This Quaderno IAI focuses on the European Union's policies of cooperation with its Mediterranean neighbours and looks into how GCC countries can assist the transition process in these countries. Does the Southern Mediterranean offer opportunities for cooperation between the EU and GCC countries? Indeed, given the Gulf's economic boom and growing investment in North Africa, GCC countries are well positioned to play a more central role in the Mediterranean. In addition, the Gulf region has close political ties with states such as Morocco, Algeria, Egypt, Lebanon and Syria. Saudi Arabia and Qatar, for instance, have already played an active diplomatic role in the last few years in mitigating potential conflict situations. Yet, the contributions to the Quaderno IAI, while emphasizing the opportunities for EU-GCC economic cooperation in the Mediterranean area, warn of the political weaknesses in EU-GCC relations and argue that such difficulties may not allow for establishment of the kind of political cooperation framework that more intense economic cooperation requires.

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INTRODUCTION

Christian Koch

Within the framework of the al-Jisr Project on EU-GCC Public Diplomacy and Outreach Activities and with the support of the European Commission, the Istituto Affari Internazionali (IAI) and the Gulf Research Center (GRC) organized a two-day workshop focusing on how the Mediterranean region can become a field of cooperation between the EU and GCC countries. The event brought together 30 policy officials and specialists to deliberate on questions such as: should the Mediterranean become a dimension in the EU-GCC political dialogue; where are the potential synergies when it comes to the role of energy; what ways and means of financial and economic cooperation present themselves to promote investment and development; and where do political and strategic interests between the EU and the GCC converge or diverge in the Mediterranean. A final roundtable served as a wrap-up for discussion with a focus on policy recommendations.

While many of the participants at the meeting referred often to "missed opportunities" when it comes to EU-GCC relations in the Mediterranean and elsewhere, the discussion also made apparent the fact that close connections exist between the Gulf and the Mediterranean on the one hand and Europe and the Mediterranean on the other. Events and developments in one region have an impact in the other, yet the linkages have not been made a permanent aspect of an emerging triangular relationship. For the moment, the structural limitations prevail whether in terms of the highly fragmented construction of European foreign policy in the Middle East and North Africa or the lack of institutional mechanisms through which the GCC states could engage with the Mediterranean countries. Cooperation is thus ad-hoc and individualistic and lacks a strategic framework. At the same time, potential areas for cooperation exist in such diverse fields as investment, energy flows, development assistance, political dialogue and maritime security. Further opportunities for cooperation should thus be explored, keeping in mind that such cooperation needs to proceed on differentiated tracks whether at bilateral, multilateral or government and non-governmental levels.

The opening presentation on “The Mediterranean in EU-GCC Relations” highlighted a “plethora of highly institutionalized initiatives” on the side of the EU but “negligible linkage to policy in the rest of the Middle East.” In its determination to keep the Mediterranean separate, the EU tends to ignore that the GCC states have emerged as significant players both in terms of economic development as well as mediators in various aspects of regional affairs. Within the context of deeper intra-Middle East integration, there are opportunities between the EU, the GCC and the Mediterranean for better “triangulation” but so far a disjuncture between the components remains notable. As a result, “a better and clearer balance is required between bilateral, subregional and broader Middle East dynamics” to move towards a logic of graduated regionalism. For the GCC states, the problem does not appear to be one of EU initiatives but rather the way these initiatives are constructed and communicated. The EU should thus look seriously at the structure of its policies. It was also mentioned that the GCC has alternatives and does not need to remain solely focused on ties with Europe. While the Mediterranean is a hinterland, increased focus is also being given to relations with Asia and Africa. Significantly, no direct mention was made of the Arab League or the now defunct Euro-Arab dialogue.

The second session on “Energy in the Mediterranean and the Gulf: Opportunities for Synergies” highlighted that the Mediterranean “is expected to play an increasingly important role in global energy flows” which might result in a greater European dependence on North African supplies and less on the Gulf. At the same time, potential synergies are said to exist in such fields as the development of renewable energy sources (also with the placing of the International Renewable Energy Agency in Abu Dhabi), and investment required to meet domestic electricity demand. As far as oil and refined products are concerned, the volume and direction of oil flows to and through the Mediterranean will be important, especially as an expected rise in transport in the near future contains serious security implications. As a result, an increased focus on the development of a pipeline network between the Mediterranean and Europe might open possibilities for Gulf involvement. The same could apply for the supply of natural gas to Europe. In the field of power generation, the improved ability to transmit electricity over longer distances opens the door for establishing a continuum of interconnection from the Gulf to Europe through the Mediterranean and the ability to serve markets along those connections. Finally, the rapidly rising awareness of the need for renewable energy sources suggests an additional field of cooperation. In many of the above suggested areas, the potentially important role of Turkey was mentioned several times in the discussion.

The third session was entitled "Investment from the GCC and Development in the Mediterranean: The Outlook for Financial and Economic EU-GCC Cooperation." Some of the basic questions posed at the outset were whether the trend of Gulf involvement in the Mediterranean economies was sustainable, what the specifics of those investments are, and could a triangular cooperation be envisaged? What is clear is that Gulf investors have become major players in the Mediterranean with an investment volume of more than 70 billion Euro in nearly 700 projects. In addition, there are announcements totaling an additional 160 billion Euros although in this case the global financial crisis has dampened somewhat the prospects of all of these ideas being turned into reality. In terms of origin, the UAE leads the field with 52 percent of the projects with the Mashreq tending to be more attractive to Gulf investors than the Maghreb region.

Besides the existing ties, it was suggested that a triangular relationship could develop that combines European know-how, technology savings surplus and labor supply with the human and natural resources as well as the infrastructure and social needs of the Mediterranean countries and finally, the energy, financial resources and the need for secure investments of the GCC states. For the moment, such a relationship exists as far as business operators are concerned but it remains unbalanced and has as such not assumed the format of an organized cooperation playing field. For example, while the EU is still the main investor in the Mediterranean, there are drawbacks such as limited private investment and a lack of vision and political will. Similarly, in the case of the GCC states, economic and investment ties with the Mediterranean have not always fulfilled the expectations resulting in some disappointments. To overcome such shortcomings, it was suggested that a permanent dialogue platform be created to build confidence, concentrate on developing small and medium enterprises (SMEs), and consider formulating an investment charter focusing on the quality of foreign direct investment. Possible attention to corporate governance models and investment in large-scale infrastructure was also mentioned.

The final session was titled "EU and GCC Strategic and Political Interests in the Mediterranean: Convergence and Divergence." It was initially mentioned that while the EU and the GCC share a number of strategic and political interests, they have developed "distinctly different broad patterns of strategic concerns and relations in the last 20 to 30 years." One difference is that while Europe has concentrated on its immediate neighborhood, the Gulf has incorporated a global perspective into its foreign and security thinking. Also, while the Gulf is looking increasingly towards Asia, Europe is focused on North America. The result of such different orientations is the lack of a common core strategic relationship.

Nevertheless, the session highlighted that the Mediterranean region could serve as a point of contact through which common strategic perspectives could be developed. This is because the part of the Mediterranean is considered as belonging to the Arab world and the Mediterranean Sea also represents a juncture of European and Gulf geopolitical approaches. The fact that up to this point the EU and the GCC have failed to capitalize on the economic and financial factors that provide a basis for convergence in the Mediterranean is thus not a reason not to cooperate in more strategic areas if the necessary will can be enacted. In this context, it will be essential for both sides to overcome seeing the Mediterranean as part of the Cold War or balance of power complex.

In conclusion, the need for realism in the status and prospects for EU-GCC cooperation with regard to Mediterranean issues was underlined although it was also made clear that many potential points of contact exist that could be developed further. In all of these instances, it appears to be more appropriate to pursue cooperation on a project by project basis while at the same time continuing to provide such contacts a broader strategic framework.

