development (UNCTAD), rose by 30% in 2007 –well above the previous all-time high set in 2000 and reaching a historic record of 1.833 billion dollars, were estimated to have fallen by 21% in 2008 to an estimated 1.4 billion dollars.

Over the period of 2002-2006, the Mediterranean region managed to capture its fair share of this global inflow, receiving world FDI corresponding to its demographic importance of 4%, but began to slow down in 2007 due to the crisis. In 2008, the Med share of global FDI began to decrease only slightly below the global trend (-17%) and below the bar of 4%, helped by the strength of their economic performance and the resiliency of North Africa (-5.2%) and particularly Egypt (10.9 billion dollars against 11.6 billion dollars in 2007). (See Table 5 and Chart 17)

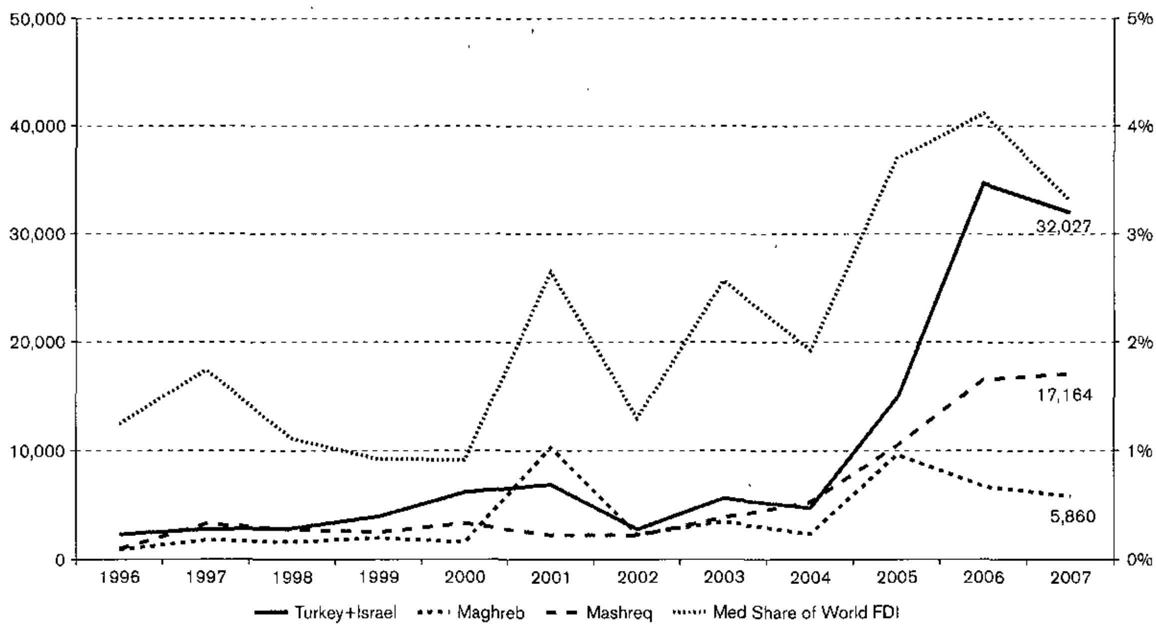
The 13 countries that border the Mediterranean (Algeria, Egypt, Israel, Jordan, Lebanon, Morocco, the Palestine Authority, Syria, Tunisia, plus Turkey, Libya, Malta and Cyprus) received direct foreign investment totalling 68 billion euros in 2006 and 61 billion euros in 2007. In 2008, the Mediterranean region started to be affected by the world economic and financial crisis with an overall drop in FDI of a little less than 40 billion euros in 2008 (-35%).

