



Gulf Research Center
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EU-Gulf Political and Economic Relations
Assessment and Policy Recommendations

Abdullah Baabood



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Abdulaziz O. Sager

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Introduction

Since the withdrawal of the European powers from the Middle East after the Second World War, there have been many attempts by them to come back to the region not as colonial invaders, as some of these powers once were, but as trade, economic and strategic partners. This is especially so since the Middle East has become a strategic prize, a significant source of energy and a lucrative export market in an unstable region plagued by political, economic and social problems with many ramifications on neighboring Europe. The success of regional integration in the European continent with its resultant economic ascendancy has made a European return to the region more possible. Indeed, with the advent of the European Union, Europe has become an economic power with global interests. Energy needs, market access and security have been the prime motives for the European return to the Middle East as well as the geographical proximity of the region to the European continent.¹

The British withdrawal in the early seventies left the Gulf under a Pax Americana with little European influence to serve their interests. Following the Arab oil embargo in the 1970s, Europe initially engaged the Arab states of the Gulf through the Euro-Arab Dialogue (EAD). For a host of reasons, the EAD did not develop as expected and it was finally declared moribund in the 1990s.² The

¹ Gerd Nonneman, *The Gulf: Does Peace Equal Business for Europe?* (London: Gulf Centre for Strategic Studies, 1990); Gerd Nonneman, "The Gulf: Background Assessment," in G. Nonneman, *The Middle East and Europe, The Search for Stability and Integration*, 2nd ed. (London: Federal Trust for Education and Research, 1993): 55-62.

² See, for example, Saleh Al-Mani, and Salah Al-Shaikhly, *The Euro-Arab Dialogue, A Study in Associative Diplomacy* (London: Frances Pinter, 1983); Saadallah A. S. Hallaba, *Euro-Arab Dialogue* (Brattleboro, VT: Amana Books, 1983); Haifaa A. Jawad, *Euro-Arab Relations: A Study in Collective Diplomacy* (Reading: Ithaca, 1992); Giacomo Luciani, "Euro-Arab Cooperation and Conflict in the Areas of Oil and Gas," in N. Ayubi, *Distant Neighbour: The Political Economy of Relations between Europe and the Middle East/North Africa*, 1st English Edition (Reading: Ithaca Press, 1995): 65-87; David McDowall, *Europe*

abolition of the EAD marked the beginning of a very fragmented and non-coherent relationship with the countries of the Middle East. As a consequence, this has led to a somewhat artificial compartmentalization of EU-Middle East interrelations and ‘pockets of influence’³ that, in turn, can be divided into: EU-Gulf Cooperation Council (GCC) relations, the European Mediterranean Policy (EMP), the EU’s bilateral relations with Yemen and Iran, and a European approach towards Iraq that can be best described as a policy of benign neglect.

Following the Iran-Iraq war, the failure of the EAD led the European Community (EC), then, to initiate a dialogue with a new regional grouping in the Gulf (known as the EC/EU-GCC dialogue). While it can be said that EU-GCC relations have been the result of the failure of the EAD, they can nevertheless be seen as some form of a continuation of the dialogue. The joint communiqué issued by the EC-GCC Joint Council on March 17, 1990 in fact stated that “cooperation between the EEC and the GCC countries is complementary to the Euro-Arab Dialogue and not a substitute for it”⁴. The EC/EU-GCC dialogue has thus represented a European attempt to keep some form of engagement with the oil-rich states of the Gulf.

The GCC itself was established in 1981 at the height of the Iran-Iraq war but excluded both protagonists.⁵ It is worth noting

and the Arabs: Discord or Symbiosis? The European Community and the Arab World (London: The Royal Institute of International Affairs, 1992); Roger Tomkys, “European Political Cooperation and the Middle East: a personal perspective.” *International Affairs* 63, no. 3 (Summer 1987): 425-437.

³ The term is borrowed from Mina Toksoz, *Pockets of Influence, the EC's Faltering Impact on the Arab Economies, the European Community and the Arab World* (London: The Royal Institute of International Affairs, 1993).

⁴ Joint Communiqué issued at the first ministerial meeting of the EEC-GCC Joint Council in Muscat on March 17, 1990.

⁵ Saleh Al-Mani, “The Politics of the GCC Dialogue with European Community,” *Journal of South Asian and Middle Eastern Studies* XXI, no. 4 (Summer 1989): 57-74.

that due to the lack of any unified policy towards the war the European Political Cooperation (EPC) was rather ineffective. Apart from a few very generally-worded statements asking for an end to the hostilities, EC/EU member states followed their own perceived national interests in supporting either Iran or Iraq.⁶ The same EC political machinery (EPC) was also unprepared to face the political crisis following the Iraqi invasion of Kuwait.⁷

Thus, while the EU had established an institutional relationship with the newly formed regional organization, the GCC, there were no contractual relations with either Iran or Iraq. Indeed, while Iran had historically enjoyed close bilateral relations with the West (the US and several European countries) under the western-oriented Shah Muhammad Reza Pahlavi's regime, these relations were negatively affected under the incumbent Islamic Republic whose relations with the EU have since remained rather limited and certainly not problem free. Similarly, Iraq, under Saddam Hussein, which at times enjoyed close relations with several EU member states, did not have any contractual relations with the EU and, occasionally, there were periods of actual confrontation. Indeed, Iraq's Saddam, a firm believer in Arab nationalism, saw that its relations with Europe could best be served through the EAD.⁸ Thus, for a host of reasons, the EU did not develop a coherent framework of relations with the Gulf States – consisting of the GCC, Iran and Iraq – but followed a fragmented approach not only in the Middle East as a whole but particularly in the Gulf region. There was also no attempt to link the different EU policy strands in the Middle East

⁶ Mohsen Miramadi Najafabadi, *The European Community Foreign Policy and the Persian Gulf: 1973-1991* (Dissertation submitted for the Degree of Doctor of Philosophy, University of Cambridge, 1998).

⁷ Carlos Closa, "The Gulf Crisis: a Case Study of National Constraints on Community Action," *Journal of European Integration* XV, no. 1 (Autumn 1991): 47-67; Nicole Gnessotto and John Roper (eds), *Western Europe and the Gulf* (The Institute for Security Studies: Western European Union, Paris, 1992).

