

# Gulf Monitor



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Islamic Finance in the GCC:  
Trends, Prospects and Challenges



Maintaining Momentum in GCC-EU Ties



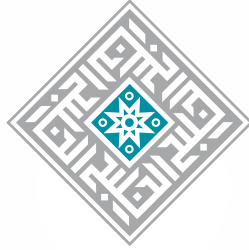
GCC-Africa Health Cooperation:  
The Need for Closer Linkages



The Iranian Elections:  
Change or No Change?



IRENA in Abu Dhabi: New  
Opportunities and Challenges



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## GULF MONITOR

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Cover picture: An Iranian lady displays her hand painted with the Iranian flag

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# Islamic Finance in the GCC: Trends, Prospects and Challenges

*Dr. Samir Ranjan Pradhan*

Over the last decade, Islamic finance (IF) has recorded spectacular growth and is currently poised to be a crucial ingredient of the global financial market. Though IF has existed for more than three decades serving tailor made financial services to devout Muslims, its scope and coverage were largely restricted to commercial banking in the Middle East and Malaysia. However, in the last few years, innovative Islamic financial products and services, regulatory frameworks and increased linkages with mainstream financial market have made IF a rapidly growing segment with market presence in more than 75 countries with an estimated total assets to the tune of \$800 billion dollars.

With the integration of Islamic financial services, Islamic banking and Islamic insurance into the global economy, IF has undergone huge expansion, partly driven by the oil-driven financial liquidity in the Gulf, and the fast growing number of Muslims seeking more religiously sanctioned products. Simultaneously, the spectacular growth of IF has also raised considerable concern in the world owing to its peculiar market characteristics, debate over the interpretation of sharia law and the apprehensions of non-Islamic

western countries. However, in the current global economic environment, IF is increasingly being projected as a reliable source of global financing. Moreover, the competitive landscape is being redrawn, with more Islamic financial services institutions in the marketplace than ever before. Incumbent banks and new market entrants are facing vastly different market conditions and need to develop new sources of differentiation beyond compliance with sharia (Islamic law) to compete or remain successful in the future. This article seeks to analyze the

drivers of growth behind IF in a changing competitive landscape, and to explore the role of Gulf Cooperation Council (GCC) as the epicenter for innovation and development and of opportunities and challenges facing IF as an economically viable global industry.

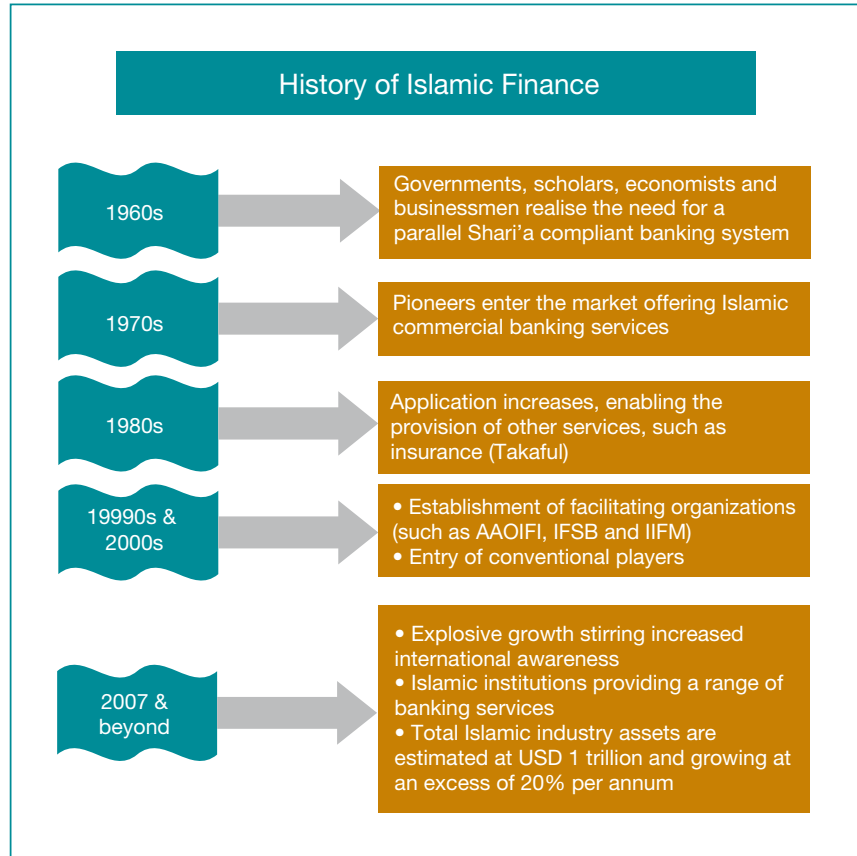
## Historical Background

The historical roots of IF can be traced back to the late 19th century when the Ottomans introduced western-style banking to the Islamic world in order to finance their expenditures. The



*Employees of Citibank in Kuala Lumpur, Malaysia*

prominent Islamic jurists opposed modern banking practices on the ground of violations of Islamic prohibitions against usury (riba or interest) till the mid-20th century which marked the beginning of Islamic renaissance of independence movements. The intellectual founders increasingly viewed political independence to be supplemented by economic independence through a structure of Islamic economic system. This gave rise to the birth of Islamic economics focused on macroeconomic developmental issues and proceeded to theoretical discussions on the juristic aspects of Islamic finance by the 1970s. Academic literature of that period suggested a profit-and-loss sharing silent partnership alternative to conventional interest based lending practices. This partnership-based focus grew in Islamic financial practices and



with the help of Islamic jurists and lawyers, Islamic financial practitioners became able to provide almost all alternative financial products including various debt instruments and fixed income vehicles.

### Principles, Products and Advantages

IF refers to a system of financial activity which is consistent with Islamic law (Sharia) principles and guided by Islamic economics. In particular, Islamic law prohibits usury, the collection and payment of interest; instead, profit-and-loss sharing arrangements (PLS) or purchase and resale of goods and services form the basis of contracts. In PLS modes, the rate of return on financial assets is not known or fixed prior to undertaking the transaction. Islamic law also generally prohibits trading in financial

risk (which is seen as a form of gambling). In addition, Islamic law prohibits investing in businesses that are considered haram (such as businesses that sell alcohol or pork, or businesses that produce un-Islamic media).

These principles and particularly the prohibition of interest have necessitated the use of a variety of alternative modes of finance. The interest-free transaction in no way means capital is less costly in IF, rather, prescribes an ethical way of mobilizing capital for production and thereby earning profit. Under IF, there are a number of trade and investment schemes to deploy capital to yield undetermined rates of return. IF products fall into four broad categories:

(i) **Profit sharing financial products** which include, Musharakah- all partners, participation in terms of equity,



investment, management and profit (based on pre-agreed ratio) and loss (based on equity contributions); Mudarabah- one contributes capital, others provide entrepreneurship and profit is shared on a pre-agreed ratio; Qard Hasan- charitable loans free of interest and profit-sharing margins to be repaid in installments with modest service charge; Wakalah- a bank is authorized to conduct business on customers' behalf; Hawalah- an agreement by the bank to undertake some of the liabilities of the customer in return for a service fee and the customer pays back the bank when the liabilities mature;

(ii) **advance purchase financial products** which include, Murabahah- a contract between the bank and its client for the sale of goods at a price that includes a profit margin agreed by both parties; Istithna'- a contract for acquisition of goods by specification or order, where the price is paid progressively in accordance with the progress of job completion; Mu'ajjal- a sales contract that allows purchase with deferred delivery; Ijarah- a leasing contract under which a bank buys and leases out for a rental fee equipment required by its clients;

(iii) **Deposit products namely, Wadi'ah- deposits**, including current accounts (giro wadi'ah); Mudarabah- deposit products based on revenue-sharing between depositor and bank, including savings products that can be withdrawn any time and time deposit products; Qard al-Hasanah- unremunerated deposit products, usually for charitable purposes; and

(iv) **Insurance products** known as Takaful- Islamic insurance with joint risk-sharing. Moreover, in recent years, innovative modes of Islamic financing such as Islamic securitization and Islamic derivatives or Islamic hedging of currency risk have been introduced. Islamic securitization is being incorporated as an ideal instrument for project financing particularly in the emerging capital markets of the GCC region.