The Gulf States have not been entirely immune from this global crisis. It precipitated a fall in energy demand and a dip in oil price from their historic record levels, causing a drop in government revenues and a loss in confidence. Petrodollars from the oil and gas industries and sovereign wealth funds (SWFs), which had shielded many Middle Eastern economies from the global meltdown and delayed its impact, began to dry up as global liquidity became tight. The increasingly adventurous Gulf investors, who had shown a strong appetite to invest in the Mediterranean region,

TABLE 5	Evolution of FDI Inflows by Sub-Region of Destination (annualised flows, in million euros, 2003-2008)						
Destination	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**Total**
Mashreq	1,861	1,658	11,615	28,558	27,285	7,280	78,257
Maghreb	6,013	7,251	7,381	11,821	15,830	8,018	56,314
Other Med	1,937	871	20,474	28,608	18,261	24,693	94,844
Total	9,810	12,780	39,471	68,987	61,376	39,991	232,415

Source: ANIMA-MIPO.

CHART 17 **FDI Inflows for Med Regions and Med Share of World FDI (in million dollars)**



Source: United Nations Conference on Trade and Development -*World Investment Report* (UNCTAD-WIR).

slowed or deferred some of their decisions as they began to weigh up the effect of the global financial crisis.

The Gulf Economic Growth as a Source of Investment

Despite the global turmoil, GCC economic growth remained strong in 2008, pushing the GCC's combined nominal GDP up to 1 trillion dollars. The region's economy continued to expand vigorously, especially in the first half of 2008 (about 7%), before it began to decelerate in the latter half due to the secondary effect of the global economic crisis and averaged 5.7%.