⁸ H.A. Jawad, *The EEC-Gulf Dialogue* (London: Gulf Centre for Strategic Studies, 1989).

to the Gulf or vice versa. For example, the EU-GCC relationship was not part of the EMP or the European Neighborhood Policy (ENP), and the EU did not have an overall Gulf policy but only a piecemeal approach to the region.

This paper while discussing EU relations with the Gulf (the GCC, Iran and Iraq) will deal mainly with EU-GCC relations, as they constitute the most developed contractual relations. The central theme of this paper is that the EU has not had a coherent approach towards the Gulf region. For political and managerial reasons, relations with the Gulf have been conducted on a bilateral basis and have been kept separate from other EU initiatives like the EMP and the ENP.

EU Relations with Iran

At the outset, given Iran's strategic position, its geopolitical stature, and its energy resources one would have been right to expect that an energy deficient Europe would have sought much closer cooperation with Iran. Indeed, a Trade and Cooperation Agreement (TCA) or even a Free Trade Agreement (FTA) would have been in order. However, Iran's ideological predisposition towards revolutionary ideas, its anti-western sentiments and aspirations for a change in the status quo in the Gulf has worked against such a development.⁹ Indeed, since the Islamic revolution, Iran has been considered by the US to be a pariah, rogue state, and most recently (in 2002) as one of the defining members along the axis of evil.¹⁰ The US pursued a policy of 'active containment' against Iran.¹¹

⁹ Kenneth Pollack, "The Threat From Iran," Prepared Testimony to the House Armed Services Committee, September 29, 2005.

¹⁰ Along with Iraq and North Korea and later Libya, Syria and Cuba were added. See: President Bush State of the Union Statement 2002 available at <http://www.whitehouse.gov/news/releases/2002/01/20020129-11.html>

¹¹ Martin Indyk, "The Clinton Administration's Approach to the Middle East," Keynote Address to the Soref Symposium on 'Challenges to US Interests in the Middle East; Obstacles and Opportunities', Washington Institute for Near East

From 1995 onwards, the US government implemented increasingly severe sanctions, aiming to 'isolate' Iran.¹² The Europeans, not wholly subscribing to the US policy towards Iran, refused to support the sanctions and tried to open a dialogue with the Islamic Republic, which led to tension in Euro-American relations.¹³ The EU-Iran dialogue, however, never really progressed beyond moving from crisis to crisis.

At their Edinburgh Summit in 1992, EU leaders initiated what was to be known as the 'Critical Dialogue'. This dialogue addressed all points of concern with Iran.¹⁴ Although it produced few tangible results, structural changes both in Iranian domestic and foreign policy had produced evidence that the 'dialogue' had been partly successful.¹⁵ The 'Critical Dialogue', however, was suspended in 1997 after a German court found the Iranian leadership guilty of ordering the assassination of four members of the Iranian-Kurdish opposition in Berlin.¹⁶

Policy, 18-19.5.1993, 6; cf. also Indyk's comments in 'Symposium on Dual Containment; U.S. Policy Toward Iran and Iraq', *Middle East Policy* (1994): 1-26, here 1-7.

¹² Under Secretary Peter Tarnoff, Testimony before the House International Relations Committee: Containing Iran, *incurs. Policy Toward Iran*, Hearing before the Committee on International Relations, House of Representatives, 104th Congress, First Session, November 9, 1995 (Washington, 1996): 45-54.

¹³ John Calabrese, *Finding the Fulcrum? Euro-Atlantic Relations and Iran*, Middle East Institute, July 21, 2004, available at <http://www.iranwatch.org/privateviews/MEI/perspex-mei-calabrese-eu-us-iran-072104.pdf>

¹⁴ It attempted to change Iranian behavior and strengthen 'moderate' forces in Iran by keeping a dialogue on human rights, the *fatwa* against Salman Rushdie, the Iranian stance on the Arab-Israeli Peace Process, and Iran's alleged support for international terrorism.

¹⁵ Matthias V. Struwe, *The Policy of "Critical Dialogue" An Analysis of European Human Rights Policy towards Iran from 1992 to 1997* (July 1998), available at <http://eprints.dur.ac.uk/archive/00000142/01/60DMEP.pdf>

¹⁶ "Declaration by the European Union on Iran," Luxembourg, April 29, 1997, PESC/97/41.

Mohammed Khatami's landslide victory in the 1997 presidential election gave hope to renewing EU relations with the republic. In an effort to support the new president's reform agenda and his general policy of cultural, economic, and political liberalization, the EU began what was known as the 'Comprehensive Dialogue' in 1998.

The dialogue in the shape of a semi-annual troika meeting at the level of undersecretaries of states or deputy ministers covered, at the political level, regional issues including the Middle East peace process, non-proliferation of weapons of mass destruction, human rights and the fight against terrorism. The EU also decided to explore possibilities for cooperation with Iran in the areas of energy, trade and investment, refugees and drugs control. In that context, a high-level Working Group on Energy and Transport was established in 1999.¹⁷ After the Iranian parliamentary elections in February 2000, the European Council of Ministers mandated the Commission to prepare a proposal on how to develop closer relations with Iran.

On the economic level, on February 7, 2001, the European Commission adopted a Communication – approved by the Council in May 2001 – setting out the perspectives and conditions for developing closer relations with Iran and having as one objective the conclusion of a Trade and Cooperation Agreement (TCA).¹⁸ Subsequently, EU relations with Iran developed in a positive direction.

Encouraged by President Khatami's public diplomacy success with some EU member states and his re-election in June 2001, the

¹⁷ In November 2000 a newly created High-level Working Group on Trade and Investment met for the first time.