LIST OF ACRONYMS

ADIA	Abu Dhabi Investment Authority
ADIH	Abu Dhabi Investment House
AfDB	African Development Bank
AGP	Arab Gas Pipeline
ARNET	Arab Network of Regulators
AMF	Arab Monetary Fund
ASEAN	Association of South-East Asian Nations
ASEM	Asia-Europe Meeting
BOO	Build-Own-Operate
BOT	Build/Own/Transfer
BP	British Petroleum
CCS	Carbon Capture and Sequestration
CDM	Clean Development Mechanism
CEO	Chief Executive Officer
CER	Certified Emission Right
CO2	Carbon Dioxide
DP World	Dubai Ports World
EIB	European Investment Bank
EMP	Euro-Mediterranean Partnership
ENP	European Neighbourhood Policy
EOR	Enhanced Oil Recovery
EU	European Union
EURATOM	European Atomic Energy Community
FDI	Foreign Direct Investment
FTA	Free Trade Area
GAFTA	Greater Arab Free Trade Area
GCC	Gulf Cooperation Council
GDP	Gross Domestic Product
GW	Gegawatt
ICT	Information and Communication Technology
IDB	Islamic Development Bank
IIF	Institute of International Finance
IMF	International Monetary Fund
IPP	Independent Power Producer
IRENA	International Renewable Energy Agency (UN)

JV	Joint Venture
KIPCO	Kuwait Projects Company
LNG	Liquefied Natural Gas
M&A	Merger and Acquisition
MED countries	Mediterranean countries
MED-10	Algeria, Egypt, Israel, Jordan, Lebanon, Morocco, Palestine, Syria, Tunisia, Turkey
MENA	Middle East and North Africa
MERCOSUR	Mercado común del Cono Sur
MIPO	Mediterranean Investment Project Observatory
NBK	National Bank of Kuwait
NGO	Non-governmental Organization
OECD	Organisation for Economic Co-operation and Development
OPEC	Organization of the Petroleum Exporting Countries
PAFTA	Pan Arab Free Trade Area
PE	Private Equity
RES	Renewable Energy Sources
SADC	Southern African Development Community
SAMA	Saudi Arabian Monetary Agency
SME	Small and Medium Enterprise
SWF	Sovereign Wealth Fund
TGC	Time Gain Compensation
UAE	United Arab Emirates
UfM	Union for the Mediterranean
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
USA	United States of America
USGS	United States Geological Survey
WB	World Bank
WIR	World Investment Report

1. WHY THE EUROPEAN UNION NEEDS A ‘BROADER MIDDLE EAST’ POLICY

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 Union for the Mediterranean (UfM). 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 (GCC) 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.

1. The Gulf in the Mediterranean

Gulf states are playing an increasingly influential role in the Mediterranean. 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 the Mediterranean in a range of areas: economics, politics, social and communications exchanges, remittances and development assistance.

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 Hezbollah, combined with the poor economic performance of all three countries, have 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, thwarted in its attempts to create a unity government in Palestine, caught flat-footed in its response to an escalating terrorist threat from Yemen and obliged 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

[1] Andrew England and Frances Williams, "First signs of contagion as Egyptian stocks take a battering", *Financial Times*, 1 December 2009.

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. Its increasing diplomatic hyperactivity has been viewed as an annoyance by the US, except perhaps for its involvement in negotiations leading to UN 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 is 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, Hezbollah and Zaydi Shia rebels in Yemen, as well as its long-standing ties with Israel, give it unique leverage and position in the region. The highly disparate approaches of Qatar and Saudi Arabia to regional diplomacy, combined with the pragmatism of the other GCC member states’ relations with Iran, have severely hampered prospects for the emergence of a common Gulf political strategy for 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 the MENA. In recent years Saudi Arabia has significantly increased its share of new intra-Arab investments to over 50 per cent.[4]

[2] Margaret Coker, ‘Saudi Arabia’s Renewed Political Influence Counters Tehran’, *The Wall Street Journa1*, 12 June 2009.
[3] World Bank, *2008 MENA Economic Developments and Prospects: Regional Integration for Global Competitiveness*, Washington, World Bak, 2009, p. 104-114, http://go.worldbank.org/1S4LTR-FQU0.
[4] Arab Investment & Export Credit Guarantee Corporation (IAIGC), *Investment Climate in Arab Countries 2007*, Safat, IAIGC, 2008, p. 2, http://www.iaigc.net/?id=7&sid=5.

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 in 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 Foreign Direct Investment (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 UAE is easily the most prolific Gulf investor in the Mashreq and the Maghreb, holding over 52 per cent of new investments from 2003 to late 2009, a significant portion of which are Dubai-held assets.[7]

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 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).[8]

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.[9] Gulf investors have become a vital source of job creation in the region. GCC investments now constitute a third

[5] *Samba, Tracking* GCC *Foreign Investments: How the Strategies are Changing with Markets in Turmoil*, Riyadh, Samba, December 2008 (Report Series), p. 12, http://www.gulfinthemedia.com/files/article_en/452506.pdf.

[6] Ibid, p. 4.

[7] ANIMA Investment Network, *Mapping Investment in the Mediterranean*, 2 October 2009, http://www.animaweb.org/en/index.php

[8] World Bank, *2008 MENA Economic Developments and Prospects*, cit.

[9] Pierre Henry, Samir Abdelkarim and Benedict de Saint-Laurent, *Foreign direct investment into MEDA in 2007: the switch*, Marseille, ANIMA, July 2008 (Invest in Med Survey ; 1), http://www.animaweb.org/uploads/bases/document/Inv_Et1_Bilan-IDE-MEDA-2007_En_24-6-2008.pdf.

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.[10]) 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.[11]

The long period of economic decline in the 1980s and 1990s after the mis-spent 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.[12] 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.[13]

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.[14]

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 had maintained its 1985 share of world exports (which was already relatively low), it would have received

[10] Mahmoud Mohieldin, "Neighbourly Investments", in *Finance and Development*, Vol. 45, No. 4 (December 2008), p. 40-41, http://www.imf.org/external/Pubs/FT/fandd/2008/12/pdf/mohieldin.pdf.

[11] Dunia Frontier Consultants (DFC), *Private Foreign Investment in Iraq. Update November 2009*, Washington and Dubai, DFC, November 2009, http://www.dfcinternational.com/files/DuniaPrivateForeignInvestmentinIraq2009UPDATE.pdf.

[12] Allen Dennis, *The Impact of Regional Trade Agreements and Trade Facilitation in the Middle East North Africa Region*, Washington, World Bank, February 2006 (World Bank Policy Research Working Paper ; 3837), p. 1, http://go.worldbank.org/5RUJSME180..

[13] World Bank, *2008 MENA Economic Developments and Prospects*, cit.

[14] Allen Dennis, *The Impact of Regional Trade Agreements and Trade Facilitation in the Middle East North Africa Region*, cit., p. 12.

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 a further 147 per cent.[15]

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 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 has shifted the focus away from intra-regional efforts.[16] The GCC has been quick to complain about 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.[17]

Although the proportion of expatriate Arab workers in the 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 the 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.[18]

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.[19] There is also an increasing awareness within the GCC of the lead-

[15] Ibid, p. 8.
[16] Ibid, pp. 7-8.
[17] Prince Turki al-Faisal, *Addressing the stability challenge: which political responsibility for EU and* GCC?. Speech to the Eurogolfe Conference, Venice, 18 October 2008, http://www.eurogolfe.com/Message_Turki_al_faisal.pdf.
[18] International Monetary Fund (IMF), *Regional Economic Outlook. Middle East and Central Asia*, Washington, IMF, May 2009, https://www.imf.org/external/pubs/ft/reo/2009/mcd/eng/mreo0509.pdf.
[19] Andrew Mernin, "Amman on a mission", *Arabian Business*, 18 February 2007, http://www.arabianbusiness.com/8049-amman-on-a-mission.

ing role the Gulf must play in preparing the MENA for the challenges the region will face in the future – 80 million 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.[20] 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 of the total, compared to 30 per cent from the Arab Fund, 17 per cent from the AMF and 10 per cent from 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.[21] 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.[22] 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.[23] 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 the recipient country. Yet there are emerging exceptions. Innovative Gulf development organisations such as 'Dubai Cares' have already gained a reputation for their close monitoring of projects, working with international NGOs such as Care International, and may offer a useful template for other

[20] Lionel Barber, "Restive young a matter of national security", *Financial Times*, 2 June 2008.
[21] See the website of the Saudi Fund for Development, http://www.sfd.gov.sa.
[22] Espen Villanger, *Arab Foreign Aid: Disbursement Patterns, Aid Policies and Motives*, Bergen, Chr. Michelsen Institute (CMI), 2007 (CMI Reports ; 2), http://www.cmi.no/publications/file/2615-arab-foreign-aid-disbursement-patterns.pdf, p. 9.
[23] See the website of the OPEC Fund for International Development, http://www.ofid.org.

emerging Gulf development agencies. A cash-strapped Europe would do well to seize upon opportunities for the enhanced coordination of development funds and programmes with willing Gulf partners.