The principle of profit-sharing in IF has certain advantages in comparison to conventional financial practices. Profit-sharing principle mobilizes investible funds to the projects with the highest expected profitability as opposed to the interest-based system where funds go to the most creditworthy borrowers whose projects may not necessarily be the most profitable ones. In other words, the system based on profitability will ensure 'economic efficiency' leading to optimality in production, consumption, and exchange. Secondly, profit-sharing is more conducive to economic growth, as this would increase the supply of risk capital for investment and greater incentives for undertaking such risks due to expected profitability. Finally, the Islamic system promotes an 'integrated' economic development as it encourages the use of money for facilitating trade in goods and investment in productive capacity rather than creating money for the sake of money. Such a system is likely to be more stable and is less vulnerable to financial crisis that can be caused by unregulated

speculative activities.

Moreover, from the point of view of financial prudential standards, Islamic banks are less vulnerable to risk than conventional banks. For example, Islamic banks are able to pass through a negative shock on the asset side (e.g., a Musharaka loss)

Islamic Finance in the GCC is on the upswing with tremendous future potential

to the investment depositors (a Mudaraba arrangement). The risk-sharing arrangements on the deposit side provide another layer of protection to the bank, in addition to its book capital. Also, the need to provide stable and competitive return to investors, the shareholders' responsibility for negligence or misconduct (operational risk), and the more difficult access to liquidity put pressures on Islamic banks to be more conservative (resulting in less moral hazard and risk taking). Furthermore, because investors (depositors) share in the risks (and typically do not have deposit insurance), they have more incentives to exercise tight oversight over bank management. Finally, Islamic banks have traditionally been holding a comparatively larger proportion of their assets than commercial banks in reserve accounts with central banks or in correspondent accounts.

### Current Trends

Buoyant economic growth coupled with demographic surplus

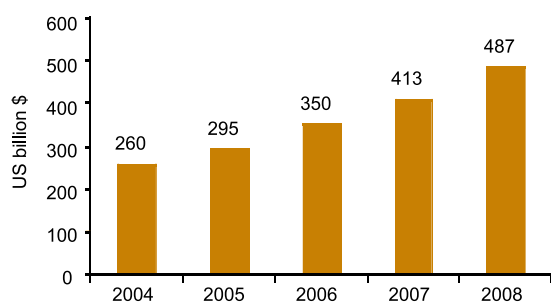
particularly in predominantly Islamic countries is the primary factor behind the phenomenal growth of Islamic finance over the years. As a result, Islamic assets have grown between 15

percent, although it increased from 0.2 percent in 2000 to 0.6 percent in 2007. Though, Islamic banking activities accounts for the bulk of worldwide sharia-compliant assets, the scope of

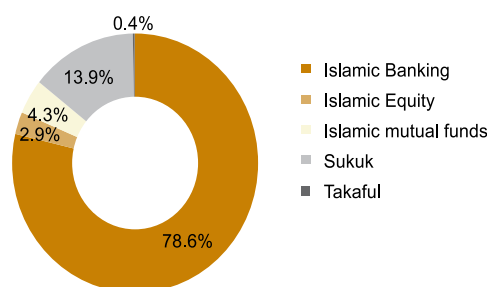
through sukuk.

More than half the global sukuk transactions in 2008 were based on ijara mode of financing, followed by mushakara with 17.2 percent. Important to note that

**Total volume of Sharia-compliant Assets**



**Decomposition of Global IF Assets, 2007**



and 20 percent annually for the past five years, culminating in the current global Islamic assets of nearly 500 billion dollars, making Islamic banking one of the fastest-growing sectors in the global financial services industry. As per other estimates, the total assets are around 800 billion dollars (Gulf One Investment Bank, December, 2008) and expected to increase to 4 trillion dollars by 2015 (Moody's forecast).

From a global financial industry perspective, IF still accounts for a small proportion of the market—the share of IF in world financial market assets is less than one

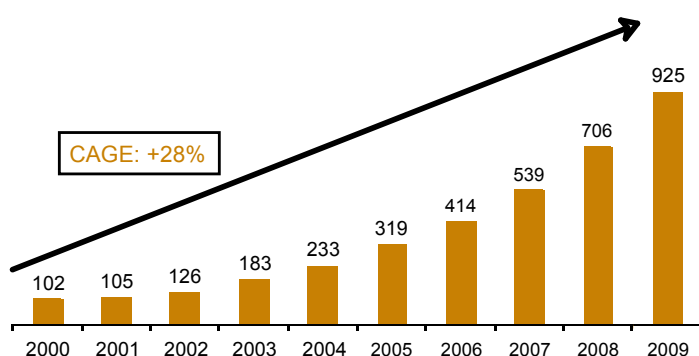
IF is expanding rapidly beyond retail and trade financing operations of Islamic banking to more sophisticated sharia-compliant financial products. By 2009, the number of Islamic mutual funds have increased to 925—an increase of 28 percent within a decade.

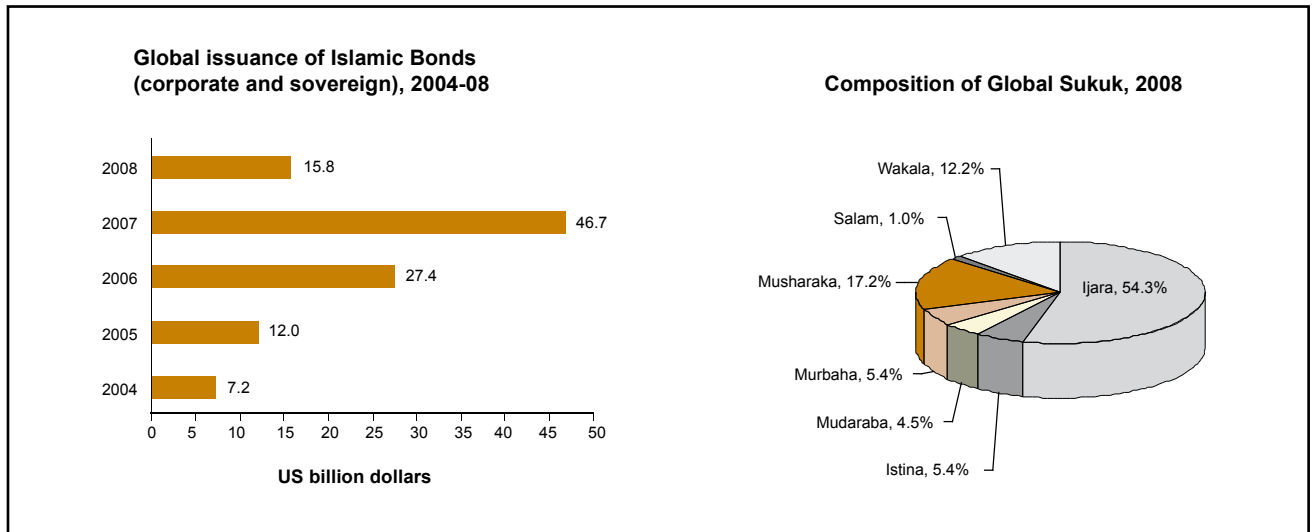
Simultaneously, Islamic capital market also saw growth with large scale innovation of sharia-compliant products. The most notable instrument (by volume) that has emerged is the sukuk, an Islamic financial vehicle similar to a bond. From 2004 to 2008, nearly \$110 billion was raised

the global sukuk industry in 2008 witnessed a sharp downturn with a total value of sukuk issues of around 16 billion dollars, compared to nearly 47 billion dollars issue since 2007 due to the ongoing financial crisis.