High oil prices with a higher volume of exports between 2002 and the autumn of 2008 strengthened the key macroeconomic indicators in the six GCC countries, and the region achieved record budget surpluses over the seven years before the global financial crisis caused prices to collapse and economic growth to stall. (See Table 6)

With average oil prices 45% higher in 2008 than in 2007 and coupled with incremental additions to export volumes, this gave another boost to the GCC's cumulative export earnings, which reached about 2.2 trillion dollars over the period. Such was the ascent of oil prices that the current account surplus swelled dramatically from around 50 billion dollars in 2003-04 (year ending June) to almost 400 billion dollars in 2007-08, equivalent to over 30% of GDP. In aggregate, the current account registered a cumulative surplus of 912 billion dollars over the period (Table 7, Charts 18 and 19).

The GCC as an Investment Powerhouse

Like most oil-exporting countries, the GCC states started transforming oil windfall into financial wealth after the 2002 surge in oil prices by setting up ded-

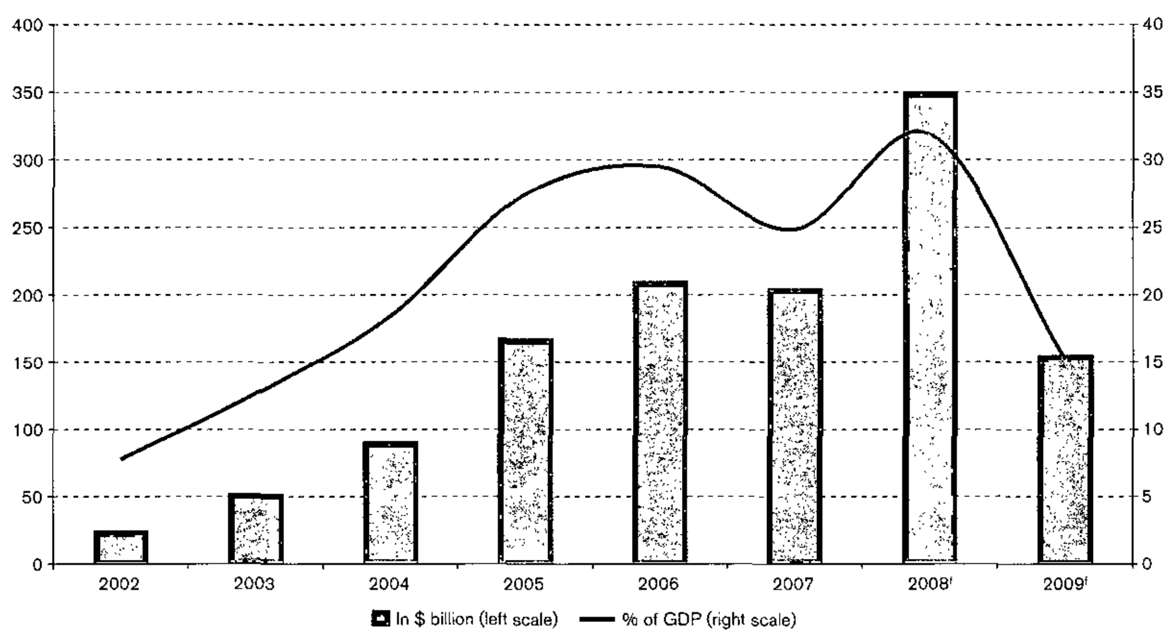
TABLE 6	GCC: Main Economic Indicators			
	2006	2007	2008f	2009f
Nominal GDP ($bn)	731	821	1,098	1,036
Hydrocarbon, GDP ($ bn)[1]	368	409	613	479
Non-hydrocarbon GDP ($ bn)	363	412	485	557
Real GDP (% change)	5.8	5.2	5.7	4.2
Hydrocarbon	1.8	1.1	4.0	1.0
Non-hydrocarbon	8.1	7.5	6.4	5.4
Inflation (average)	4.8	6.8	11.8	8.5
Current account bal. ($ bn)	211	206	342	155
% GDP	29	25	31	15
External debt (% GDP)	20	27	38	31
Foreign Assets ($ bn)	933	1,244	1,467	1,605
% GDP	128	152	134	155
Fiscal balance (% GDP)	22	19	23	13
Oil price (Brent; $/barrel)	66.3	72.6	105.3	75.5
Oil production (mbd)	15.9	15.4	16	15.7
Gas production (mboe/d)	3.8	4.0	4.4	4.8