The initial years of excessive optimism on the part of GCC investors and recipient countries are now likely to give way to a more realistic review of investments following the global financial crisis, beginning with a debt-ridden Dubai. A serious downturn in the GCC may feel like a 'crash landing' for the rest of the MENA. Egypt, with over two million citizens working in the GCC, is heavily dependent upon the $3 billion of remittances it receives from this labour. Any further increases in food prices in the region could also see an increase in unrest, as already witnessed in Algeria, Egypt, Morocco and Yemen during 2008 and the first half of 2009. Reduced EU and GCC remittances, investment and development assistance will seriously strain governments' ability to maintain political and economic stability in the region. For now much of the Gulf appears to have weathered the economic storm, largely due to resurgent oil prices, but both regions would do well to take note of the vulnerability of parts of the Mashreq and Maghreb to the current global crisis.

2. 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.

The EU has traditionally been very protective of its policies towards the Mediterranean construct in an attempt to carve out for itself a parcel of influence within the dominant US policy towards the Middle East. The Mediterranean offered an area where the EU could claim an advantage and where it did not have to follow the US's lead. Obama's efforts at re-starting the US relationship with the Middle East on a more even footing offer an opportunity for the EU to let go of an outdated mind-set which has proved pernicious to its interests. By parcelling out the Mediterranean as a Euro-sphere of influence, the EU has ceded the upper hand (even further) to the US in the Gulf. Obama's new MENA policies restructure the EU-US-MENA triangle, and require a flexible response from the EU.

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. Gulf states view the 'Mediterranean' as defined by the EU as a construct less reflective of local realities than of European interests. The EU often overlooks the strong relations between Mediterranean and Gulf states and the bonds of 'Arabism' that play into these relations.

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. 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. The Obama administration's change of approach has also been reflected in the newfound willingness to engage with Iran, Syria and Hezbollah in an effort to seek negotiated solutions to long-standing problems. This is the type of approach long favoured by the EU and a far cry from the axis of evil listings promulgated by Bush.

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.'[24] This attempt to reconcile principle and pragmatism reflects the EU's stated approach to external affairs, although in reality it is often member state narrow interests that take precedence over EU principles. The potential for deeper US-EU cooperation in the region is being 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.[25]

[24] Speech by William J. Burns, Under Secretary of State for Political Affairs, Conference on 'US-Saudi Relations in a World Without Equilibrium', New America Foundation, 27 April 2009.
[25] Global Security Asia Conference 2009, http://www.globalsecasia.com.

The failure of the EU and US to coordinate means that both are beginning to lose out to third players, not only in terms of defence procurement but also in terms of trade and energy. Up to now, American and European 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. The Gulf states, especially Saudi Arabia as a member of the G20, have played an important role in supporting international efforts to stem the global financial crisis. While the GCC's weight in economics and international finance has increased, the half century of US predominance in the region in economic terms is over. The centre of gravity is clearly shifting eastwards as the loss of US standing in the region is being filled not by Europe, but rather by emerging Asian states.

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. It also recognises the significant role Gulf states could play in regional issues. 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. On Iran, the Gulf states have repeatedly asked the US to coordinate its policies with them.

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. For the first time the US seems to acknowledge the importance of a conflict which other Arab states consider to be the key to regional stability. Although Obama began well by appointing as his Middle East special envoy the respected former senator George Mitchell and calling for a freeze on all Israeli settlement in the Occupied Territories, his resolve has since floundered and disappointment has set in throughout the region. At the beginning of December 2009 the EU agreed on a statement of policy on Palestine and Israel which the US considered to be an unwelcome intrusion. If the EU had not willingly ceded ground to the US in all areas save the Mediterranean, its policies could be coordinated with, rather than being subservient to, the US.

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'.[26] 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.

3. 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

[26] John Duke Anthony, "US-GCC relations", in *Gulf Yearbook* 2006-2007.

future years must reflect these realities and seek to ensure that they continue to develop positively.'[27]

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 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 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:

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

[27] See European Council, EU Strategic Partnership with the Mediterranean and the Middle East, 6/2004, http://www.consilium.europa.eu/uedocs/cmsUpload/Partnership% 20Mediterranean% 20and%20Middle%20East.pdf

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.[28] 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.[29] 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.

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 strengthened cooperation with Riyadh on this crucial issue. The EU also urgently needs to engage

[28] Oxford Research Group, *King Faisal Center, Saudi Diplomatic Institute, From the Swamp to Terra Firma: The Regional Role in the Stabilisation of Iraq*, London, Oxford Research Group, June 2008 (Briefing Papers), http://www.oxfordresearchgroup.org.uk/sites/default/files/fromtheswamp.pdf..

[29] Michael Bauer, Christian-Peter Hanelt, *Europe and the Gulf Region. Toward a New Horizon*, Gütersloh, Bertelsmann Stiftung, July 2009, http://www.bertelsmann-stiftung.de/cps/rde/xbcr/SID-F7E2F9A6-2365C300/bst_engl/xcms_bst_dms_29037_29038_2.pdf, p. 16.

other GCC states, not least Qatar, on its vision for a peaceful resolution of the Israel-Palestine conflict, 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.

Trade Relations

The EU has been pursuing two free trade areas, one with the Mediterranean and 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 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 is at a lower level in the Middle East than in other regions. 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.

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 be 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: the regular dialogue 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

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, which holds some of the world's largest oil and gas deposits and has an egregiously low reserve-to-production ratio, is perhaps the energy partner in the Middle East with which 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.[30] 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

[30] Edward Burke, *The Case for a New European Engagement in Iraq*, Madrid, Fundación para las Relaciones Internacionales y el Diálogo Exterior (FRIDE), January 2009 (FRIDE Working Paper; 79), http://www.fride.org/publication/555/the-case-for-a-new-european-engagement-in-iraq.

basis. The EU has proposed a Memorandum of Understanding on energy cooperation, but the GCC states have rejected the idea, 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-Mediterranean-GCC energy strategy would offer the potential for unblocking some of these frustrating and persistent shortcomings.

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 will only arise 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.

4. Careful Steps Forward

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, the 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.

2. 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 and Samir Abdelkrim

1. The Gulf and the Mediterranean: The Beginning of an Affair?

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

This paper seeks to answer a set of questions:

- Is the trend of Gulf involvement in Mediterranean economies sustainable?
- What are the specifics of these investments? Do they differ from projects originating in Europe or the USA? What sort of value do they bring to the region and the economies of the countries involved?
- Could a triangular (Mediterranean-Gulf-Europe) cooperation be envisaged, as a complement to Europe's somewhat modest interest in its Southern and Eastern neighbours? How can 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 and Saudi Arabia. The

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).

2. Global Picture of Foreign Direct Investment in MED Countries

Four major players are involved in foreign direct investment (FDI) in 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/profit-oriented expansion; and the MED countries themselves, poorly integrated but making some inroads in industrial networking (see for instance the Egyptian Orascom group's construction or telecoms projects and the strategies of Turkish firms in Mashreq).

Relatively neglected at the global level in the early 2000s (less than 1% of global FDI inflows to countries that represent 4% of the world's population), the MED countries gained significantly in FDI appeal in the 2004-2008 period (around €40bn in FDI per year, or 3-4% of the world market). Two countries accounted for most of this upturn: Turkey, a new EU candidate, and Egypt, benefiting since 2004 from strong reforms. However, the entire region is on an upward trend, for both external and internal reasons. External factors include proximity to Europe at a time of high energy costs and the search for lower labour costs. And internal factors are continued growth since 2000, pressure of domestic demand, full conversion to the market economy and business realism (e.g. Syria), and clever public investment programmes (Tanger-Med, e-government in Jordan, Tunisian technopoles etc.). The smaller countries (Jordan, Lebanon, Tunisia and, above all, Israel) have a relatively better FDI performance 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 UNCTAD's[2], which represent a different reality (macroeconomic flows registered by the central banks, whereas ANIMA collects