Also, Islamic funds such as Islamic private equity funds, hedge funds and real estate funds have experienced unprecedented growth in the last few years. Currently there are more than 700 Islamic funds globally. The first Sharia-compliant fund was launched in 2007 by international brokerage NewEdge with seed investment by Saudi Arabia's NCB Capital. Since then many international financial players such as Deutsche Bank, HSBC and Barclays Capital have come up with a variety of funds in collaboration with their Islamic counterparts. Another important market segment is the Islamic insurance or Takaful, largely dominated by GCC investors. The global Takaful industry is growing by 20 percent per annum

**Number of Islamic Mutual Funds**





and slowly expanding beyond the home markets to countries such as Indian sub-continent and Africa.

### Islamic Finance in the GCC

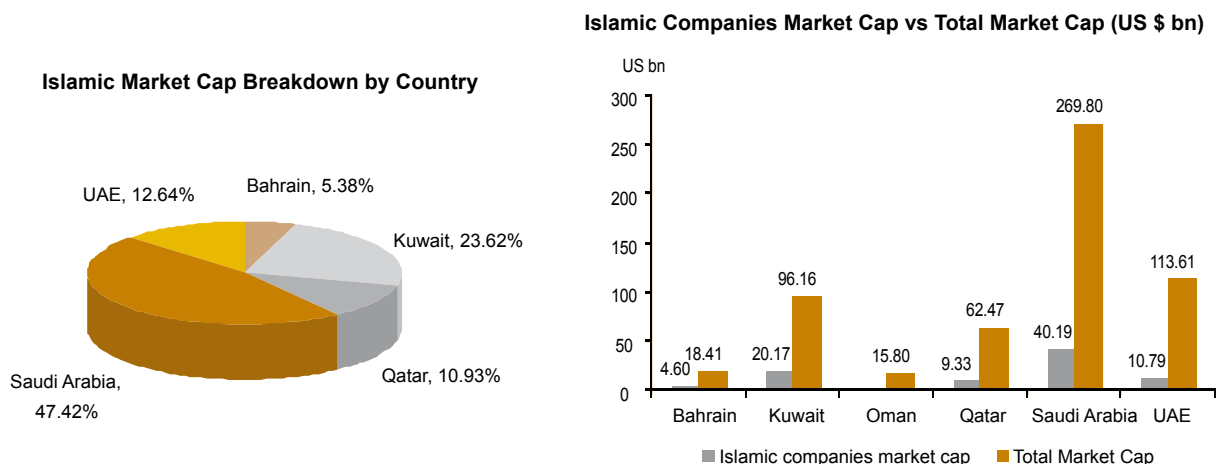
The growth of IF in the GCC region goes back to the 1970s oil shocks that resulted in huge influx of oil revenues and massive surge of liquidity in the region. The earliest private Islamic banks of the region were the Dubai Islamic Bank and Al Baraka groups of the KSA and Kuwait Finance House. In its early stages, most governments in the GCC region were either hostile to, or at best ambivalent about, Islamic finance. As a result, IF did not grow robustly in the region.

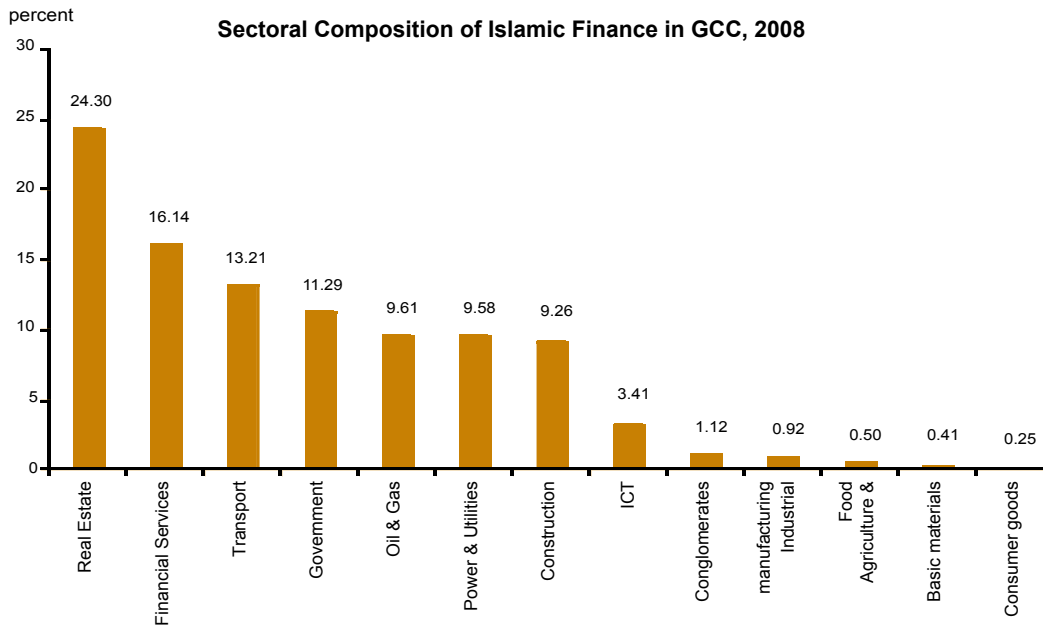
However, demand for financial products allowed a number of local and western financial practitioners to create a small industry, using investment funds from the Gulf region, especially Saudi Arabia. Bahrain and UAE also pursued IF as a niche segment in their overall economic diversification program and now the region is home to the largest concentration of IF assets.

Islamic banking assets of GCC in 2008 stood at 110 billion dollars with Saudi Arabia accounting for the bulk (55 percent), followed by UAE (19 percent), Kuwait (16 percent), Bahrain (7 percent) and Qatar (4 percent). The GCC Islamic banking sector is dominated by top three banks,

Al-Rajhi Bank of Saudi Arabia, Kuwait Finance House and Dubai Islamic Bank with combined assets of nearly 90 billion dollars. Other important banks that occupy the top of Islamic Banks are Qatar Islamic bank, Bank Aljazira (KSA), ARCAPITA (Bahrain), Qatar International Islamic Bank, Gulf Finance House (Bahrain), Shamil Bank (Bahrain) and Bahrain Islamic Bank.

In terms of market capitalization of the GCC IF sector, Saudi Arabia is the dominant player followed by Kuwait, UAE, Qatar and Bahrain. However, despite the tremendous progress, IF accounts for a small share (15 percent) in the region's total market capitalization.





Moreover, another important fact is that the growth of IF in the GCC is largely confined to a few economic sectors such as real estate followed by financial services largely in the form of consumer loans. This implies that the sector is slowly emerging from a low base with huge potentials in the future.

With the liquidity crunch due to the financial crisis, Islamic syndicated lending acted as a cushion against the drop in sukuk issuance for project financing in the GCC. As the sukuk market contracted with increasing LIBOR rates, investors switched to syndications as a better alternative. In project finance, Islamic tranche accounted for nearly 10 percent of the region's total project financing. The proximate factors for increasing Islamic project financing has been the huge infrastructure financing gap in the region, growing number of domain knowledge specialists, law firms and related institutions capable

of fine-tuning speedy sharia-compliant financing deals.