¹⁸ A mandate for such an agreement was presented by the Commission to the Council in November 2001 and was adopted in June/July 2002 (Council Conclusions 17 June). See: The EU's relations with Iran - Overview at http://ec.europa.eu/comm/external_relations/iran/intro/index.htm

EU was eager to have closer ties with the reformist government of Iran. The Council of the European Union agreed in June 2002 to open negotiations with Iran covering political aspects as well as a TCA. This agreement should, once concluded, have put Iran's trade and cooperation relations with the European Union on a contractual basis. However, the conditionality of the dialogue with Iran was such that negotiations for an EC-Iran TCA were linked to negotiations on a Political Dialogue Agreement, which were launched in Brussels in December 2002.¹⁹

The EU-Iran dialogue survived the ups and downs until 2003 when a crisis erupted over the Iranian nuclear issue and the reformists' efforts came to a halt following the outcome of the Iranian general elections in early 2004 which were held under conditions criticized by the EU.²⁰ The EU-Iran Human Rights Dialogue continued to be bedeviled by the EU's concerns over the human rights situation in Iran and consequently, the European Union supported a UN resolution brought forward by Canada on the human rights situation in Iran (November 21, 2005, 60th General Assembly, 3rd Committee GA/SHC/3841).²¹ Thus the Comprehensive Dialogue between the EU and Iran was suspended by Iran in December 2003, no meeting within the framework of the EU-Iran Human Rights Dialogue has taken place since June 2004 and the negotiations for the TCA have been stalled since June 2003 because of pending nuclear issues with Iran.

¹⁹ Later that same month, the EU and Iran held a troika meeting and an NGO roundtable in Tehran on human rights, marking the start of the human rights dialogue.

²⁰ Walter Posch, "The EU and Iran: Creating And Losing Confidence," *GCC-EU Research Bulletin*, Issue No.3, Gulf Research Center, Dubai, October 2005, 13-16.

²¹ Especially the increasing erosion of the freedom of expression, opinion and association which has been taking place over the last few years; the imprisonment of Akbar Ganji is just one prominent case of state repression against representatives of the media.

This crisis was temporarily overcome when the foreign ministers of three big EU member states (France, Germany and the UK – the EU3) paid a historic visit to Iran and reached the Tehran Agreement in October 2003 on the eve of the ‘deadline’ set by the International Atomic Energy Agency (IAEA) Director General for Iran to sign the Additional Protocol to the Nuclear Non-Proliferation Treaty (NPT). The formula known as the ‘E3/EU Initiative’ extracted both an Iranian acceptance of a suspension of uranium enrichment as well as the signing of the Additional Protocol permitting intrusive inspection of Iranian nuclear facilities which ultimately enabled the EU to resist US pressures and continue the dialogue as well as to offer Iran a package of economic incentives.²²

After the signature of the temporary Paris Agreement in November 2004 between the EU3 and Iran on the voluntary suspension of nuclear enrichment, the TCA negotiations resumed. Rounds V, VI and VII took place in January, March, and July 2005. However, following Iran’s letter²³ to the IAEA in which it informed the nuclear energy watchdog agency of its intention to breach the Paris Agreement by resuming uranium conversion at the Esfahan plant in August 2005, the TCA negotiations have been halted by the Commission.²⁴

On the other hand, the EU3 had long engaged in nuclear negotiations with Iran, and had framed their hopes around the likely new president. But in August 2005, it was hard-line victor Mahmoud Ahmadinejad who took the oath of office after an unexpected move to the right by voters that also strengthened the grip of Iran’s military and security forces on the nuclear program.

²² Judith Yappe and Charles Lutes, *Reassessing the Implications of Nuclear-Armed Iran*, McNair Papers 69 (Washington, DC: Institute for National Strategic Studies, National Defense University, 2005): 25-27.

²³ See the contents of the letter at http://news.bbc.co.uk/1/hi/world/middle_east/4736421.stm

²⁴ http://ec.europa.eu/comm/external_relations/iran/intro/index.htm

Within days, Mr. Ahmadinejad rejected a final European proposal containing less than expected, and resumed enrichment activities which had been suspended for nearly two years. Within weeks, the UN's nuclear watchdog agency, under US and EU pressure, voted to refer Iran to the Security Council – a move that shocked Iran's top leadership and halted the nuclear talks. Besides Mr. Ahmadinejad's hard-line position on the nuclear issue, the EU's inability to fully satisfy Iran's economic and political expectations and deliver on its promises – in return for a permanent suspension of enrichment related activities – was only part of the reason for the breakdown in the negotiations.²⁵ In fact, the main reason for the European failure was the reluctance of the US to back the proposal as Washington had never been convinced of the viability of the EU-Iran nuclear dialogue.²⁶ Furthermore, the relationship took another turn for the worse following statements by President Ahmadinejad denying the Holocaust and calling for the destruction of the State of Israel, which the EU condemned in the strongest terms.²⁷ President Ahmadinejad also surprised the world when he announced in April 2006 that Iran had successfully enriched uranium.²⁸ In its attempt at finding a diplomatic solution to this complex and sensitive issue, the EU3 started to work on new economic and technical offers that would encourage Iran to cease further enrichment. However Iran, bolstered by both its technological advances and the changing

²⁵ Mustafa Kibaroglu, "Good for the Shah, Banned for the Mullahs: The West and Iran's Quest for Nuclear Power," *Middle East Journal* 60, no. 2 (Spring 2006): 207-232.

²⁶ http://www.guardian.co.uk/iran/story/0,,1776445,00.html#article_continue

²⁷ See Press Release, General Affairs and External Relations, 2687th Council Meeting, Brussels, November 7, 2005. http://ue.eu.int/ueDocs/cms_Data/docs/pressData/en/gena/86850.pdf. See also Benita Ferrero-Waldner, Commissioner for External Relations & European Neighborhood Policy and Statement on recent declarations by the President of Iran, Strasbourg, November 16, 2005 available at http://europa.eu.int/comm/external_relations/news/ferrero/2005/sp05_696.htm

²⁸ <http://www.iiss.org/whats-new/iiss-in-the-press/april-2006/iran-flaunts-its-nuclear-achievement>

political developments rejected the European initiative, even before it was officially announced.²⁹

As a consequence of this problematic relationship, attempts to deepen the ties between the European Union and Iran by means of institutionalized dialogues have not progressed nearly as much as initially expected. The gap of mistrust and lack of confidence between the two sides seems to have widened even further under the Ahmadinejad government and might even lead to political confrontation over the nuclear issue. In fact, President Jacques Chirac's announcement³⁰ on January 18, 2006, that France was prepared to launch a nuclear strike against any country that sponsors a terrorist attack against French interests and that his country's nuclear arsenal had been reconfigured to include the ability to make a tactical strike in retaliation for terrorism has been interpreted by Iran as being directed against it.³¹

EU-Iran Trade Relations

Political difficulties have meant that there are no contractual EU relations with Iran. The Iranian embassy in Brussels is accredited to the EC but there is no delegation of the European Commission in Tehran. However, this has not affected the two parties' ability to trade. The EU, thus, remains Iran's main trading partner for both imports and exports. EU sources show that Iran ranked 24th in the EU's total trade.³² In 2004, EU imports from Iran totaled more than €1.18 billion, whereas the value of EU exports to Iran in the same year amounted to more than €1.86 billion, resulting in a trade balance deficit for Iran of €3.68 billion. In 2004, the EU was by far

²⁹ <http://www.iht.com/articles/2006/05/17/news/iran.php>

³⁰ Molly Chirac Moore, "Nuclear Response to Terrorism Is Possible," *Washington Post*, January 20, 2006, A12.