Source: The Institute of International Finance (IIF), 2008
f = forecast; [1] Refers to crude oil and arid natural gas, mbd = millions of barrels a day, mboe/d = millions of barrels of oil equivalent a days

TABLE 7	GCC Current Account Surplus (in billion dollars)			
	2006	2007	2008f	2009f
Trade Balance	284	299	465	286
Exports	485	563	792	642
Hydrocarbon	372	421	825	458
Oil	352	398	584	425
Gas	20	23	41	33
Non-Hydrocarbon	112	142	167	184
Imports	-201	-264	-327	-356
Services, net	-57	-72	-91	-104
Incomes, net	20	19	15	26
Transfers, net	-35	-40	-46	-52
Current account balance	211	206	342	155
% GDP	29	25	31	15
Memoranda:				
Oil production (mbd)	15.9	15.4	15.9	15.6
Brent oil price ($/bl. av.)	66.3	72.6	105.3	75.6

Source: IIF, Nov. 6, 2008
f = forecast; mbd = million barrels a day.

CHART 18 Current Account Surpluses Remain Strong

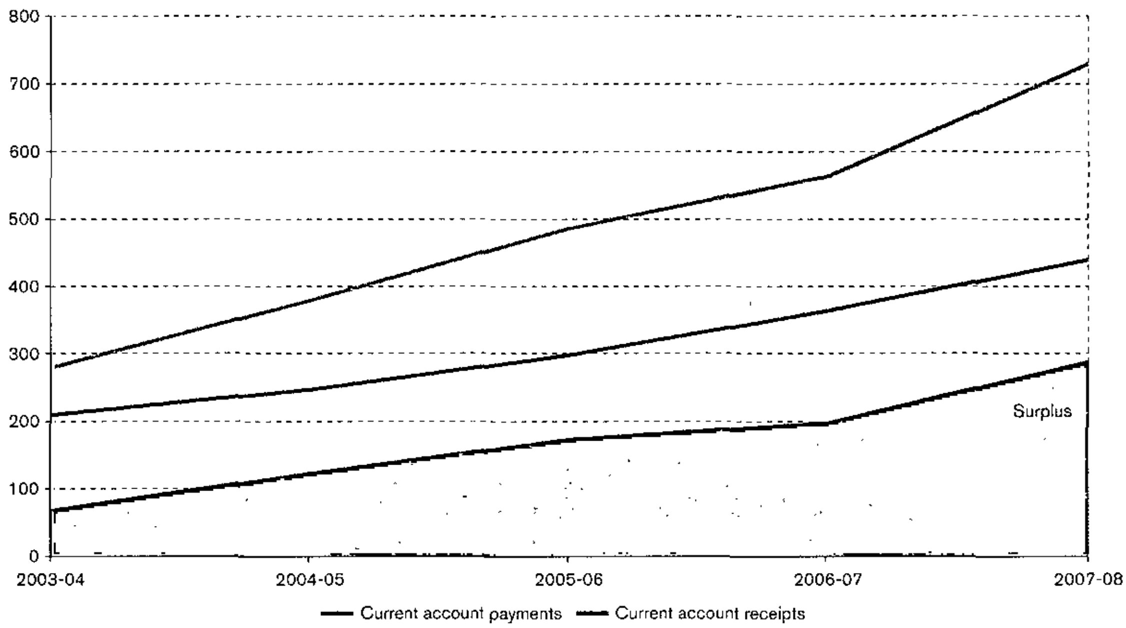


Source. Institute of International Finance IIF, 2008 f = forecast;

icated investment funds exclusively for the oil surplus they had earned. In fact, the funds of the GCC alone accounted for around half the assets held by sovereign wealth funds globally (Chart 20).

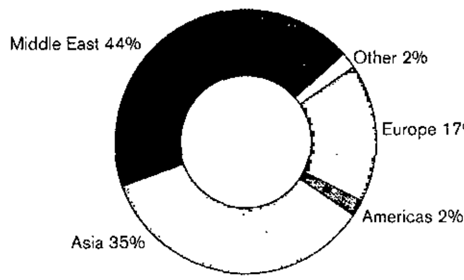
Whereas in the beginning of 2000, the funds of the GCC did not constitute more than 350 billion dollars and investments were predominantly concentrated in US assets, this trend began to change after September 11, so by the end of 2008, where foreign assets of state institutions and the banking sector were reported to rise to nearly 900-1.5 trillion dollars (not taking into account possible recent declines in asset values), the pattern of investments changed from low-risk portfolios to high-risk ones, such as equity and alternative investments, especially in the emerging economies of Asia and the

CHART 19 GCC Current Account (billion dollars)



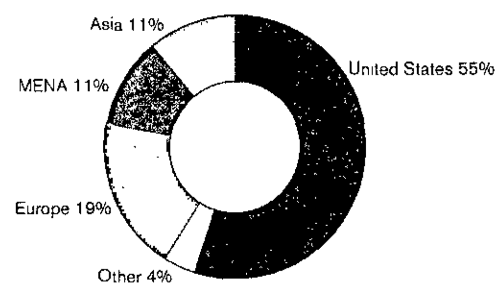
Source: Samba, December 2008.

CHART 20 Sovereign Wealth Funds by Region



Source: The Sovereign Wealth Funds Institute.

CHART 21 Distribution of Capital Outflows from Countries of the Gulf Cooperation Council, 2002-2006



Source: Institute of International Finance, 2008.

Mediterranean. Nearly one quarter of Gulf foreign investments since 2002 were in Asia and the Middle East/North Africa (Table 8 and Chart 21).

TABLE 8 Estimated Geographical Distribution of GCC Capital Outflows, June 2003-June 2008 (billions of dollars)