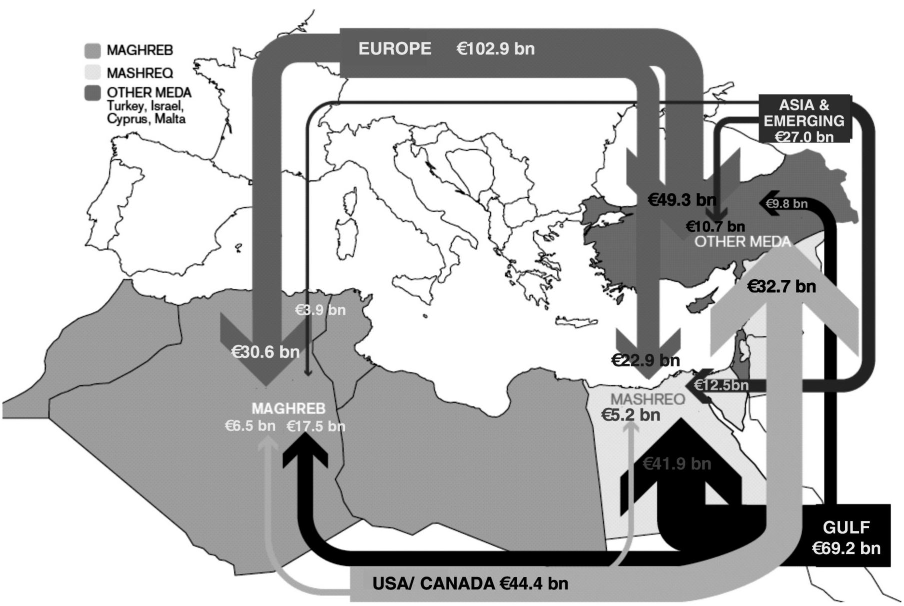
[1] 2009 is counted here as a half-year. This paper is based on data collected up to October 2009, but the total might represent only 50% of yearly flows, since numerous projects are identified after a year-end review with peers.

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

all the announcements made by companies). The main beneficiaries are, as already mentioned, "other MEDA" countries (Israel/Turkey/Malta/Cyprus), which capture 40% of the flow, and the Mashreq (34%) and Maghreb (26%).

The geography of these flows, represented in the map below (Fig. 1), illustrates the diversity of investment preferences of the principal FDI-issuing regions. Europe invests primarily in Turkey, in the Maghreb and in Egypt, and the Gulf mainly in the Mashreq countries. The United States concentrates on Israel. These strong affinities are initially the product of geography, the most significant flows developing 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 with Jordan, Lebanon, Syria or Egypt deriving from the family and patrimonial capitalism of the Gulf, or close relations between the USA and Israel.

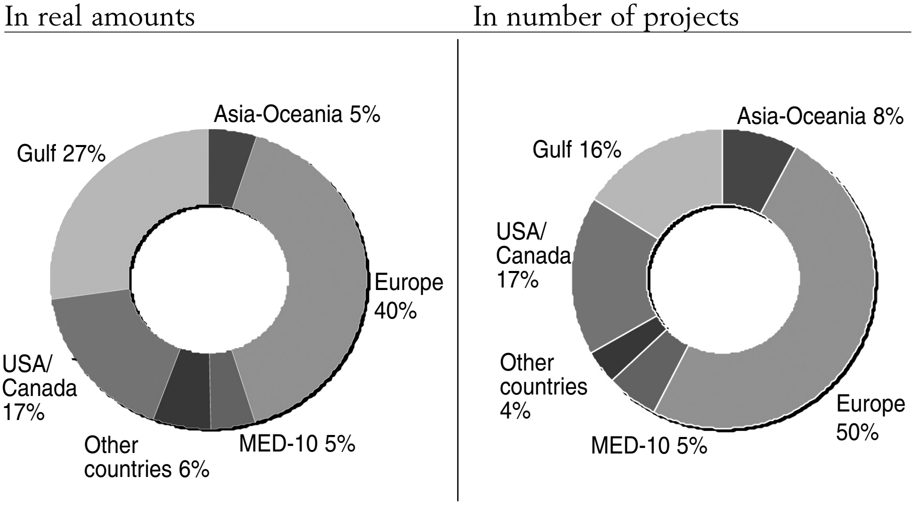
Figure 1. – *Main FDI inflows to MED countries, by origin and sub-region of destination (in €bn)*



Source: ANIMA Observatory, IEMed map. Cumulated FDI amounts (real) over 2003-2009.

Among the 4,222 projects recorded by ANIMA over the 6.5 years from 2003 to 2009, 681 projects originated in the Gulf (16% of projects in numerical terms, but 27% of the amounts involved). This made the Gulf second to Europe in the Mediterranean FDI market (Fig. 2).

Figure 2. – *Distribution of FDI projects by region of origin in real amounts and in numbers*

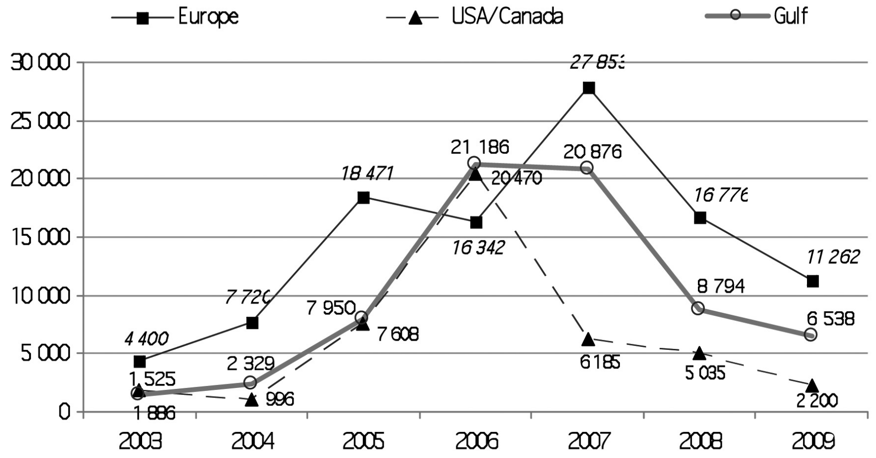


3. EU and Gulf State Investments in the Mediterranean

3.1. A Recent – Sometimes Oversold – Boost for the Gulf

Europe and the Gulf dominate foreign investment flows in the Mediterranean, albeit with a different historical background. For the first time, investors from the Gulf (GCC) (Fig. 3) surpassed Europe in 2006 as the main FDI issuers. With the surge in 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, with the two accounting for two-thirds of the FDI inflows registered over 2003-2009.

Figure 3. – *FDI inflows from main investing regions, 2003-2009 (Real FDI amounts in €m)*



Source: ANIMA Observatory. 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, project breakdown into realistic stages and news updates), it appears that Gulf investments show the biggest differences between gross and real flows (Figure 4). Only 43% of the projects seem to have been implemented, vs. 71% for EU projects and 78% for North-American projects. This is partly linked to the sectors in which the Gulf invests (construction), which are more prone to cancellations.

Figure 4. – *Cumulated FDI inflows 2003-Oct. 2009 as announced by projects' promoters (in €m)*

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%

* 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).
** Gross FDI: as announced by project promoters (total investment over several years).
Source: ANIMA Mediterranean Investment Project Observatory (ANIMA-MIPO).

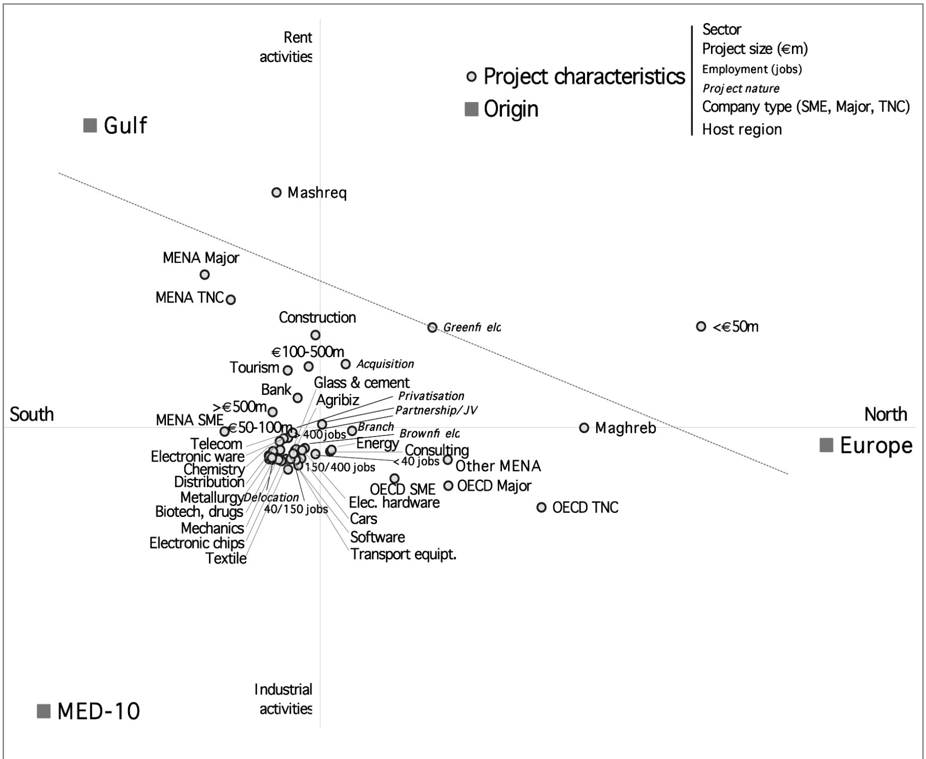
3.2. Comparison of EU and Gulf FDI Profiles in the Mediterranean

To better categorise Gulf investments, it is useful to compare their characteristics with those of European FDIs.