³¹ <http://www.iranunited.com/forums/archive/index.php/t-179.html> and <http://english.farsnews.com/newstext.php?nn=8411030594>

³² Directorate General Of External Trade, (DG) of Trade available at http://ec.europa.eu/comm/trade/issues/bilateral/countries/iran/index_en.htm

the main supplier to Iran providing 44 percent of its total imports, while the EU 25 exports to Iran made up only 1.23 percent of the EU's total exports in 2004.³³

EU exports to Iran are rather concentrated in three main product lines: machinery and transport equipment (66.6 percent), manufactured goods (10.3 percent) and chemicals and related products (9.6 percent). Iran is also an important destination market for EU's iron and steel and power-generating machinery.

On the other hand, EU imports from Iran in 2004 were negligible in all sectors except energy (€ billion) and to a much lower extent, agriculture (€401 million – the main import product being pistachios). More than 80 percent of EU imports from Iran are energy related (mainly oil products), representing 3.9 percent of total EU imports in energy products. Iran ranks as 6th largest supplier of energy products for the EU. Agricultural imports amount to 4.9 percent of total imports.³⁴

As for trade in services with a volume of around € billion, the Balance of Trade (BoT) remains positive for the EU (counting the 15 old member states) at €0.6 billion in 2003. Iran's share of total EU trade in services is, however, only 0.3 percent. Foreign Direct Investment from the EU (25 member states) remains at a low level and is unstable. From 2001 to 2003, inward stocks have slowly declined from €2.2 billion to €1.8 billion.³⁵

In 2002, Iran invested €125 million in the EU, representing 0.08 percent of total EU inflows; while the EU invested in Iran €146 million that amounts to 0.1 percent of EU total outflows. At the end of 2002, 0.18 percent of the stock of EU inward Foreign Direct Investment (FDI) came from Iran, while 0.05 percent of the stock of EU outward FDI was in Iran. The EU-Iran Working Group on

³³ Ibid.

³⁴ http://ec.europa.eu/comm/external_relations/iran/intro/index.htm

³⁵ http://ec.europa.eu/comm/trade/issues/bilateral/countries/iran/index_en.htm

Trade and Investment met for the first time in November 2000 in Tehran to discuss the possibility of fostering an increase and diversification of trade and investment between the two parties. A third meeting in 2002 was followed by a fourth meeting in November 2003. A fifth meeting has not yet taken place.³⁶

Areas of Cooperation

The lack of a framework agreement between the EU and Iran has meant that cooperation in other areas remains limited. Whatever practical and expedient cooperation does exist has been largely concentrated on counter-narcotics, relief and humanitarian assistance, and human rights, and has been conducted mainly through international bodies.

On drug control, for example, the European Commission allocated €1.2 million (in 2005), mainly aimed at local NGO networks, to support demand reduction initiatives in Iran. To help control cross-border trafficking of narcotics, another €1.2 million was also assigned to an inter-regional initiative related to Afghanistan.³⁷ The European Commission has also been working with the Economic Cooperation Organization (ECO) contributing €190,000 to a drug control coordination unit and supporting demand reduction programs of the UNDCP. The EU dialogue with Iran on drugs control is conducted through international forums such as the Dublin Group and the mini-Dublin Group on Iran.

Cooperation on humanitarian assistance with Iran has been mainly on Afghan refugee assistance programs to help ease Iran's heavy burden of a refugee population of approximately 2.5 million, the majority of which is from Afghanistan. In 2005, the European Commission's Humanitarian Aid Office (ECHO) assigned €750,000 to support a UNHCR program in Iran for the repatriation

³⁶ Ibid.

³⁷ Ibid.

of Afghan refugees.³⁸ Additionally, a large share of the considerable EU humanitarian aid budget designated for Afghanistan has also been used to support refugee relief in Iran and Pakistan.³⁹

Following the devastating earthquake in Bam in southern Iran in December 2003, the EU has also provided disaster relief for Iran. ECHO has subsequently made available more than €8.5 million in disaster relief to its partners in the field.⁴⁰

Furthermore, the EU has been involved in supporting UN programs on human rights operating in Iran. For example, within the European Initiative for Democracy and Human Rights (EIDHR) budget, €3.4 million was made available in 2002 to promote human rights and the rule of law in Iran.⁴¹

EU-Iraq

Although some of its member states sided with Iraq in its eight-year long war with Iran and helped to supply it with arms and credit, the EU itself had no formal direct political or contractual relations with Iraq under Saddam Hussein's 24-year regime.⁴² Iraq, however, was involved through the Arab League in the EAD which went through ups and downs until it came to a complete halt after the Iraqi

³⁸ Further assistance to increase water supply and improve sanitation for Afghan refugees is also being considered by the EU.

³⁹ See: http://europa.eu.int/comm/echo/field/afghanistan/index_en.htm.

⁴⁰ http://ec.europa.eu/comm/external_relations/iran/intro/index.htm

⁴¹ This includes three projects of a total amount of €2.9 million which were launched in 2004. Two of these projects, Prison & Judiciary Reform and Child Protection & Women Empowerment are operated by UN agencies. The EIDHR is a program administered through Europeaid.