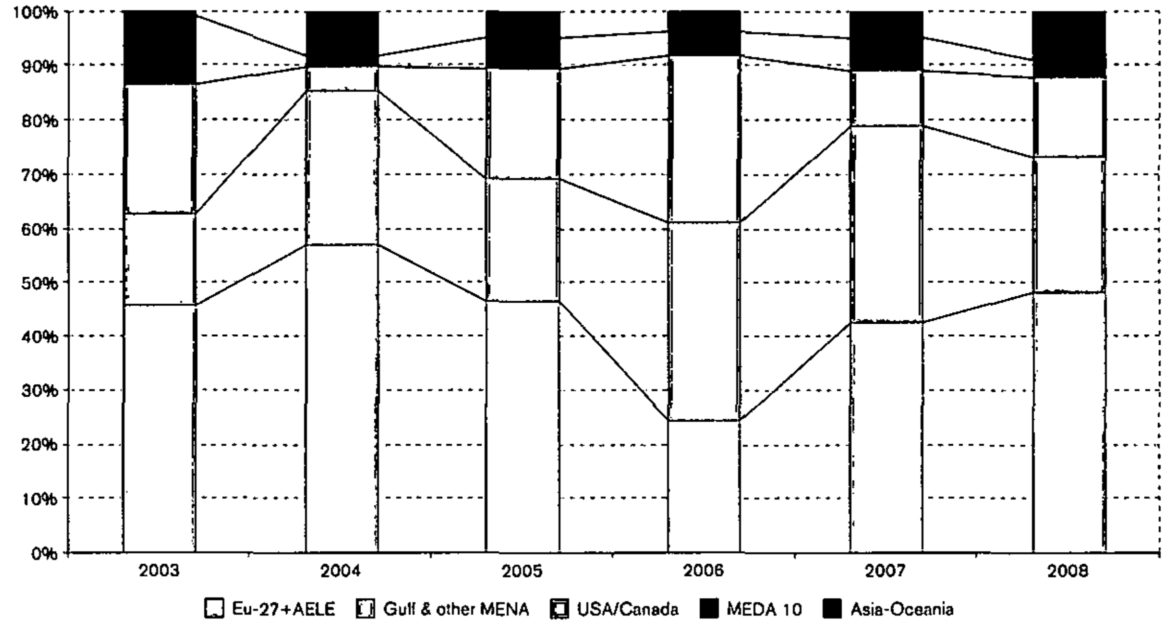
MENA	120
Europe	200
US	450
Asia	120
Other	22
Total	912

Source Samba, December 2008.

The Appeal of the Mediterranean

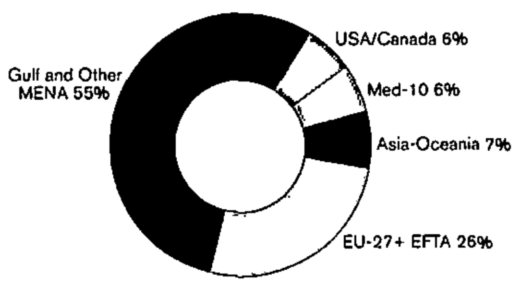
Besides a geographical proximity, and cultural and linguistic affinity, the Mediterranean region offered the Gulf States an attractive alternative outlet for the diversification of their investments and for recycling their financial surpluses. For the Gulf States, investment in the Mediterranean is viewed as an extension of the home market and safer and closer to home, especially after the events of September 11, 2001. Moreover, the Mediterranean region's economic base, as well as economic reform, although patchy, offers high return and an enormous potential given the prospects of further Euro-Mediterranean integration following the Barcelona Process and the Union for the Mediterranean with the envisaged Euromed Free Trade Area

CHART 22 **Relative Contribution of the Main FDI Emitting Regions into the Med Region (Med 13, in % of annualised declared amounts)**



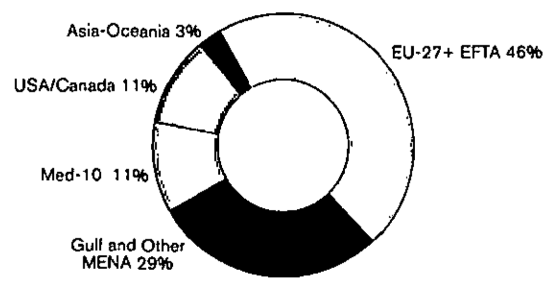
Source: ANIMA-MIPO (2003-2008).

CHART 23 **Main FDI-Emitting Regions towards the Mashreq since 2003 (in % of annualised declared amounts, 2003-08)**



Source: Anima-MIPO.

CHART 24 **Main FDI-Emitting Regions towards the Maghreb since 2003 (in % of annualised declared amounts, 2003-08)**



Source: Anima-MIPO.

in 2010.