By using a multivariate analysis, it is possible to map the ANIMA FDI base (Figure 5), 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, with Europe on the right contrasting with the Gulf and MED countries on the left. The *y* axis seems to depict rent-producing activities (construction, tourism, banking, telecoms etc.) vs. industrial activities (automobiles, textiles, electronics, pharmaceuticals etc.), with a clear attraction for Gulf investors to the first and for Europeans to the second.

Similarly, the largest projects (in amount and jobs involved) are on the Gulf side, and the smallest on the European side. The distinction in the nature of the projects is less marked, but privatisation and acquisition lean towards the Gulf, while company branches, greenfield developments and partnerships are more prevalent on the EU side. The positioning of the issuing and receiving regions is specular, along the dotted third axis: Mashreq is clearly in the Gulf field, whereas Maghreb belongs to the European area of influence.

Figure 5. – *Mapping of FDI projects from GCC, MED and Europe into MED countries*



Source: ANIMA Observatory. 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. The projects from other origin, America, Asia etc. are not represented.

3.3. Sectoral Preferences

As confirmed by Figure 6 below, Gulf direct investments are concentrated in 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 flows), 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 industrial sectors in general are less attractive. European direct investments in MED economies are more balanced.

Figure 6. – *Sector share of cumulated FDI amounts 2003-Oct. 2009, Gulf vs. EU and North America*

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%**	Creations of numerous 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
Chemicals, plastics, fertilisers	2,810	4.1%	1.2%	2.7%	Petrochemicals
Glass, cement, minerals, wood, paper	2,363	3.4%	**11.6%**	1.3%	Cement plants
Agri-business	1,722	2.5%	3.4%	3.0%	Some interest in distribution (malls) and agri-business
Distribution	1,644	2.4%	3.6%	1.0%	
Other or not specified	1,536	2.2%	0.8%	1.2%	
Car manufacturing or supplies	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%	
Textiles, clothing, luxury goods	167	0.2%	0.5%	0.9%	
Pharmaceuticals	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 FDI 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%	

Source: ANIMA Observatory

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). If we consider the gross amount (announced at project launch), the difference is even bigger (€235m vs. €70m). The pharaonic size of some of these projects can be gauged from Figure 7, below (top 20 projects, some already halted). However, it would be foolish to consider Gulf investors only as conquerors with deep pockets, expecting high returns in the short term while contributing little to sustainable MED growth and, on the contrary, fuelling property speculation. Several Gulf projects are remarkably well-conceived, add a real value to MED economies and are sustainable (e.g. in logistics).

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

Globally, the 681 projects originating in the Gulf 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 we can assume that part of the jobs created by Gulf investments might last only the time it

[3] However, projects are more difficult to detect in the Gulf than in 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, meaning that Gulf SMEs could be under-represented.

takes to complete the facilities (real estate projects). EU projects, on the other hand, usually generate more sustainable jobs in services or industry. Gulf investors express a strong preference for *greenfield* projects (creation of new facilities, accounting for 93% of the total, 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 remaining Gulf investment goes to JVs/partnerships (6%) and branches (1%).

Figure 7. – *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 is to build the country's biggest real estate project, Marsa Zayed, under a BOT (Build/Own/Transfer) model; this will involve moving Aqaba port.
Egypt, 2009 (Barwa Real Estate, Qatar): €6.65bn. The real estate company is to develop a mixed-use community project of over 8.4 km? in New Cairo.
Turkey, 2005 (Oger, Saudi Arabia): €5.1bn. Saudi Oger to get 55% of Turk Telekom for US$6.55bn; its Italian partner is investing only €137m.
Tunisia, 2008 (Abu Dhabi Investment Authority (ADIA) / Abu Dhabi Investment House (ADIH) + Gulf Finance House, United Arab Emirates): €4.6bn. ADIH to launch its Porta Moda real estate project in Tunis; land plots provided by Gulf Finance House.
Egypt, 2007 (Damac, United Arab Emirates): €4.07bn. The UAE-based promoter is to invest £E30bn 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 in an ambitious tourism project in Colonel Abbes, west of Algiers, to be developed on an area of 109ha.

Syria, 2005 (Emaar Properties, United Arab Emirates): €2.7bn. Emaar launches Damascus Hills for US$3.4bn, project 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 US$3bn project.

Egypt, 2006 (Etisalat, United Arab Emirates): €2.34bn. Emirates telecom company Etisalat has won the bid to run Egypt's third mobile network, paying £E16.7bn 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, Bahrain): €2.16bn. The promoter is 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 £E12.5bn 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$2bn "Serrenia" tourist resort at Sahl Hasheesh through Vantage Real Estate Development.

Tunisia, 2009 (Qatar Petroleum, Qatar): €1.6bn. The group which won the Build-Own-Operate (BOO) contract in 2006, for the Shkira refinery, plans to begin construction in 2009 and finish in 2011.

3.5. FDI Geography: Emirates and Mashreq First

The Emirates head the league of Gulf investors into MED countries (52% in volumes, Figure 8), followed by Kuwait (18%) and Saudi Arabia (17%). Bahrain and Qatar are trailing at 7.6% and 4.4% respectively, 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 8. – *FDI flows by Gulf country of origin, 2003–October 2009 (in €m)*

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

Source: ANIMA Observatory

About thirty private or public holdings account for the bulk of Gulf FDI in the Mediterranean (Figure 9). Some are already global brands, others aspire to such status.
These Gulf champions have changed a great deal. They have attracted CEOs and top executives from the world's top multinational companies (half of the top management of Dubai Ports World is Anglo-Saxon, for example) and their personnel is trained using 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. These major companies often ally themselves to big local companies or public-owned structures and generally do not interact much with local small- and medium-sized enterprises (SMEs).

Figure 9. – *Major investors from GCC in MED countries*

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

4. 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, non-governmental organisations (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 regional survey[4] provides an in-depth monitoring of Private Equity (PE) activity from 1990 to 2008 in the MED region, from Morocco to Turkey. The study shows that Gulf investors account for 22% of the equity committed, with European investors trailing at only 3%.

[4] Raphaël Botiveau, Bénédict de Saint-Laurent, *MedFunds Survey: an Overview of Private Equity in the MEDA region*, Marseille, ANIMA, September 2008 (Invest in Med Survey; 2).

Again, the Emirates head up the Gulf countries, followed by Kuwait, Saudi Arabia and Bahrain.

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

The real impact of this offensive is, however, limited by two factors:

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 solely on the MED countries.

Gulf funds tend to be much larger in size than their counterparts in MED, while US and European funds tend to be more balanced in size. 69% of MED funds have raised equity of 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). Of the Top 10 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."

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 prices were booming (2006-2008). They started looking for investment diversification and higher returns – hence their relatively higher interest in Mashreq and Maghreb.

With the recent worldwide financial crisis and the collapse of global equity markets, most GCC SWFs have registered significant losses. This has led

[5] Robin Wigglesworth, "Middle East private equity sees lower returns", *Financial Times*, 22 January 2009.

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 crisis, the GCC SWFs still represent a considerable degree of capitalisation (Figure 10). Of the world's SWFs (assets valued at US$3811.7bn in October 2009), those from GCC represent $1402.8bn, or 36.8%. They include the 1^{st}, 3^{rd}, 7^{th} and 13^{th} most powerful funds worldwide.