### Legislation, Regulatory Issues and Shariah Compliance

Despite the growth and potentials for IF in the GCC, there are critical issues that need to be addressed for making the sector more competitive. In the GCC, Oman, for political reasons, does not award any Islamic banking licences. Unlike Iran, there are no mandatory legislations or law for making all internal financial dealings to be shariah compliant in the GCC countries. Kuwait adopted legislation in 1976 to allow the establishment of Kuwait Finance House, for many years its only Islamic bank, but this legislation was superseded in 2004 by an amendment to the Central Bank Law 32 of 1968 allowing Islamic financial institutions to function alongside conventional banks, but with no special privileges for the former. The law does however provide a framework

for Islamic financial governance, especially articles 86, 87, 93 and 96, including a stipulation that each institution should have a shariah board with at least three members. Besides, there is no similar legislative provision in any other GCC state, where

The growth of IF in the GCC is largely confined to a few economic sectors such as real estate followed by financial services largely in the form of consumer loans. This implies that the sector is slowly emerging from a low base with huge potentials in the future

Islamic finance is dealt with at the regulatory level only, with Bahrain having the most detailed rule book.

Importantly, standards for shariah compliance are not harmonized in the GCC where each institution

has its own shariah board but apart from in Bahrain, there are no national boards. Consequently there are conflicting fatwa's reflecting different interpretations of shariah. Furthermore, all those appointed to the shariah boards of the banks have to apply to the Central Bank and obtain accreditation.

Bahrain has functioned as a regional financial center since 1976, keeping its market open to foreign banks, while Saudi Arabia and Kuwait only licensed majority locally owned institutions. Bahrain has more than 30 Islamic financial institutions, including banks and takaful insurance companies, most of which serve the regional rather than the local market. It is very dependent on Saudi business, however, and as the latter opens up its financial sector, there are competitive challenges to Bahrain, including in Islamic banking. Qatar

also has a financial center, with a detailed rulebook covering Islamic finance, including criteria for shariah supervision. A higher proportion of bank deposits are shariah compliant in Qatar than in any other GCC state. The Dubai Financial Centre has the highest international profile in the region, but Islamic finance is somewhat marginal to its interests.

Competition can of course be helpful to financial development, but the emergence of rival centers in the Gulf has fragmented the

Islamic finance industry and resulted in many very small institutions being licensed which cannot benefit from economies of scale or scope. None of the Islamic banks in the Gulf are in the top 100 world banks in terms of assets, and as a consequence it is the major international banks such as HSBC, Deutsche Bank and Citibank that have moved into Islamic finance to fill the void, especially in investment banking, where capacity and capability are of critical importance. Although

*An Islamic Bank in Malaysia. Kuala Lumpur has become one of the centers of Islamic Banking in the world. The GCC and the rest of the financial community are warming to the potentials that this form of finance has to offer*



HSBC has based much of its Islamic banking operations in Dubai, the other investment banks conduct their Islamic finance business from London, where it is easier to recruit skilled professionals, rather than the GCC.

### Conclusion

The Islamic financial industry has continued to flourish and is set to play an increasing role in the global financial system with the GCC region playing a pivotal role. Despite a belated

start, IF in the GCC is on the upswing with tremendous future potential. The GCC countries are pursuing a strategy of integrated development of financial and real sectors on the premise that the two can reinforce each other. However, with increasing competition and market growth, a pragmatic strategy focusing on enabling policy regime is required to make the sector a niche economic segment. With regional financial integration in the GCC, this becomes

imperative. Moreover, for GCC private players handicapped by the small market size, other emerging investment locations such as in Africa and the Indian subcontinent look promising. But before venturing out, these regional players need to demonstrate domestic entrepreneurial success as role models, which aptly calls for government playing an enabling role in this regard.

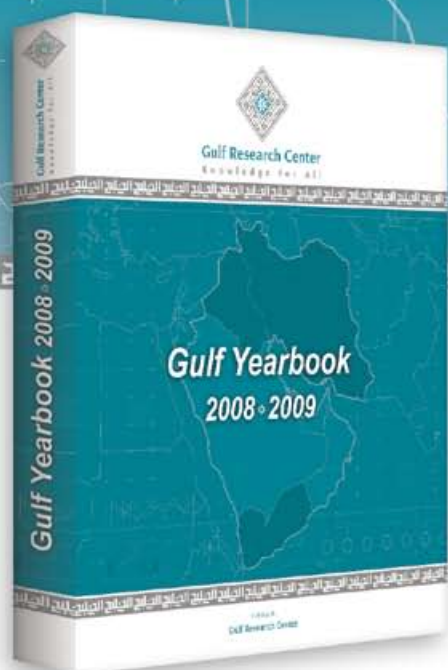
*Dr. Samir Ranjan Pradhan is a Senior Researcher at the Gulf Research Center*



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# ***Gulf Yearbook*** ***2008-2009***

The Gulf Yearbook 2008-2009 provides an analytical perspective on the main and critical developments of the year for the Gulf region with particular focus on the key political, economic, security, social and environment issues that have defined Gulf relations over the year.



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# Maintaining Momentum in GCC-EU Ties

*Dr. Christian Koch*

As foreign ministers and officials from the member states of the Gulf Cooperation Council (GCC) and the European Union (EU) gather on April 29, 2009 for their annual joint ministerial council meeting, most of the attention will be focused on the status of the free trade area (FTA) negotiations which were suspended by the



*Abdulrahman Al-Attiyah, Secretary-General of the GCC gestures prior to the annual Joint Ministerial Council Meeting held in Muscat at the end of April*

GCC side last December. The key question is: will there be a renewed commitment to try to conclude a multilateral FTA between the two groups or will the GCC and the EU abandon the idea for now and focus on other areas of cooperation?

No doubt the announcement by GCC Secretary-General Abdulrahman Al-Attiyah at the

end of 2008 of the unilateral suspension of the FTA talks took the EU by surprise. But it should not have. The fact was that the talks, although complicated and detailed, had been going on for too long with never-ending suggestions since 2003 that this would be the year that the deal would finally be sealed. The GCC also felt that it was the one being asked to make concessions always and that negotiations increasingly were a one-way street where the EU demanded and the GCC had to give in. Without sufficient flexibility from the EU side, the continuations of talks became untenable, and thus the decision to take a time out.

Naturally, the failure to make any headway in the FTA negotiations was seen as the prime example highlighting the shortcomings, even failure, in overall GCC-EU relations. The inability to bring talks to a fruitful end after what appeared to be decades of discussions was indicative of the fact that institutional ties had not developed sufficiently. Yet, such characterization is not completely accurate if one takes a more comprehensive look at how GCC-

EU relations have developed. Even as far as the suspended FTA talks are concerned, one could take a more positive view by arguing that the fact that the two sides were engaged in serious negotiations was the result of increased institutional relations. In addition, to view the suspension of the negotiations by the GCC as an end by itself is simply short-sighted. It is a temporary measure that can be reversed.

Looking at the glass as half full instead of half empty is even more necessary when one considers the numerous initiatives that have been put forward in the past five years alone. Here, one should not evaluate GCC-EU ties from the perspective of the Cooperation Agreement that has been in place for more than two decades but for which so far there is very little to show for. This would be unfair because for much of that period, the two sides were simply not ready – institutionally or politically – to engage in a substantive manner. That, however, has changed since 2004.