⁴² Mohsen Miramadi Najafabadi, *op.cit.*

invasion of Kuwait – an act of aggression on another Arab state that split the Arab League and the Arab regional system.⁴³

The Iraqi invasion of Kuwait, in fact, caught the EU off guard and it was unable to cope with the crisis because of its own preoccupation with internal integration and political unification⁴⁴ at a time when there was a continuing decline in its dialogue with the Arab world.⁴⁵ The EU was quick to use its instruments where it had competence: trade, sanctions, humanitarian aid, and its declaratory policy.⁴⁶ In fact, from 1992 onwards, the EU has been the largest single donor of humanitarian assistance to Iraq after the UN.⁴⁷ Furthermore, several EU regional initiatives in the Middle East were announced including kickstarting the EU-GCC dialogue.⁴⁸

⁴³ Yezid Sayigh, “The Arab Regional System and the Gulf Crisis,” in J. Gittings, *Beyond the Gulf War: The Middle East and the New World Order* (London: Catholic Institute for International Relations, 1991): 38-45.

⁴⁴ For an analysis of the state of European integration on the eve of the Iraqi invasion of Kuwait, see *Europolitique*, no. 1607, July 28, 1990.

⁴⁵ For an analysis of the Community reaction to the crisis, see Carlos Closa, *op.cit.*; Trevor C. Salmon, “Europeans, The EC and the Gulf,” in J. Gow, *Iraq, the Gulf Conflict and the World Community* (London and New York: Brassey's, 1993): 89-106; Willem Van Eeklen, “WEU and the Gulf Crisis,” *Survival* XXXII, no. 6 (1990).

⁴⁶ See, for example, Martin Landgraf, “The Impact of the Second Gulf War on the Middle Eastern Policy of the European Union,” Paper presented at The European Association of Middle East Studies Inaugural Conference, at the University of Warwick, July 8-11, 1993.

⁴⁷ Yasuji Yshigaki, *Iraq War—A First Major Test of the CFSP of the European Union and Japan's Strategic Choice*, available at http://wwwsoc.nii.ac.jp/eusa-japan/download/eusa_ap/paper_YasujiIshigaki.pdf

⁴⁸ See, for example, Friedemann Buettner and Martin Landgraf, “The European Community's Middle Eastern Policy: The New Order of Europe and the Gulf Crisis,” in T. Y. Ismael and J. S. Ismael, *The Gulf War and the New World Order* (Gainesville, FL: University Press of Florida, 1994): 77-115; Ilan Greilsammer, “European Reaction to the Gulf Challenge,” in G. Barzilai, A. Klieman and S. Gil, *The Gulf Crisis and Its Global Aftermath* (London and New York: Routledge, 1993): 208-227.

From Operation Desert Storm in 1991, through the events of September 11 and the subsequent overthrow of the Taliban regime in Afghanistan, and up to the US-led invasion and the collapse of the Saddam Hussein regime in 2003, Iraq was considered by the US and some of its European allies as being inimical to regional stability and international security. Several EU member states, mainly the UK and France (both members of the UN Security Council), were involved with the US in containing Saddam Hussein and enforcing the relevant United Nations resolutions. As for the EU itself, because of its internal disunity, it failed to develop a common policy over Iraq, let alone influence events and after early 2003, Iraq effectively ceased to be an EU issue.⁴⁹

In 2003, some EU member states, notably the UK and Spain and several new member states, joined George Bush's 'Desert Fox' operation to remove the regime of Saddam Hussein under the pretext of removing the threat of weapons of mass destruction. Others like France and Germany opposed the US-led invasion of Iraq and voiced strong concern about its legality, which led US Defense Secretary Donald Rumsfeld to talk about "old" versus "new" Europe.⁵⁰ Iraq thus proved to be a bitterly divisive issue in both transatlantic and inter-European relations putting the EU Common Foreign and Security Policy (CFSP) to a severe test.⁵¹

Despite bitter internal disagreements over the war, there was a large degree of EU convergence on fundamental principles towards post-Saddam Iraq. Given its civilian nature, the EU was always destined to intervene in the aftermath either by providing

⁴⁹ Brain Crowe, "A Common European foreign policy after Iraq," *International Affairs* 79, no. 3 (May 2003): 533-546.

⁵⁰ John Peterson, Keynote Article: Europe, America, Iraq: Worst Ever, Ever Worsening?, *JCNS, The European Union Annual Review 2003/2004*, Vol. 42 (2004): 9-26

⁵¹ Felix Neugart, "Difficult Engagement: The EU and Iraq in the Aftermath of the War," *GCC-EU Research Bulletin*, Issue No.3 (Dubai: Gulf Research Center, October 2005): 17-19.

humanitarian and reconstruction aid or by formal participation in any UN follow-up force. Following the toppling of the Saddam regime, a number of EU member states have been participating in the multinational force in Iraq. Some are conducting police and security personnel training operations outside Iraq. The EU's efforts, however, have been focused primarily on providing humanitarian relief and political and financial support to launch the reconstruction process in Iraq. The EU also lifted its earlier sanctions against Iraq following the adoption of United Nations Security Council Resolution (UNSCR) 1483.⁵²

Nevertheless, the appointment of a new Iraqi interim government and the adoption of UNSCR U 1546 on June 8, 2004 confirming the full transfer of responsibility and authority to Iraqis as of June 30, 2004 and reinforcing the central role of the United Nations was a turning point for the EU. This offered an opportunity for the EU to wholly engage itself actively in addressing the issue of Iraq and for member states to fully coordinate their attitudes and policies towards Iraq.

The EU objectives and strategies in the post-Saddam period came in the Commission's communication "The EU and Iraq: a framework for engagement"⁵³ which was endorsed by the European Council of June 17-18, 2005.⁵⁴ The communication was in response to the European Council request in October 2003 for a strategy for EU's relations with Iraq and because of the deteriorating political situation in that country.⁵⁵ It showed the Union's fundamental

⁵² On May 22, 2003, the Security Council adopted resolution 1483, recognizing the US and Britain's occupation of Iraq and lifting economic sanctions. The resolution, adopted 14-0 with Syria absent, assigned the UN only a limited role in a transition to democratic government.

⁵³ (COM (2004) 417/1 of 01/06/2004) See: <http://europa.eu.int/abc/doc/off/bull/en/200411/i1052.htm>

⁵⁴ <http://www.eu2005.lu/en/actualites/conseil/2005/06/17conseurconcl/conseil.pdf>

⁵⁵ Indeed, since the 2003 war, there has been acute insecurity, which continues to afflict the Iraqi population in their day-to-day lives and hamper progress in the country's political, economic and social recovery. Killings and incidents did not

interest in developing a greater engagement with Iraq based on three key objectives:

- The development of a united but federal, secure, stable and democratic Iraq
- The establishment of an open, stable, sustainable and diversified market economy
- Iraq's political and economic integration into its region and the international system.