Figure 10. – *The top 35 Sovereign Wealth Fund as of October 2009*

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 Company Investment	347.1	**	Non-Commodity	0.2	2
China	China Investment Corporation	288.8	2007	Non-Commodity	0.1	6
Singapore	Gov't 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	
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				

Source: SWF Institute, *Linaburg-Maduell Transparency Index*.

The difference between Sovereign Wealth Funds and purely private GCC investors lies in their *vision of national interests*, and not *solely of 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 global ambitions of Dubai Port World or the Emirates airline). This is confirmed by the 2009 World Investment Report (UNCTAD). According to the WIR, 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). Of these 34 projects being conducted in MED countries, 28 originate in the GCC: 11 from Kuwait (€802m), 6 from the Emirates (€85m), 4 from Qatar (€123m), 4 from Bahrain (€629m) and 3 from Saudi Arabia (€36m). Around half of them deal with insurance. 16 are branches, 9 are JVs, 7 are acquisitions and only 2 are greenfields (creation of an entirely new business).

As regards charities, a few investments have been generated by non-profit NGOs such as the Aga Khan Fund (3 projects in Syria, especially in microfinance or in the renovation of a prestigious hotel in Old Damascus) or the Al Waleed foundation (projects in Egypt and Lebanon). Other projects have a heritage or environmental dimension (restoration of medinas, museums etc.), but are integrated into wider profit-based ventures.

It is obvious that in the Mediterranean, as in the rest of the world, business opportunities and returns remain the primary purpose of 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.

5. MED Trade Relationships with the GCC and the EU

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

The Maghreb has a strong trade focus on Europe; this is especially true for Tunisia and Morocco, less so for Algeria. Trade relationships with the Gulf are very limited. The Mashreq, conversely, is less dependent on the EU for its trade, with Jordan, Egypt, Syria and Lebanon in particular relying more on the Gulf.

Intra-MED trade is extremely limited. The MED trails other economic blocs in this respect, despite a recent positive trend (Figure 11). Although significant efforts have been pursued during the last 5 years to reduce trade barriers among MED countries (bilateral agreements, signing of the Agadir Agreement in 2004 between Tunisia, Morocco, Egypt and Jordan), a lot remains to be done. 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 11. – *Intra-bloc exports as a share of total exports among prominent regional integration agreements*

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%

Source: World Bank, IMF.

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

6. Existing MED-EU-GCC Cooperation

In terms of economic relationships, a MED-EU-GCC triangle seems highly logical, as it mixes:

– The know-how, technology, savings surplus and labour needs of Europe;

– The human and natural resources, but also the gaps in the infrastructure, social provision and consumption of MED countries;

– The energy, financial resources, and the need for secure investments and a safe environment on the part of the Gulf States.

The above analysis shows that this triangle – similar to that of Japan-China-ASEAN, but by no means as well-integrated – already exists as a reality for business operators. However, it is rather unbalanced (see Figure 12) and still seems far from *an organised cooperation 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 failure to fully achieve this cooperation (and thus the lack of synergies) are:

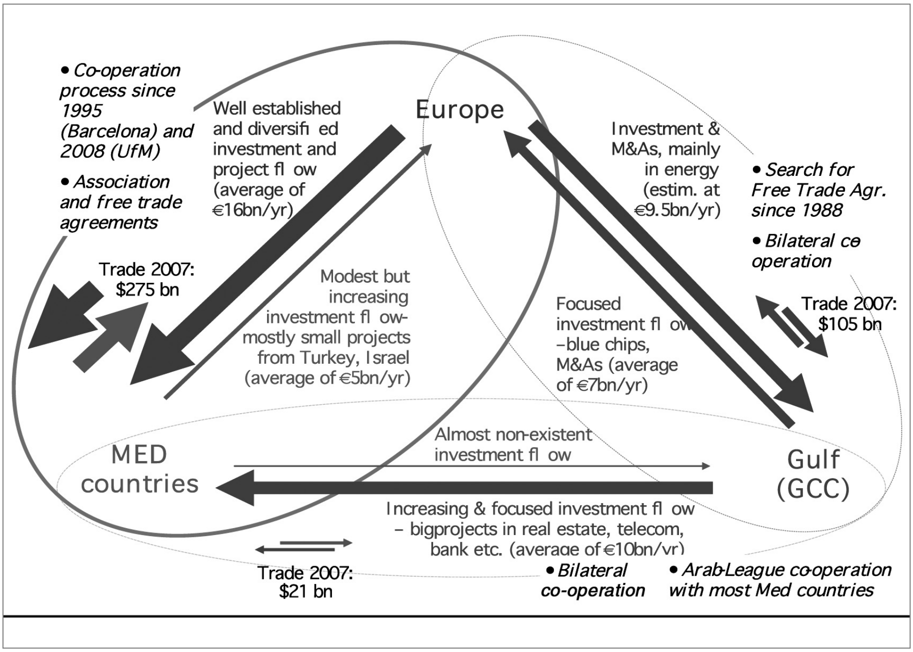
– The huge cultural differences not only between Europeans and their Southern and Eastern neighbours, but also, and maybe even more, between North-Africans and "Arabs" (as the Gulf population is designated in Maghreb);

– The large imbalances in demographics, migration policies, human rights and the social contract (EU resistance to migration, Gulf net importer of labour, two-level citizenship etc.);

– The mistrust – hidden to varying degrees but sometimes open – shown by the stakeholders (expressed for instance in the refusal to accept certain Gulf investments in Europe; similarly, MED countries sometimes reject Gulf operators perceived as having benefited from overly favourable deals);

– The lack of MED willingness to pursue political and economic integration (compared with the EU and GCC's achievements and/or efforts to create a Customs Union, a possible common currency etc.).

Figure 12. – *Imbalances in triangular EU-MED-GCC economic relationships**



* FDI and trade flows are not represented at the same scale.

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

– The EU, still the major investor in and donor to the MED countries, is not playing its expected role in full: there is limited private investment (except from the Latin countries), atomisation of aid in narrow bilateral programmes (at the wish of the MED countries themselves), a lack of EU vision and political will (most MED countries perceived the "new neighbourhood" policy as a downgrade) and, above all, insufficient structural funds for real convergence (less than €100 per capita since 1995 for the MED population of 270 million, vs. €1,000 per capita over 5 years for the 8 central European States who joined the Union in 2004). The Union for the Mediterranean (UfM) is a positive (though awkward) attempt to resuscitate the dormant (but technically efficient) Barcelona process, with the high risks of political obstruction partly mitigated by the primacy given to projects.

– A complicated psychological game is played out in Gulf-MED relationships: the relative contempt of rich oil producers as against the pride of their MED counterparts. From 2003 to 2007, the multibillion projects pouring into the Maghreb were warmly welcomed by local decision-makers – who can resist mega-projects in countries suffering from unemployment and a lack of productive capital? The best pieces of land and the most profitable operations were offered. Since then, the failure to complete 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 altered the balance of forces. Financial crises can be 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 disappointment. Officially, cooperation continues all over the Arab MED countries, but in practice the signals sent out by the companies concerned translate into a much more cautious attitude on both sides.

– The EU-GCC relationship is plagued by the non-signing of the long-expected FTA agreement. Each party needs the other in order to become partners. Trade has still increased in volume in recent years (but less rapidly than Asian-GCC trade). Hindered by its stringent requirements (region-to-region dialogue mirroring EU concepts, human rights, removal of all trade barriers), the EU is losing ground to China, India and ASEAN. Politically, 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 cooperation – 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, leading to the non-integration of the Gulf in the UfM process, despite French attempts to include it).

7. Three Proposals for an Improved Euro-Gulf-MED Relationship

7.1. Building Confidence via a Permanent Dialogue Platform

Confidence is most 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 real business conditions and the status of reforms (Doing Business etc.).

Remarkable progress has been achieved in implementing the rule of law, protecting investors, property rights etc. (in Egypt, for example, "best reformer" in 2007). However, the innermost feeling of numerous operators (for example in Northern Europe, where business applies more stringent standards) is that they would prefer not to enter the market until the rules of the game are totally fair and applied in full.
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 Meeting) – an informal process of dialogue and cooperation bringing together EU-27, the EC, 16 Asian countries and the ASEAN Secretariat[6] – could serve as an example. The idea is to create synergies 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 satisfying 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 shortage of workers in Europe or the savings surplus in the EU (and even more in the GCC) correspond to an 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 not good either in business development or in security terms. That 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 next two decades* (the period when the most populous young generations will enter the job market; pressures will subsequently decrease). 3 to 5 million jobs will be offered each year in the MED region (which currently has 270 million inhabitants). The ANIMA observatory shows

[6] 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. See http://www.aseminfoboard.org.