In fact, on all fronts outside of the FTA, relations have grown. The overall trade balance has more than doubled in the last five years, and the EU remains the GCCs largest trading partner. In addition to the annual ministerial council meeting which

has been held regularly, there are other joint cooperation committees in place to deal with various matters. There are also numerous expert meetings that have been convened in the areas of environmental cooperation, energy, education, and combating money laundering and terrorist financing. A European Commission office has existed in Riyadh since 2004, and there are proposals being considered to open additional offices in other GCC states. Regular exchanges also take place with regard to many of the GCCs integration plans, from ways to improve the customs union to implementing the common market to looking at the introduction of a common currency. There have even been consultations as the GCC prepares to develop its own neighborhood policy and to learn from European experiences. All of this is supplemented by increased contact at the private and non-governmental levels. Far from being a picture of failure, GCC-EU ties are quite vibrant if one looks at the past few years.

Nevertheless, it is also time for the two sides to get more serious. For one, the EU must begin treating the GCC states on a more equal footing and to fully acknowledge that not only is regional integration an increasingly serious and broad undertaking that deserves more than their lip-service support, but that the GCC states as state entities are strong and dependable allies that are ready to deliver their end of the bargain. The GCC states want an FTA that

reflects their national interests and addresses the burgeoning trade balance in favor of the EU. Here, the EU must show some flexibility in the negotiations and, if so, they will find that the relationship can be taken forward significantly. Besides sending a powerful message about the vibrancy of relations, a GCC-EU accord on trade would also sent the right signal against protectionism in the current tight financial times.



*The Swedish Minister for Financial Markets, Mr. Mats Ode, with H.E. Nasser Ahmed Al Sowaidi, Chairman, Department of Planning and Economy, Abu Dhabi. Sweden's Presidency of the EU seeks to strengthen the ties between the EU and the GCC*

Equally, continued efforts needs to be made to press ahead with cooperation outside of the FTA framework. As listed above, there are many areas in which first steps have been taken. To be able to move these issues forward, however, the EU and the GCC should build their respective capacities both in terms of human resources that are allocated to the development of relations as well as in technical and financial means to provide the proper framework. Here, the emphasis should be on joint efforts instead of unilateral initiatives. Much more, for

The failure to make any headway in the FTA negotiations was seen as the prime example highlighting the shortcomings, even failure, in overall GCC-EU relations

example, could be achieved in coordinating regional diplomacy and joint programs in such critical areas as Yemen, Afghanistan/

Pakistan, the Mediterranean Region and the Horn of Africa.

Far from being moribund, GCC-EU ties have become increasingly active and vibrant. Therefore, the suspension in the FTA talks should not act as a brake, in fact it should push both sides to re-intensify efforts to conclude a deal. On all other fronts, the momentum of the past few years needs to be maintained.

*Dr. Christian Koch is the Director of International Studies at the Gulf Research Center*

## **Main Points from the 19th EU-GCC Joint Council and Ministerial Meeting, Muscat 29th April, 2009**

- Satisfaction over the progress made regarding the outcome of the 18th March Joint Cooperation Committee. The meetings held with GCC and EU experts on energy, environment, climate change, economy and higher education saw the initiatives on clean energy technologies, scientific research and development and exchanges of higher education between the two regions.
- The GCC and the EU will continue to review their recent consultations on a Free Trade agreement. An agreement was made to continue such consultations on all outstanding issues towards the resumption of negotiations.
- The Global Financial crisis has seen both the GCC and the EU agree to further promote global trade and investment, while at the same time reducing protectionism to underpin prosperity.
- Both the GCC and EU expressed support for the Arab peace initiative, as referred in the Arab League summit held in Riyadh on 29th March 2007, in Damascus on 30th March and in Doha on 30 March 2009.
- The joint council expressed the need for Iran to restore confidence in the exclusively peaceful nature of its nuclear programme. The GCC and the EU stressed the importance of reaching a negotiated solution to the nuclear issue. The two groups also shared their concern about the lack of progress towards resolving the dispute between the UAE and Iran over the three islands of Abu Musa, Lesser Tunb and Greater Tunb.
- The GCC and the EU share the view that climate change constitutes a threat to the global economy and the well being of nations around the world. Both sides have agreed to enhance the implementation of the UNFCCC and the Kyoto Protocol .
- The GCC and the EU have reaffirmed their positions to promote peace, stability and security in Iraq and underlined their full support for the central role of the UN/ UNAMI in assisting Iraq in implementing relevant UNSC resolutions including 1830.

*Source: Cooperation between the European Community and GCC, 2009  
Cooperation between the European Community and GCC, 2009  
[www.consilium.europa.eu/uedoc/cms/.../107449.pdf](http://www.consilium.europa.eu/uedoc/cms/.../107449.pdf)*

# GCC-Africa Health Cooperation: The Need for Closer Linkages

*Aruba Khalid*

Contrary to popular belief, infectious diseases are not a redundant threat to the GCC. They are re-emerging and building up the potential to spread regionally faster than ever before. The probability of 21st century pandemics, such as the H1N1 flu, emerging and spreading across regions is progressively high due to the exponential growth of immigration into the Gulf forming a serious current health threat. The inflow of legal and illegal immigrants from the Horn of Africa, a region particularly burdened by infectious tropical diseases such as tuberculosis, malaria, trypanosomiasis and dengue hemorrhagic, may be further amplifying this threat. Many of the migrants enter the GCC through Yemen, which is itself acutely vulnerable to infectious diseases such as malaria and tuberculosis. As a result, the Gulf must beef up its regional health cooperation initiatives in Africa and Yemen by funding regional specialized health staff training programs, curative and preventative disease control plans, healthcare facilities and supplies, and strengthening immunization, disease and health information systems. Research grants for new treatment and drug development will also be beneficial for both regions in order

to combat the rapidly evolving nature of drug-resistant diseases and for the Gulf to arm itself against recurring health threats endemic in its neighbors.

## A Serious Threat Bordering the GCC

Although many believe that most infectious diseases are redundant threats to the Gulf States as the means to control and treat them exist, the recurrence of diseases such as malaria and tuberculosis is still a huge threat to public health security in the region for two reasons. First, infectious

diseases are not distant threats to the GCC, they are indigenous threats to the surrounding region indicating the risk of spillovers. Yemen, the GCC's neighbor, faces a severe internal burden of certain infectious diseases, particularly malaria. Approximately 60 per cent of the population lives in areas with severe malaria transmission. Social unrest coupled with heavy rainfall during the 1990s brought about almost a complete halt to malaria control activities in the country, resulting in a serious deterioration of the malaria situation and two serious malaria

*Facemasks have become a common sight in Mexico as a precaution against swine flu*



# The 2010 Gulf Research Meeting

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outbreaks in the span of three years. The malaria information system is still weak and reported figures seriously underestimate the magnitude of the problem. It is estimated that the annual malaria incidence in Yemen ranges between 800,000 and 900,000. However, the number of reported cases in 2005 was only 200,560 which is a reflection of the weakness of malaria surveillance.

Second, the continuing and increasing evolution of resistance to anti-infective drugs heightens the possibility of the re-emergence of new mutations of old diseases. Bacteria and parasites can rapidly develop resistance to antibiotics through spontaneous mutation and the exchange of genes between strains and species of bacteria. Also, antibiotics which were initially developed for the treatment of infectious diseases in humans are now widely used for the treatment of animals as well. As the same microbes often circulate among humans and animals the possibility of swapping resistant genes is increased, further accelerating the spread of resistance. The recent outbreak of the H1N1 flu virus in Mexico is an example of how quickly new strains of old diseases can spread and how dangerous they can be.

This spread of resistance looms over public health security in the GCC as drug resistant infections exponentially increase the spread, mortality rate and length of treatment of the disease indicating that the smallest outbreak can be

uncontainable. For example, the first line treatment for cases of Plasmodium falciparum malaria in Bahrain is chloroquine, to which the remerging strains of falciparum are resistant. As the means to treat the drug-resistant form of the disease are not immediately available, one single carrier in Bahrain could spread the disease at a rapid rate. The outbreaks of drug-resistant epidemics in the 21st century are also particularly threatening to regions such as the Gulf that have high international traffic with increased exposure among travelers and residents. These threats are further particularized to the Gulf States intensifying the need for regional control initiatives.