The communication also instituted an action strategy and a framework through which to take forward the development of EU relations with post-Saddam Iraq. However, this was determined by progress in the political transition and the security conditions in the country and was structured around three distinct phases reflecting the timelines endorsed by UNSCR 1546. It proposed actions for the immediate future, the post-election period and the medium term, culminating in a bilateral agreement associating Iraq with other partners in the region.

Phase I - Immediate Actions

This was for the period from June 30, 2004 until the election of the Transitional National Assembly (TNA) in January 2005. It called for and set main targets for the ongoing implementation of a €305 million package of humanitarian and reconstruction assistance. It also called for support with regard to elections, informal political dialogue, engagement on the part of Iraq's neighbors, administrative cooperation towards the application of the Generalized System of Preferences (GSP) trade preferences, consultation and coordination on debt forgiveness/restructuring and

relent and Iraq's security environment continues to witness major upheavals. The future of the country is still uncertain despite the approval of the Constitution at the referendum on October 15, 2005 and the elections for a constitutionally-based parliament and government on December 15, 2005.

related economic policy conditionality, and the opening of an Iraq Office in Amman. This phase also included support for the creation of a multilateral framework to aid reconstruction under the auspices of the UN and international financial institutions.

Phase II - Post Election

This focused mainly on the constitutional process, the intensification of rehabilitation and reconstruction support, the launch of a formal political dialogue with the provisional government including an EU-Iraq joint declaration, the creation of joint working groups in sectors of mutual interest, continued support of regional dialogue and confidence-building measures, continued assistance for democratization and human rights, additional EC contribution to reconstruction, including the expansion of bilateral technical assistance and capacity-building programs.

Phase III - Medium Term

This phase dealt with the constitutionally elected government in Iraq. It called for the EU to open negotiations for EU-Iraq contractual relations, provide continued assistance for economic diversification and poverty reduction, encourage the creation of a regional framework, offer European Investment Bank lending, gradually focus assistance in the fields of rule of law, democratization and human rights, and, finally, to open a fully fledged European Commission Delegation office.

Consequently, the first EU troika visit to Baghdad took place in June 2005 where the EU indicated that it intended to intensify the dialogue with Iraq with a view to moving towards a formal political dialogue, culminating eventually in more formalized contractual relations between the EU and Iraq. In this context, the European Commission proposed that the EU should start negotiations for a TCA with Iraq in 2006. Once this Council has approved the mandate, the Commission will negotiate the agreement with the

first constitutionally elected Iraqi government and both sides have signed an agreement ('Accord de Siege') to open a European Commission Delegation office in Baghdad.⁵⁶

EU-Iraq Trade Relations

On the economic side, it is instructive to note that given Iraq's oil resources, EU-Iraq trade levels have been significant in the past, particularly in the field of energy. However, due to the particular political situation of the country there have been variations in EU-Iraq trade volumes. In the 1980s, for example, EU-Iraq trade reached a peak of €25 billion, second only to Saudi Arabia in the region. But, between 1991 and 1996, EU-Iraq trade fell sharply, only to grow considerably from 1997 onwards due to the implementation of the UN oil-for-food program. By 2001, the EU accounted for 33.3 percent of overall trade with Iraq and 50 percent of its imports. According to the Commission's trade statistics, although trade volumes in 2004 were well below levels in the 1980s and 1990s, by 2004, the EU accounted for 20.8 percent of the overall trade with Iraq, second only to the US (40.7 percent).⁵⁷ In that year, the EU was Iraq's second largest supplier as 22 percent of Iraq's imports came from the bloc. EU exports to Iraq had also grown in the period 2003-2004, reaching a value of €1,386 million in 2004. EU exports to Iraq largely consisted of four groups of products: machinery (over 50 percent, a large share being power-generating machinery), food and live animals (10.6 percent), miscellaneous manufactured products (10.3 percent) and chemicals (6.8 percent). On the other hand, in 2001, EU imports from Iraq decreased by 43.5 percent compared to the year 2000, and continued to fall until reaching a record low of €1,552 million in 2003. Since then imports have regained some ground, rising to €2,539 million in 2004 (a 63.6 percent increase). This increase in

⁵⁶ http://europa.eu.int/comm/external_relations/iraq/news/ip05_1566.htm

⁵⁷ http://europa.eu.int/comm/trade/issues/bilateral/countries/iraq/index_en.htm

imports from Iraq was largely proportional to the increase in Iraqi oil production as EU imports from Iraq were highly concentrated on energy products which accounted for 99.3 percent of imports (€2,522 million). In fact, EU energy imports from Iraq currently represent 1.4 percent of its total energy imports, with Iraq being their 10th largest energy supplier.⁵⁸ Overall, the trade balance between Iraq and the EU in 2004, as in previous years, shows a surplus in favor of Iraq of €897 million.

Areas of Cooperation

As discussed above, the EU's efforts in Iraq since May 2003 have focused on providing humanitarian relief; as the humanitarian needs have decreased, the EU has started to provide political and financial support to launch the reconstruction process. Since then the European Commission has been an active promoter of the multilateral approach to reconstruction assistance to Iraq and has provided assistance amounting to €518.5 million.⁵⁹ This includes €100 million in humanitarian assistance administered by the ECHO and €418.5 million in support to the political and reconstruction processes.⁶⁰ Equally, the EU was active, together with other donors, in the preparations for the Madrid conference, and at the conference itself, pledged a total contribution of €200 million for 2003 and 2004.