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, this cannot be achieved solely through public projects (though catalyst projects such as Tanger-Méditerranée or global internet coverage are necessary) or through the mega- 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 and reorganised so that they may grow, be internationalised, and – for the best of them – be transformed into large companies; this is a domain to be addressed by professional networks, coaching or capacity building (limitations of this method notwithstanding) and private equity funds;

– SMEs still to be established in these new services- and ICT-related fields. These start-ups cover a wide range of activities, from franchises or businesses 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 outside 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 numerous: donors (EIB, WB, AfDB, SWFs) are talking billions, but investments of this scale would rapidly saturate a still limited SME market. In addition, there is a need for action at the grassroots level to establish connections 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 an acceptable cost (due diligence to lower costs). This in turn implies training investment bankers all over a region where commercial banks have little engagement in industry financing 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. The need is to improve projects and generate a flow of thousands of yearly projects to be submitted to banks, thereby multiplying the incubators, clusters, technoparks and networks where

nascent companies can be nurtured, informed, coached and 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 yet exist. 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. Over and above finance, the potential added value from 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

Over the centuries, North Africa, Southern Europe and the Middle East have woven a complex fabric of cultural, economic and political relations. The development of physical infrastructure will further strengthen these links (power grids, telecommunications, pipelines, trans-Maghreb motorway, projects for a bridge between Egypt and Saudi Arabia and for a tunnel under Gibraltar). So too will the advent of a tentative greater Euro-MENA free trade area. Until these are completed, *cross investments (private equity, foreign direct investment or sovereign holdings) provide 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 have created an opportunity for a real lift-off. However, the frequent choice of rent sectors represents a risk: absorption capacity is limited; the crowding-out effects which affect local operators may feed resentment towards foreign interests; 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 currently taking place may generate a hidden cost for the community.
A major positive step forward would be for all to work 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 strip occupied by most Southern dwellers, where many cities number their population in millions. MED governments would be entitled to maximise the positive impact of FDI in terms of local content, sustainability, or social care, in exchange for the pref-

erential 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, mainly in 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 full participation by the Gulf in the two pillars of the UfM process (the political secretariat and the Union for projects bringing together pioneering groups) might seem difficult at the moment, it would be interesting to offer the 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.

3. ENERGY IN THE MEDITERRANEAN AND THE GULF: OPPORTUNITIES FOR SYNERGIES

Naji Abi-Aad *

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 look set to increase against a background of overall stagnation in Europe's oil consumption. This could mean that smaller, but still considerable, volumes of oil from the Gulf would enter Europe.

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

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

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

1. Crude Oil & Refined Products

Most projections about oil supplies over the next two decades suggest that the role of the Organisation of Petroleum Exporting Countries (OPEC) will increase. This applies most notably to the Gulf suppliers, which include the six member countries of the Gulf Cooperation Council (GCC), namely Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates (UAE).
However, a detailed analysis reveals considerable disparities, especially as regards how rapidly, and to what extent, increasing supplies from the Gulf will be needed or actually observed. Future oil supply and exports from the region will be shaped not only by global oil demand and the strategies of consuming countries, but also — and perhaps more significantly — by future oil supplies from 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 are likely to affect the prospects for oil supply and exports from the Gulf. These include proven reserves, undiscovered resources, supply costs, oil prices, government policies and industrial development. And, most notably, the level of investment made, not only to expand production capacity and export infrastructure, but also to maintain the existing standards.
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 immense proven reserves of crude oil, estimated in early 2009 at around 498 billion barrels. This represents about 40% of all global reserves, while the region's population represents less than 1% of the world's total. The average reserves-to-production ratio for Gulf oil, a measure often used as an indicator of near-term supply capacity, was estimated in 2008 at 73 years, compared with 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 these resources around the world, argued – through its latest figures, released in 2000 – that the GCC has an undiscovered crude oil potential of some 162 billion barrels (mean), or around 17% 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

lower 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-developed export pipeline infrastructure linking oil and gas fields and reservoirs with petroleum marine export terminals and loading platforms.
In contrast to these positive factors, the GCC share of global oil production (less than 23% in 2008) is much lower than its share of world total reserves. Oil reserves in the Gulf have been underexploited when compared with 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. And basing the extrapolation on production trends in recent years is equally incorrect. That was shown recently 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.
GCC producers face strong competition in the oil markets of the EU from Russia, Central Asia, and Iraq, and especially from Mediterranean producers, notably Libya and Algeria. In fact, the rapid development of North African petroleum resources following the recent political détente with Tripoli has helped alleviate Europe's competitive weakness in securing adequate imported oil (and gas) supplies.
European oil imports from Russia, Central Asia and North Africa are thus expected to increase against the background of an overall stagnation in European oil consumption. This may mean less oil from the Gulf coming into Europe. Gulf oil would, rather, be directed primarily to the emerging economies of Asia, whose demand is set to increase rapidly, and to North America.
Thus, the EU-GCC oil trade is clearly influenced by three main factors:

– oil reserves in the GCC are exploited less intensively than in other oil-producing countries, as manifested by the fact that the Gulf's share in global production is much lower than that of its reserves (23% as opposed to 40%);

– 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 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, albeit indirectly, because the latter are essential to the orderly functioning of the global oil market, and because the Gulf producers are marginal suppliers of world oil.

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

There is a need to better understand which portion of the increase in Gulf refining capacity has been directed to exports, and to which destinations. The GCC should perhaps synchronize its export-focused refining capacity with expected needs in consuming countries, including in the European markets. This issue could be of significant interest and an area for discussion and coordination between the EU and the GCC.

Trade in crude oil and refined products between the GCC and the EU will continue to be of decisive importance to 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 interests of Mediterranean countries to have their sea used for long-haul oil transit to serve the North American market remains an open question.

In view of the accidents that have occurred 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 concern. Indeed, concerns are routinely expressed regarding the vulnerability of the passage through the so-called “dire straits”, which in turn has led to several proposals for by-passes and alternative logistical arrangements, and in particular for a reduction in oil flows through the Strait of Hormuz.

One option, if it is shown to be technically, economically and environmentally feasible, would be to consider reducing maritime oil transportation in

the Mediterranean by developing pipelines. Indeed, the EU has already expressed a desire to reduce dependence on tanker transport of oil across the Mediterranean, and instead encourage a greater use of pipelines.
Nevertheless, all these export outlets and supply and logistics chains remain vulnerable and highly exposed, a fact that is attracting growing attention, especially when taken with actual or perceived geopolitical factors and security threats. All these factors could lead to a cooperative EU-Gulf approach towards building strategic stocks.
In the Gulf's oil-producing countries, the potential for carbon capture and sequestration (CCS) is very significant. CCS appeals to GCC hydrocarbon producers, whose 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, for which proximity to fields that facilitate storage is desirable, is very important, especially in the industrial development process. Interest in CCS also means that GCC countries should develop a strong awareness of the EU-sponsored market for carbon rights and the recognition of CCS as an accepted form of emission reduction. This translates into tradable Certified Emission Rights (CERs) under the Clean Development Mechanism (CDM) of the United Nations.
GCC producers could collaborate fruitfully with the EU to develop CCS-related actions, such as promoting projects for CO2 infrastructure development at the national level, or building up CO2 storage sites and pipelines for multi-user access. The potential for CDM projects in the GCC countries could be a good candidate for inclusion under the umbrella of EU-Gulf synergies.

2. Natural Gas

The Gulf region enjoys a large gas resource base, especially when compared with its current and foreseeable level of demand. While the area has historically played a marginal role in world gas markets (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, which BP's Statistical Review of World Energy estimated in early 2009 at an aggregate figure of

43,120 billion cubic metres. This accounts for around 23% of the world's total. A major portion of these reserves is concentrated in a small number of giant fields, a factor that makes the development of structures easier and cheaper. Nevertheless, the size of proven gas reserves differs widely from one GCC country to another, from 90 billion cubic metres at the lower end of the scale, in Bahrain, to 25,460 billion at the higher end, in Qatar. Here, they are mostly located in the 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, compared with a global average at the time 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 sufficient in themselves, 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 exports.