### Renewed Threat Coming from Legal and Illegal Immigration

In Africa, the Gulf's neighbor, the ability to detect and respond to outbreak of diseases is limited, thereby increasing their potential to spread regionally, particularly in light of the growing movement of people between the two regions. According to the Al Basateen Clinic of the Charitable Society for Social Welfare, tuberculosis is rife amongst the African migrants traveling to Yemen. Moreover, according to Mohammed Deriah, a leader of Somali refugees in Al-Basteen, all migrants are extremely vulnerable to malaria as they drink from small wells in which the water is not clean, furthering the possibility of disease transmission. Although the exact number of carriers of such diseases among the

undocumented migrants cannot be agreed on as they dodge health interventions, the threat of imported diseases such as malaria and TB is imminent.

Yemen itself is overburdened by thousands of African migrants mostly from Somalia, Ethiopia, Djibouti and Eritrea. By 2007, more than 90,000 registered migrants entered Yemen and the influx this year is reportedly

Infectious diseases are not distant threats to the GCC, they are indigenous threats to the surrounding region indicating the risk of spillovers

higher than during the same period in 2008. Although migrants from Somalia are automatically granted refugee status and other African migrants are not, both seek to better their economic opportunities and hope to pass through to other GCC states often as illegal immigrants in search of casual or temporary work. With increasing numbers of migrants flowing in from high risk areas coupled with low intervention, health threats amongst migrants are endemic.

According to the Yemen Post, the rate of Yemeni illegal immigration to Saudi Arabia and from thereon to the whole region is increasing. Thousands of Yemeni immigrants infiltrate into Saudi Arabia every month to secure livelihoods due to the lack of economic opportunities in Yemen. The African immigrants

also do not want to stay in Yemen as the country itself offers few job prospects, so they too head to Saudi Arabia or other Gulf States, where the demand for labor is much greater. According to moderate estimates, 2,500 migrants from Yemen enter Saudi Arabia every month and this number increases in some seasons such as pilgrimage months when thousands infiltrate through the Kingdom into the GCC.

Saudi Arabia, being the first stop for illegal immigrants, is thus particularly exposed to imported and unchecked malaria. More than 77 per cent of imported malaria cases in the Kingdom are from Africa and Yemen projecting

the population currently living in high risk areas is above 1million. According to the World Health Organization (WHO), the continuous malaria importation from Yemen is posing a serious challenge for the elimination of the disease in Saudi Arabia and due to the increasing influx of semi-legal immigrants, efforts to tackle the issue must be stepped up.

### Containing the Threat

Although it is difficult to determine the exact numbers of migrants into the GCC that are carriers of infectious diseases, disease transmission through immigrants is indicated as the majority of malaria and

*Police on alert as a result of the swine flu epidemic, which originated in Mexico. The GCC has taken several steps to reduce the spread of the illness in the region*



the threat from illegal immigrants to be greater. The Malaria Atlas Project confirms that high rates of population inflows from Africa, particularly Somalia, will represent a continued risk of reintroducing the parasite into Saudi Arabia and from thereon possibly into the GCC. Malaria is still endemic in parts of Saudi Arabia, particularly Jizan, and

tuberculosis cases in the GCC are imported. Importation through legal immigrants is controllable as they must hold health cards or go through pre-entry screening indicating that health intervention at some point will contain disease transmission. However, disease importation from illegal immigrants is particularly threatening as

Funding for treatment as well as prevention programs to curb rampant disease transmission in Yemen and Africa will also lower the likelihood of disease importation into the Gulf

they may remain undiagnosed increasing the possibility of disease transmission to the local population. Out of all registered imported malaria cases in the Gulf, over 36 percent are from Africa and Yemen indicating a much deeper real threat from the continuous stream of illegal migrants from that region.

The prevention and control of tuberculosis must also be addressed in all the Gulf countries in conjunction with the need for African tuberculosis support. According to the Minister of Public Health of Qatar, Shaikha Ghalia Al-Thani, tuberculosis infection, which is prevalent among young men, especially laborers, is becoming a burden, not only in Qatar, but also in the region. According to Dr. Rezeq of the Public Health department in Qatar, "Cases of undiagnosed TB are very disastrous as they allow the disease to spread like wildfire, this is why the importance of public awareness on TB screening should be emphasized."

### Conclusion

The Gulf States must fortify their regional health initiatives to thwart the possibility of

regional outbreaks not only by strengthening domestic disease control and prevention programs but also by bolstering regional programs in Yemen and Africa. Although the Horn of Africa region is not the sole initiation point for the injection of such diseases into the GCC, health cooperation with Yemen and African states, particularly those bordering the east coast is essential for ensuring regional indemnity. Funding for treatment as well as prevention

programs to curb rampant disease transmission in Yemen and Africa will also lower the likelihood of disease importation into the Gulf. Prevention and research programs should also be prioritized in the Gulf where the imminent threat can still be contained. Increasing drug resistance of such diseases also calls for GCC efforts towards international research partnerships to repress emerging threats. Also, outbreaks of such diseases directly hinder

economic progress by crippling populations and consequently various sectors of domestic industries. Accordingly, making health a strong component of GCC-Africa relations will not only drive down the importation threat from Africa and Yemen but also help build Africa into a stronger economic and political partner for the Gulf.

*Aruba Khalid worked as a Research Assistant in the Gulf Research Center*



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# The Iranian Elections: Change or No Change?

*Kareem Mahjoub*

The recent Iranian elections have been one of the most closely watched events in the Gulf. The outcome has seen incumbent President Ahmadinejad assume Presidency for another four years under extraordinary circumstances and controversy. While the results will continue to be contested, it does signify a serious setback for reform in Iran and could herald the continuation of strained relations with the GCC and the wider international community. The question remains however as to how Iranian politics will change, or whether the new Iranian government will remain on a collision course with the international community on a variety of issues, most notably its nuclear program. The Gulf region will be following these developments with a sense of apprehension and concern; however, they must know that the events will do little to change the status quo in the region and the policies of Iran.

Ahmadinejad's victory, according to the polls, was a sweeping one. With over 60 percent of the general vote, he continues the trend of all previous Iranian presidents by serving a second term. His victory, however, continues to be contested, by rival candidate Mir Hussein Moussavi, who maintains, along

with the other candidates that the elections were fraudulent and should be annulled. While the Guardian Council was initially skeptical about the candidates' grievances, they agreed to assess the validity of the election. Iranians were shocked to later hear the announcement of Supreme Leader Ayatollah Khomeini that the election results should be respected and that the election would not be annulled. Such developments have created a sharp divide within Iran. The recent protests against the result challenge the authority of the Guardian Council, which is responsible for not only the selection of the candidates to run for the presidency, but also the fact that they have sanctioned the outcome of the election. Ahmadinejad has remained in power (he was sworn in as President in August) and it is feared his legitimacy will be continually undermined. His reelection has provoked a reaction not seen since the last days of the Shah. However, it does bear little resemblance to it. One aspect missing from the recent unrest that was present during the last days of the Shah is the support of the military who remain tied to the government for the time being.

While the outcome is unsurprising, what needs to be acknowledged

is the fact that this will do little to change the policies of the regime. A unique aspect of Iranian elections is while the Presidents are elected by the general population, it is ultimately the Supreme Leader who dictates policy. While it seems that Ahmadinejad will remain in power for the time being, it is uncertain as to what the cost of his manufactured re-election will be. It has created a divide within Iran that will continue throughout his presidency.