Largely due to this, global FDI, especially from the Gulf States, but also from Europe and the US, began to pour into the Mediterranean economies. (See Chart 22)

Gulf Investment in the Mediterranean Is Enduring

Given the Gulf States' financial surpluses and the appeal of the Mediterranean, investment from the GCC into the Mediterranean has been growing over the last five boom years. According to Anima, Gulf investments in the Mediterranean constituted around 30% of total amounts and 18% of announced projects. However, as financial surpluses began to dry up, Gulf investments decreased and recorded only 8.5 billion euros in 2008, against 22 billion in 2007. The Gulf, however, remained one of the main pillars of investments in the Mediterranean, with concentration in the Mashreq (Charts 23 and 24), alongside European investments, which concentrate especially in Turkey, the Maghreb and Egypt.

The United Arab Emirates (UAE) heads the pack with an investment of 30.6 billion euros between 2003 and 2007 (see Table 9), which is more than half of the GCC total, and taking 183 of the projects. In

TABLE 9 **Origin-Destination Cross Table 2003-08 (foreign share in gross budgets as announced)**

	Destination	Maghreb				Mashreq					Other Med		Total
Origin	**In € mln**	**Algeria**	**Morocco**	**Tunisia**	**Libya**	**Egypt**	**Jordan**	**Lebanon**	**Palestine**	**Syria**	**Israel**	**Turkey**	
Gulf	**Saudi Arabia**	736	439	80	12	2,993	1,345	493	53	1,250		3,667	11,066
	Bahrain	143	592	132	0	229	1497	0		452		66	3,110
	UAE	1,939	2,110	4,795	564	17,848	2,313	1,218	0	1,111		3,852	35,751
	Kuwait	2,081	730	296	55	3,009	1,513	1,257	0	1,533		1,148	11,693
	Qatar		54	403	223	1,503	762		339	669		230	4,182
	Oth. MENA	298	217	0	164	1	69	173	0	396	225	823	2,366

Source: ANIMA-MIPO.

2008, the UAE announced a further 66 projects with a cumulative gross value of 17 billion euros, equivalent to 4.7 billion euros in 2008, constituting around 12% of all FDI emitters in the Med region in that year, the majority of which has been in the real estate sector. Three long-term real estate megaprojects –Abu Dhabi Investment Authority (ADIA) and Gulf Investment House (GIH) at Porta Moda in Tunisia (10 years), Al Maabar at Aqaba in Jordon (seven years) and Emirates International Investment Company (EIIC) Dounya Parc (five billion dollars over five years)– alone represent two thirds of this amount. Kuwait and Saudi Arabia follow the UAE with slightly more than 11 billion euros each and more than 100 projects by 2007. In 2008 Kuwait announced a further 34 projects, mainly in Egypt and Jordan, while investment projects of Saudi Arabia fell in 2008 to 22 following 43 projects in 2007, mainly in Egypt and Algeria. The main concentration has been in the real estate sector. In 2008 the Gulf States invested 4.2 billion euros in this sector, which constituted around 50% of the FDI in the region, principally in the Mashreq.

Bahrain and Qatar follow the rank with about 2.3 and 2.9 billion euros respectively and about 20 projects each, while Oman does not appear in Table 9 for lack of projects. Bahrain showed more interest in Jordan and Morocco (Batelco owns Umniah Telecom in Jordan, and real estate and tourism projects by Gulf Finance House in these two countries). UAE-, Kuwait- and Qatar-based investors show a strong preference for Egypt as the main destination of their investments, while investors from Saudi Arabia tend to prefer Turkey, followed by Egypt. Saudi Arabia announced eight significant projects in Turkey in 2007: massive investments by Oger in telecom and banking and acquisition of banks and food-processing industries.