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 has historically been on oil exploration, and that natural gas reserves in the area have to a large extent been underestimated. The USGS reported in 2000 that the total undiscovered gas resources in the six GCC countries amount to around 23,309 billion cubic metres (mean), or nearly 16% 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% of the world's total in 2008, when the region exploited only 0.6% of its gas reserves, compared to a global average of 1.7%. Therefore, the growth of the gas industry in the Gulf can be considered to be still in its early stages.

Growing domestic gas consumption in the GCC has partly driven the development of gas production there, but 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 volumes of gas to the international markets.

In 2008, the GCC had a still marginal share (around 9.2 per cent) of 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 GCC share of the international LNG trade was around 26%, with Qatar accounting for nearly 68% of the gas exported from the region.

The GCC, and especially Qatar, is keen to play a key and growing role in regional and international gas markets in the near future. Indeed, Qatar has a firm determination, supported by vigorous and dynamic policies, to expand its natural gas exports. The country is also blessed with low production costs 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 under-utilisation 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, its gas exporters have many challenges to face, 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 exploit to better effect the huge coal reserves found all around the world.

Meanwhile, the Gulf has been facing growing competition from other LNG developers, especially from within Asia, its main LNG market. That rivalry is likely to become intense. The aim is to secure the earliest possible place in the Asian gas market, and to ensure that projects are not delayed, bearing in mind that long-distance gas pipelines will also eventually be competing with LNG.

Facing all these actual and potential problems, Gulf expansion goals have focused on old/new opportunities in Asia. The Gulf is confident that Asia will remain for decades its main gas export market, especially as only part of the energy demand resulting from growing economic activity in the region has so far been met by natural gas. Gulf gas producers have also focused on European markets.

In the EU, the medium- and long-term energy outlook points to an increase in demand for natural gas, a growth that would, however, be much lower than that seen in the region during the past three decades. Some analysts even believe that the growth in European gas demand is far from certain. In fact, the increased demand for gas for power generation, which is the main driving force behind the steep rise in European gas consumption, could well be challenged by coal, especially if an environment-friendly coal technology became widely available, and if gas prices followed those of oil and rose to and stayed at relatively high levels.

That said, there is little doubt that the EU countries' main existing external gas suppliers, namely Russia, Norway and Algeria, will continue to meet most of Europe's increasing demand, and remain the main pillars of natural gas supply to the region. Indeed, these 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 in satisfying additional European demand. It is 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, with no market share at all, to build its first pipeline. New gas suppliers will thus have substantial barriers to overcome before acquiring weight in the EU gas market.

While taking these factors into consideration, the EU is firmly intentioned to diversify its gas supply sources. A recent communication by the European Commission 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 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 and to ensure that multiple import pipelines exist to supply Europe.

In fact, diversifying LNG supply sources and connecting other producers to the European gas network must be made priority objectives, because if matters were left to the market, the almost certain outcome would simply be an increasing reliance on consolidated suppliers in the short- and even long-term. However, the end result would be a tightly knit oligopoly, with resulting relatively higher prices almost cancelling out the positive effects of the under-established competitive gas market in the EU. Europe would become even more dependent on just three countries.

New and prospective gas exporters to Europe include, in particular, the Gulf producers, especially Qatar, but also the Central Asian countries, from which several pipeline projects (such as Nabucco) are being considered. Other suppliers are Mediterranean producers, such as Libya and Egypt.

Libya, which is already linked to the European gas network through the GreenStream pipeline to Italy, could see its gas exports growing in the future if additional gas reserves were found and developed in the country. This 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 which is the starting point for the Arab Gas Pipeline (AGP) supplying the eastern Mediterranean Arab countries (Jordan, Syria and Lebanon), serious doubts have been raised over the country's medium- and long-term gas export capabilities.

Egyptian gas reserves are relatively modest compared with the country's gas export plans and its rapidly growing domestic needs, and the government is strongly encouraging the use of natural gas in place of petroleum products in almost every economic sector. This recently led Cairo to prioritise the allocation of natural gas for domestic use and industry over that destined for 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 in the country.

Returning to the Gulf, 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. These could be either direct or use 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's large gas reserves to build strong physical links with one of the world's main markets for natural gas.

A salient feature of all pipeline projects from the Gulf to Europe is that they must first cross through Turkey. Turkey is also the essential bridge for many gas export schemes from other countries or regions, all ultimately aiming at reaching the EU market. Turkey is also - 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 the Suez Canal, which has to be transited by every Gulf LNG carrier to Europe. If Gulf LNG headed for the United States were also to transit the Mediterranean, LNG shipments of 40-60 billion cubic metres/year across the Suez Canal and the Mediterranean could easily be envisaged by 2020. These volumes could reach 100-150 billion cubic metres/year by 2030.

3. 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 these vital products, estimated to grow at an average annual rate of 7% over the next 15 years.

As a result, power generation and water production capacity in the region is expected to more than double within the next 12-15 years. The additional power generation capacity for the period 2007-11 alone, some 14 gegawatts (GW) above the current estimated level of 65GW, translates into a 5-year cumulative investment of about US$25 billion. Over the next decade, Saudi Arabia alone will invest around US$80 billion in expanding its power generation and transmission sector. All of this would open the door wide for opportunities for EU involvement in Gulf power investment, in capital terms, either as Independent Power Producers (IPPs) or in other forms, or by transferring the latest power technologies. This applies not only to electricity generation but also to power transmission and interconnection.

One power generation technology being researched by the Gulf countries is nuclear energy. By looking at ways to establish a nuclear component to their power generation fleet, GCC countries aim to leave oil for export, and natural gas (which is in deficit in many countries in the region) for petrochemical feedstock use.

In the nuclear energy field, Europe is obviously a potential technological partner. The EU has significant competences in the nuclear field, deriving directly from the EURATOM treaty. Thus, nuclear energy offers a clear and important, if delicate, area for cooperation between the EU and the Gulf, not only in power generation, but also in water desalination.

Indeed, 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 the 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, could provide another area of synergy between the Gulf and the EU, where many countries have been using coal for centuries and are now developing cleaner technologies for its use. Indeed, 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 positively appraised in the GCC, and as a result a regional grid is currently being established. However, the limited surplus of generating capacity currently available, and the fact that peaks in member countries tend to coincide, will make it difficult to fully exploit the benefits of a GCC power grid.

Nevertheless, power interconnections are envisaged beyond the GCC itself, with other Middle Eastern and North African countries, 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 generating capacities could serve alternative markets situated throughout the ring, exploiting hourly or seasonal differences in peak load demand. In such a field of power transmission and interconnection, opportunities for synergies between the GCC and the EU most surely exist.

4. Renewable Energy Sources (RES)

An awareness of the potential for renewable energy sources (RES), especially solar and wind energy, is growing rapidly in the Gulf. As a consequence, the prospects for technological, industrial and policy cooperation with the EU are considerable.

GCC countries have studied and developed interesting initiatives regarding the development and promotion of RES. Saudi Arabia has been working on a plan to become a major centre for solar energy research and, subsequently, a major megawatt exporter. Masdar City, the US$15-billion future energy initiative in Abu Dhabi, where the headquarters of the UN's International Renewable Energy Agency (IRENA) are now located, is to be the world's first carbon-neutral, waste-free, car-free city depending completely on renewable energy and re-used water. Other related activities in the Gulf hinge on research or pilot programmes, such as the use of solar energy for desalinating water, the development of advanced photovoltaic systems, the use 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 energy), could make a significant contribution to environmental protection, on a regional and global level, and could indirectly help guarantee oil and gas supplies from the region. At the same time, the GCC countries have an opportunity, through RES applications, to support the development of many of their remote towns, villages and settlements.

For these purposes, the GCC may well need to introduce and develop instruments for the growth and expansion of RES in its member countries. The EU has developed such instruments to a significant degree. They take the form of price-based mechanisms (feed-in tariff, fiscal incentives and investment grants), or quantity-based mechanisms (quota/time gain compensation (TGC) and tendering schemes). Cooperation between the GCC and the EU in this field could therefore be useful and valuable for both regions.

4. 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.

1. 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.

2. 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, longstanding 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.

Istituto Affari Internazionali

AI-JISR PROJECT

Seminar

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

10-11 December 2009

<u>Rome</u>

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
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
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
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

	SPEAKER:	*Bénédict de Saint-Laurent*, General Delegate, Anima Investment Network, Marseille, France
	RESPONDENT:	*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
	SPEAKERS:	*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
1:30 pm		*Lunch buffet*

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