While most news coverage focuses on the potential of Revolution in Iran this is not



entirely the case. The recent unrest is mainly in the context of leadership and the fact that votes have not been truly represented. The founding principles of the Revolution will remain and it seems unlikely that they will be affected as such. What will also be interesting is the response of the Ahmadinejad government after the elections. The government's assessment of the demonstrations will determine how the state will react in the future. It is unlikely that they will see the demonstrations as being a result of domestic failures. More likely, they will blame events on outside forces, a possibility that could see a much more bullish and confrontational Iran in the region.

As the new US administration tries to develop a policy within the Middle East and the Gulf, a key concern that will remain

is the status of Iran's nuclear development. A foreign policy headache for the entire international community since 2005, Iran's nuclear ambitions are a matter of concern for the Gulf States. So far, the US administration has been careful in its response with regard to the outcome of the election. It must try to balance the strategy of engaging Iran towards nuclear disarmament while at the same time trying to make its displeasure felt regarding the election and the state's repression of its people. It must also dodge the accusations of foreign meddling that Ahmadinejad has begun to make. These events will undoubtedly delay upcoming negotiations. Washington will take this as an advantage, an opportunity to develop its strategy but time is not necessarily on its side. As Iran races towards enrichment, the fact that Iran will one day

Many believe, however, that the GCC has a major role to play towards bringing Iran to the negotiation table

possess a nuclear weapon could become a reality which the GCC will not accept. President Ahmadinejad has framed the nuclear project as a source of national pride, a long term project and goal for the nation and this will remain so. The project is seen as the solution for its energy goals, with limited investment and lack of enhanced oil recovery (a result of sanctions) hindering the development of the third largest oil reserve in the world. Electrons in orbit around an atom are inscribed on the 50,000 Iranian Rial note, making the nuclear program a prominent symbol of his Presidency. It is doubtful whether there is complete consensus over the desire to possess nuclear weapons and it is often debated as to whether the emphasis on Iran's nuclear program is a diversion from Ahmadinejad's domestic policies, which have resulted in rising unemployment and inflation. Nevertheless, the march towards a nuclear Iran has become real and is a very difficult one to control, let alone stop, which is what the GCC and allies need to be very aware of. Moussavi himself, seen as the "answer" to Ahmadinejad stated that should he be elected he ' will not abandon the great achievements of Iranian scientists. I too will not suspend uranium enrichment." Iran will also see



*Demonstrators attend a rally in a central square in Tehran, Iran, as a result of the election outcome*



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# The Gulf Africa Forum 2010

## Fostering Economic Relations



February 6-7, 2010 • Riyadh, Kingdom of Saudi Arabia

'Focus Africa' has become a popular theme in the foreign policy priorities of many countries. Endowed with vast natural resources and being an emerging investment destination with huge untapped economic potential, Africa is strategically positioned at the crossroads of the contemporary global economy. With geographical proximity, historical and cultural affinities, the African region is not only a natural economic hinterland, but also emerging as a crucial economic partner for the Gulf Cooperation Council (GCC) countries. While, for the moment, Gulf-Africa relations remain highly asymmetrical and confined to a limited pattern of economic exchanges, the potential for economic engagement beckons an era of intensive cooperation focused on the increasing trade and investment linkages that are increasingly apparent. Based on huge complementarities and comparative advantages, there are outstanding potentials for augmenting economic cooperation between the two regions for mutual prosperity.

the current financial crisis as a key opportunity to continue with uranium enrichment. Timing is also favorable to Iran especially with regard to the United States' current geo-political position. Already stretched in Iraq and mounting a major offensive in Afghanistan, the United States is in less of a position to dictate terms to Iran. While this may be an advantage to Iran, it will be worrying for the GCC nations who will hope for a stronger hand in dealing with Iran.

Interestingly, the response to

The UAE, which has a dispute with Iran over the status of the three islands (Abu Musa, Greater Tunb, and Lesser Tunb) remains its largest trading partner in the GCC. Kuwait, while distrustful of Iran's external connections, offered a muted response to the outcome of the elections. Foreign Minister Shaikh Mohammad Al-Salem Al-Sabeh recently expressed "hope that the new leadership will be able to build more supportive bridges with its brethren in the Gulf Co-operation Council

While the outcome is unsurprising, what needs to be acknowledged is the fact that this (election result) will do little to change the policies of the regime

and has invited Ahmadinejad to several events in the last few years most notably the Doha Arab and Gulf summits. Saudi Arabia has generally been distrustful of Iran, and remains highly skeptical about Iran's actions in the region and her involvement in other states in the Middle East. While sharing differing relations with Iran, the GCC will now have to deal with a leadership whose credibility is in serious doubt after the elections, yet they are still unsure about how to improve diplomatic relations. This can only be achieved if Iran is prepared to make such a change and tone down its rhetoric. Many believe that the GCC has a major role to play in bringing Iran towards the negotiation table. Bill Rammell, the British Minister of State at the Foreign and Commonwealth Office believes that "the GCC states (in particular Oman) will have a role to play and will be able to communicate the message that Iran needs to treat this seriously." Yet it will be up to the GCC nations to come together as a collective in order to combat a concern that affects their region.

The events in Iran will continue to be a closely watched event. What remains to be seen is how Ahmadinejad will attempt to



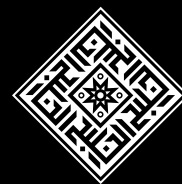
*An Iranian cleric shows his finger marked with ink to show he has placed his ballot, at a polling station to vote for the Iranian Parliamentary Elections in Qum*

the elections in the GCC has been muted. As a unified body, it does not have a clear unified position with regard to Iran in a regional perspective. While all agree that peaceful nuclear energy is possible, a nuclear Iran is unacceptable. Yet the challenge will be how the region as a whole manages the situation. Each GCC nation has different bilateral ties with Iran, with some stronger than others.

(GCC), especially since there are issues between GCC members and Iran." Sultan Qaboos bin Said, the Ruler of Oman, initially postponed a visit to Iran as a result of election unrest; later it was rescheduled for the 4th August. Bahrain has become irritated by the repeated references to the country as a province of Iran. As a result, relations are shaky. Qatar has been more amicable to Iran,

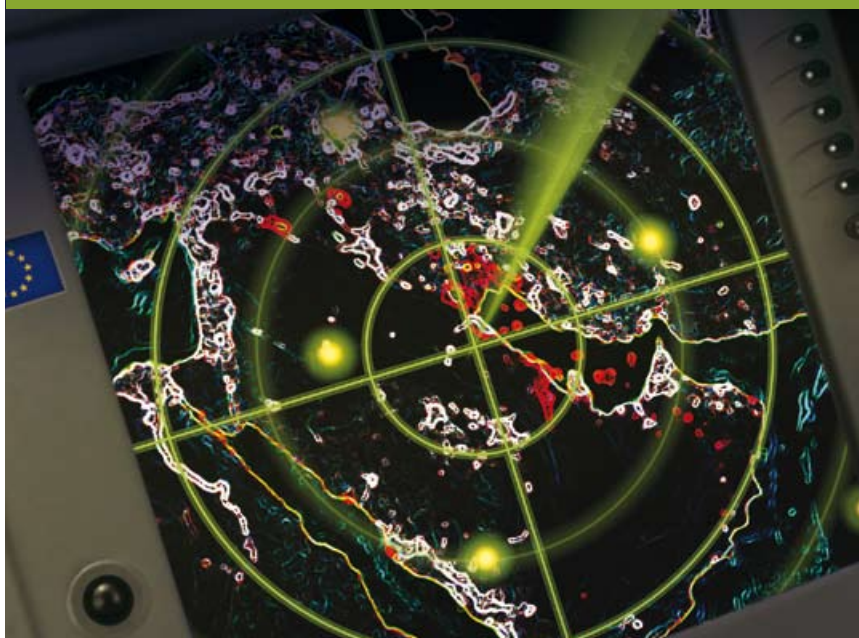
govern a population that does not fully back his legitimacy to the presidency. They will also be highly skeptical of Ali Khomeini, the Supreme Leader, as the main holder of power in Iran as responsible for sanctioning the election results. The backlash to this could be significant. The election results have highlighted a deep concern and discontent within the Iranian population that could shape the future policies of the country. The reaction of the state and the degree to which it clamps down on protests will be a useful gauge to see how seriously Iran has taken such demonstrations. It has also further strained what little relations it has with the West, after accusations of interference and involvement in the post-election unrest began to surface. The rest of the region needs to be fully aware of the changes taking place. The GCC has failed to come with a unified response to the actions of Iran in the past few years and it is very important that they do so now, as it is an ideal opportunity. While sharing the common concern about a nuclear Iran, they are more than capable of providing the backing needed to improve relations with Iran. This may be the opportunity to do so, particularly as the United States seems to be biding its time to respond and negotiate with Iran. As the election continues to be debated, the results could have far reaching consequences throughout the Gulf.