The EU was also one of the promoters of the establishment of a multi-donor instrument for channelling international support to the reconstruction process in Iraq. The EU, as a whole, including the accession countries, pledged over €1.25 billion for Iraq's reconstruction. The European Commission has become the second largest contributor, after Japan, within the donor committee of the

⁵⁸ http://europa.eu.int/comm/trade/issues/bilateral/countries/iraq/index_en.htm

⁵⁹ <http://www.eurunion.org/news/press/2005/Iraq%20final.pdf>

⁶⁰ http://europa.eu.int/comm/echo/field/iraq/index_en.htm

International Reconstruction Fund Facility for Iraq (IRFFI) launched in 2004 by the United Nations and the World Bank.⁶¹

EU-GCC

Within the Gulf region, the only EU formal contractual relations that exist today are the ones with the states of the Gulf Cooperation Council (GCC).⁶² Soon after the formation of the GCC in 1981, and following the failure of the EAD, the EU and the GCC began discussions aimed at forming a close relationship, furthering cooperation and signing a free trade agreement.⁶³ In 1989, these talks resulted in the first formal multilateral Cooperation Agreement, which sought to “help to promote overall cooperation between equal partners on mutually advantageous terms in all spheres between the two regions and further their economic development, taking into consideration the differences in levels of development of the parties.”⁶⁴

The Cooperation Agreement, which came into force in January 1990, was concluded between “the European Economic Community, of the one part, and the countries parties to the Charter of the Cooperation Council of the Arab States of the Gulf (the State of the United Arab Emirates, the State of Bahrain, the Kingdom of Saudi Arabia, the Sultanate of Oman, the State of Qatar, and the

⁶¹ http://europa.eu.int/comm/external_relations/iraq/doc/assist_2005.pdf

⁶² A more detailed analysis on the EU-GCC see Gerd Nonneman, *EU-GCC Relations: Dynamics, Patterns & Perspectives* (Dubai: Gulf Research Center, June 2006).

⁶³ For a background see: Bulletin EC 6-1987, p. 87; Bulletin EC 10-1987, p. 62; Bulletin EC 11-1987, p. 71; Bulletin EC 12-1987, p. 91.

⁶⁴ Quoted in the preamble of the Cooperation Agreement between the European Economic Community, of the one part, and the countries parties to the Charter of the Cooperation Council for the Arab States of the Gulf (the State of the United Arab Emirates, the State of Bahrain, the Kingdom of Saudi Arabia, the Sultanate of Oman, the State of Qatar and the State of Kuwait) of the other part. See the *Official Journal of the European Communities*, OJ No L 54/3, 25 February 1989.

State of Kuwait) of the other part.”⁶⁵ Strictly speaking, it was not an agreement between two regional organizations. The asymmetry was an early indication of the different natures of the two regional organizations which has since bedeviled the progress of their negotiations. Specifically, the EU has created a much deeper regionalism with supranational bodies and competences while the shallow regionalism in the GCC has not allowed the same kind of supranational powers and it cannot conclude this type of agreement on behalf of its members.⁶⁶

The rationale for the evolution of inter-regional cooperation was evident in the high level of regional interdependence. The GCC has been a significant source of energy and the EU depends on it for over 20 percent of its existing oil demand.⁶⁷ Given Europe’s future needs for energy, its dependence on the Gulf was likely to increase. Furthermore, the GCC states represented the sixth most important export market for the EU.⁶⁸ They had also been an important source of investment capital in the financial and real estate markets. Moreover, there was also a political dimension, whereby the Community, given its general policy of supporting regional integration, recognized the significance of a regional grouping of these countries for promoting stability in the strategically vital Gulf area. Recognizing this importance, the Community, which was

⁶⁵ Saleh Al-Mani, *op.cit.*, 57-74.

⁶⁶ See for example, Charles Tripp, “Regional Organizations in the Arab Middle East,” in L. Fawcett and A. Hurrell, (eds.) *Regionalism in World Politics, Regional Organization and International Order* (Oxford: Oxford University Press, 1995): 283-308; William Wallace, “Regionalism in Europe: Model or Exception,” in L. Fawcett and A. Hurrell (eds.) *Regionalism in World Politics, Regional Organization and International Order* (Oxford: Oxford University Press, 1995): 201-227.

⁶⁷ The GCC states not only are the world’s largest oil producers (accounting for 52 percent and 70 percent of OPEC’s and Middle East production respectively), but also possess large oil and gas reserves (over 40 percent and 15 percent of world reserves respectively).

⁶⁸ This represents half of the trade with Arab countries and 3.6 percent of total EU exports to third countries.

lacking a dialogue partner in the region, sought to establish closer relations with the newly created organization.

The EU was not only a model for successful regional integration but also the second most important market, after Asia, for the oil-export dependent GCC. The EU imported over 25 percent of the GCC states' oil exports. The bloc also represented a major source of investment, know-how and technology transfers for the developing economies of the GCC states. Given the international status of the EU, closer economic and political relations with this significant regional group were seen as important for the security and stability of the vulnerable GCC states and their nascent regional integration. In fact, along with that of the US, some EU member states (the UK and France in particular) played a major part in ensuring the security of the region.

A host of political and economic circumstances made relations with Europe desirable, not the least of which was the GCC's attempt to gain recognition for itself. The escalation of the Gulf War motivated the GCC states to seek international partners. The fall of oil prices in the 1980s resulted in a negative trade balance with the EU and gave the GCC the economic imperative for dialogue with their main trading partner, especially after the EC's decision in the early 1980s to impose tariffs on GCC (mainly Saudi) petrochemical exports to the Community.⁶⁹

The EU-GCC Cooperation Agreement was a non-preferential trade agreement based on Articles 113 and 235 of the Treaty of Rome and is distinguishable from other EC cooperation agreements of the 'Mediterranean' or 'Lomé' type, which are preferential trade agreements based on Article 238 (EECT).⁷⁰

⁶⁹ "Saudi Tariff Complaint," *Chemical Week*, October 23, 1996, 6.

⁷⁰ The EC-GCC Agreement falls into the category of 'ASEAN', 'European Agreements' and the EC-Central American Agreement, (otherwise known as the San Jose Dialogue or process), which are, likewise, based on non-preferential trading arrangements using Article 113 of the Treaty of Rome and are complemented by a

The Cooperation Agreement established cooperation across a wide range of fields: economic and trade, agriculture and fisheries, industry, energy, science and technology, investment and environment. It created the Joint Cooperation Council, composed of representatives of both sides who meet at least once a year at the call of the presidency, which is held alternately by the Community and the GCC states.⁷¹ The Joint Council is empowered to attain the objectives of the agreement and to make binding decisions on the contracting parties in the cases provided for in the agreement. While adopting its own rules and procedures, the Joint Council may also formulate any resolutions, recommendations or opinions that it considers desirable for the attainment of common objectives and the smooth functioning of the agreement.⁷² A Joint Cooperation Committee (JCC) assists the Joint Council in performing its duties, and may decide to set up any other committees and decide on their duties and composition. The representation format is similar to that of the Joint Council. The JCC reports to the Joint Ministerial Council and usually meets before the Joint Council meeting.⁷³

The principal aims of the Cooperation Agreement were to improve economic relations between the two groups, intensify EC-GCC trade and strengthen inter-regional political dialogue. The Cooperation Agreement, therefore, rested on three pillars: political

strong political element based on Article 235. It is also distinguished from preferential agreements of the 'EFTA' type (based on Article 113 EECT).