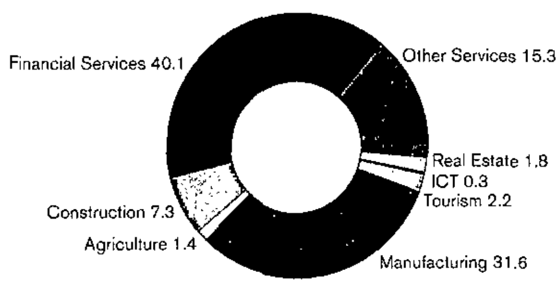
Changing Pattern of Gulf Investments

As well as the size and volume, the pattern of Gulf investments and their diversification in the neighbouring economies has also changed since the 1970s and 1980s earlier oil boom periods. At that time Gulf investments were more concentrated in the traditional sectors of real estate development and activities associated with the hydrocarbon sector. This time round, there seems to be more appetite for diversification, but Gulf investments in the Mediterranean still represent an unbalanced sectoral profile. Construction and transport sectors took 52% of the amounts (and 26 of the projects), while the tourism sector made up 19% and telecom was 10% over 2003-2008. Energy, heavy chemical industry, cement and metallurgy account for 13% of the total. There is also a growing investment in the banking and finance sector. This sectoral mix reflects the model of unbalanced development of the economies of the Gulf, in which consumer goods industries and light industries are not very present.

However, through partnerships with companies based in industrial countries and their accumulated cooperative experience in GCC countries, Gulf investments have increasingly become more diversified and more enterprising. Gulf presence in Egypt, for example, has expanded beyond their traditional areas to include manufacturing, organic farming, communication and information technology, financial services, and logistics (see Chart 25).

The new Gulf leadership in charge of investment decisions has proved to be more bullish than its forefathers. This new generation has had the benefit of a wider business and finance education as well as international exposure and training. International expertise has also been employed to support their investment activities. Gulf investors showed great panache for launching large budgets and ambitious *greenfield*

CHART 25 **Non-Oil Sector Direct Foreign Investments in Egypt 2007-08 (percent of total)**



Source: Balance of Payments Statistics, the Central Bank of Egypt Quarterly Reports (FY2007-8).

projects (the creation of new facilities) in comparison to their European and American counterparts. Over 2003-2007, Gulf investments in *greenfield* projects in the Mediterranean made up 40% of the projects and 53% of the amount invested. External growth (acquisition, including privatisation), or *brownfield* projects, accounted for 23% of the projects and 30% of investment flows.

Conclusions

Despite the global financial crisis, which caught up with the region a little later than elsewhere, the Gulf economies have managed to achieve high growth rates in 2008. Although with the onset of the crisis in 2009 they are expected to slow down, their financial surpluses are estimated to rise even with a worst-case oil price scenario. Recycling their oil wealth is a strategic tool, given their low absorption capacity, particularly for the benefit of the next generation. Foreign investment income is part of a strategy to prepare for a Gulf economy beyond oil.

The attraction to diversify their investment in the neighbouring Mediterranean region beyond traditional markets is more appealing given the high return on their investments and the potential growth of the Mediterranean countries given the partial liberalisation and reform that some of these countries are undergoing. Besides its geographical proximity and cultural and linguistic affinity, the economic base of the Mediterranean countries and the looming Euro-Med space adds a further dimension.

Gulf presence in the Mediterranean, which has been growing over the past few years despite the global financial crisis, which has slowed the pace but not altered the trend, is expected to grow further as Gulf investors start to build up momentum and develop valuable business networks in the region. The scale and nature of the Gulf presence, which has predominantly been in the real estate and tourism sectors, has begun to change and Gulf investments have increasingly become more daring than their US and European counterparts.

Regional dynamics including stability and a successful completion of the Middle East Peace process, as well as further inter- and intra-regional integration, especially between the Mediterranean and the Gulf through, for example, the Greater Arab Free Trade Area (GAFTA) are bound to increase this relationship. In addition, the possibility of linking the EU-GCC track with the Union of the Mediterranean will provide the needed institutional framework under which greater exchange of trade and investment is bound to flourish. The institutional support for the combination of European know-how and technology with Gulf financial muscle will help to invigorate the very necessary and long-awaited development process in the Mediterranean region.

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