*Kareem Mahjoub is a Research Associate at the Gulf Research Center*



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## EU-GCC Relations and Security Issues Broadening the Horizon



The relationship between the member states of the European Union (EU) and those of the Gulf Cooperation Council (GCC) is multifaceted and has over the years taken on a number of different dimensions. With security issues such as those related to terrorism, the US-led invasion of Iraq and its aftermath, and concern over a potential Iranian nuclear program coming to the forefront, ties between the EU and the GCC have taken on a security component that up to this stage remains largely undefined and understudied. The collection of papers included in this volume highlight many of the different salient issues playing a role on the security front and put forward perspectives under which this new dimension in relations can be better understood. This includes an attempt to move from the currently still vague and largely theoretical notions of GCC-EU security cooperation into more policy-applicable and relevant approaches that build on past European experiences. EU-GCC Relations and Security Issues extends empirical insight into various aspects of the European approach to the region from a security-based perspective, provides a comparative context into which it becomes possible to frame a more solid base for understanding European policy in the region, and through the use of case examples illustrates how the present cooperation can be expanded and improved upon.

# IRENA in Abu Dhabi: New Opportunities and Challenges

*Dr. Mohamed Abdel Raouf*

At their second meeting at Sharm el-Sheikh in Egypt, International Renewable Energy Agency (IRENA) representatives from 136 countries chose Abu Dhabi in the United Arab Emirates as the agency's permanent headquarters. The headquarters will be located in Abu Dhabi's Masdar City, the world's first zero-carbon, zero-waste city fully powered by renewable energy. This specific location is eligible to introduce political, economic, environmental and social values. At the same time, IRENA's location in the Arabian Gulf region will impose challenges and associated responsibilities on the host country.

IRENA is the first international organization to focus exclusively on the issue of renewable energies, addressing both the industrialized and the developing world. Based on that, the UAE in a bid to host the headquarters of IRENA made remarkably strong political and technical arguments for hosting IRENA in the developing world. The UAE argued that locating IRENA in the Arabian Gulf region will be the toughest challenge and the biggest opportunity to reduce carbon emissions in the future. In its competition toward hosting IRENA, UAE competed with highly developed countries,

gained vast support and won the contest with overwhelming majority. A peaceful multi-cultural country hosting residents of over 200 nationalities, the UAE's persistence toward hosting IRENA clearly reflected its globally recognized diplomatic success, political power and negotiation strength.

IRENA will be the first major international organization to be hosted in a developing country. However, the efforts exerted by UAE officials to host IRENA as a promoter of renewable energies in the Gulf Region, which is the leading petroleum exporting region, is clear evidence of the country's long-term commitment to environmental protection and its willingness to be the pioneer in responding to the key emerging environmental challenges such

as climate change. Shaikh Zayed bin Sultan Al Nahyan, the founder father of the United Arab Emirates and a globally known environmental pioneer, left the legacy of preserving the environment among the people of UAE at all levels.

IRENA's presence in Abu Dhabi will definitely ensure economic growth with a secure, affordable, reliable, clean and sustainable energy supply. As regards UAE and the GCC in general, evolving renewable energy technologies will diversify energy sources and alleviate the pressure imposed on oil and gas before its complete depletion. This would promote economic security and provide a sustainable solution for the increasing energy demand, rising energy prices and unequal distribution of energy sources.

*Dr. Sultan Al-Jaber, the CEO of Masdar often seen as the key architect of the UAE's bid to host the IRENA headquarters at the World Future Energy Summit in January 2009*





*A model of Abu Dhabi's Masdar City, set to become the first carbon free city in the world, and the headquarters of IRENA*

In addition, IRENA will increase the contribution of renewable energy to environmental and climate protection, and help in the creation of job opportunities and inter-generational equity.

Economically, IRENA will certainly assure growth; security of energy supply and its price fluctuations and will add a lot more into the regional economic development in the GCC. Additionally, IRENA's location in the UAE will positively enhance the launch of distinguished development projects and innovations in the renewable energy sector.

The hosting of IRENA by the UAE entails a huge financial commitment but is also a political pledge to promote internally and externally the expansion of sustainable energy. The UAE in particular and the GCC in general are expected to shoulder this responsibility. The prosperity and success of IRENA in the Gulf area might

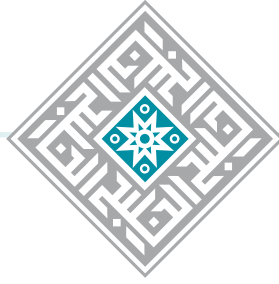
impose a sense of responsibility on the UAE; it is clearly linked to the UAE determination to ensure a smooth and effective implementation of IRENA's globally foreseen contributions in renewable energies. An environmental policy that provides incentives for clean energy implementation in the country should be the first step at this point. A step in that direction was taken in January 2008, when the Crown Prince of Abu Dhabi, Shaikh Mohamed bin Zayed Al-Nahyan, announced that he would devote \$15 billion to renewable energy projects, which is a sum equivalent to that which President Obama has proposed to invest in the United States "to catalyze private sector efforts to build a clean energy future."

In this regard, Abu Dhabi announced in January that renewable energy sources will make up seven percent of its total energy production by 2020. The author believes that, in light

of IRENA headquarters being located in Abu Dhabi, this goal needs to be changed to a higher percentage, especially as many countries around the world have announced higher percentages. The EU, for instance, plans to increase the share of renewable energy to 20 percent by 2020 and China up to 15 percent.

Ultimately, the most important challenge IRENA will face is the responsibility of promoting various uncompetitive types of renewable energies worldwide in an international economy that is nearly completely dependent on fossil fuels. This would also enable it to play a very instrumental role in transferring the world to a low carbon economy and further the concept of sustainable development.

*Dr. Mohamed Abdel Raouf is the Program Manager of the Environment Research Program at the Gulf Research Center*



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Based in Dubai, UAE, the Gulf Research Center (GRC) began its activity in 2000 as a privately-funded, non-partisan think tank, education provider and consultancy specializing in the Gulf region. The GRC produces recognized research from a Gulf perspective, redressing the current imbalance in Gulf area studies, where regional opinions and interests are underrepresented.

The GRC believes that the Gulf Cooperation Council has transcended the initial reasons for its establishment, to become a fundamental right of its citizens in the development of the region. The GRC seeks to further this belief by being an institution of distinction and innovative research that advances different aspects of development to ultimately benefit the people of the region.

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