⁷¹ In addition to the sessions of the Joint Council, foreign ministers have also developed the custom of meeting on the sidelines of the UN General Assembly in New York. For the Joint Council sessions, the rank of government representatives varies between senior official and foreign minister.

⁷² Article 12 of the EC-GCC Cooperation Agreement.

⁷³ Depending on the issue to be discussed the EU side is headed in the JCC by the Commission in trade issues and by the Presidency and representatives of member states when dealing with political matters. The GCC states are represented in the JCC by the GCC negotiating team, consisting of representatives of member states and assisted by staff from the Secretariat General. The GCC coordinator, who has always been a Saudi government official, heads the GCC states' negotiation team in the JCC.

cooperation, free trade negotiations and economic and technical cooperation.

Political Cooperation

Originally the Joint Council was created for the purpose of enhancing economic cooperation as well as promoting trade negotiations. Even though the Cooperation Agreement does not call for negotiation of common political positions among the signatories, the sessions of the Joint Council with respect to the implementation of the Agreement provide a welcome opportunity for the representatives of both sides to exchange views on various political issues. The forum provided by the sessions of the Joint Council has been used to discuss political issues of mutual concern and to arrive at common policy stances. In fact, political statements make up the bulk of the joint communiqués issued by the Joint Council after each session. For the most part, these concern politics in the Gulf and the Middle East, regional and international stability, terrorism, weapons of mass destruction, human rights, good governance as well as other topical issues.

Although EU-GCC political views seem to converge on most of these subjects, as is evident in the joint communiqués, the political dialogue has done little more than just confirm previously held views and has done little to further their economic negotiation and technical cooperation. One of the main reasons for this is that the EU, by its very nature as a ‘civilian power’, cannot offer the hard security and force projection needed in the tough Gulf neighborhood. Certain EU member states like the UK and France have entered into security agreements with a number of GCC states especially after the 1990-1991 Gulf crisis. However, this remains outside the EU framework and despite some recent developments in the European Common Foreign and Security Policy (CFSP), it has not yet developed enough to enable it to work collectively in this domain. Gulf security remains predominantly guaranteed by the US thus reducing the EU’s role to that of a secondary actor.

Free Trade Negotiations

The most important article in the Cooperation Agreement has been the one dealing with trade. Article 11 commits the contracting parties to grant one another the ‘most favored nation’ status and outlines the objectives of the agreement in the field of trade as “to promote the development and diversification of reciprocal commercial exchanges between the Contracting Parties to the highest possible level.” Moreover, the Cooperation Agreement contained a commitment from both sides to enter into negotiations on a Free Trade Agreement (FTA). In a way, it was clear from the outset that the conclusion of the FTA between the EC and the GCC was expected to be the main tangible result of the Cooperation Agreement, and that this was feasible within a short time horizon. It was also envisaged that until the future free trade agreement was reached, a ‘standstill’ on customs tariffs would be maintained.

For the GCC, in fact, a free trade arrangement was sought to protect their exports of crude and refined petroleum, petrochemicals, and aluminum to the Community⁷⁴. However, it is obvious that since the signing of the Cooperation Agreement in 1989, EU-GCC relations have traveled a rocky road. Negotiations for the FTA, the key element for the GCC, started in 1990, but have been protracted and at the time of writing, 16 years later, the terms are still being discussed.

Economic and Technical Cooperation

This third pillar comprises diverse areas of cooperation that have been compatible with the goals of the Cooperation Agreement without carrying the political weight of the free trade negotiations. It was aimed at practical cooperation in areas of mutual interest with low political cost to help maintain faith in, and build momentum for, the future of the relationship. Cooperation was

⁷⁴ Author’s interview with GCC officials.

sought in the areas of energy, environment, industry standards, customs, human resource development and investment. There were many different working groups, conferences, seminars and workshops with a wide range of approaches, and in some cases with private sector involvement, and, after the 1995 Barcelona Process, cooperation was introduced in business, cultural and media cooperation, as well as higher education and management training.⁷⁵

However, cooperation under the terms of the agreement has been rather limited, despite the economic and political imperatives. There has been some technical cooperation helping with the GCC regional integration, like the common market, custom union and common external tariff as well as with the planned GCC monetary union and the single currency. There was also some limited but highly beneficial cooperation with the Standards and Metrology Organization of the GCC (GSMO).⁷⁶ In fact, one of the most outstanding and often cited projects occurred in the area of the environment with the marine habitat and wildlife sanctuary for the Gulf region in Jubail, Saudi Arabia.⁷⁷

Missed Opportunity or a Blame Game

It has become plainly obvious, however, that further close and mutually beneficial relations have been thwarted mainly by the stagnation of the FTA negotiations, the incompatibility of the

⁷⁵ Gerd Nonneman, *EU-GCC Relations: Dynamics, Patterns & Perspectives*, *op.cit.*

⁷⁶ For example, GSMO and the European Commission signed a memorandum of understanding in 1996. It covered a four year Standards Cooperation program. This program focused on training for and assistance to the GSMO and was coordinated by a resident European specialist.

⁷⁷ In 1991, in the aftermath of the Gulf War, the European Council asked the European Commission to initiate support for the authorities in the Gulf in clearing oil spills and combating environmental pollution. In the spring of the same year, the Commission decided to install the Jubail project, which aimed at restoring the marine wildlife areas and allocated two million ECUs.

institutional actors and a lack of political will. Indeed, EU-GCC energy and economic relations, an obvious area of cooperation, have not grown significantly since the agreement. There has been no high-level energy dialogue that is of any significance and the growth in the overall trade exchanges (arguably similar to that of Iran and Iraq) would have happened without the agreement. In fact, trade has stagnated, if not declined, for some GCC states (e.g. Bahrain, Oman and Qatar).

The implementation of the Cooperation Agreement has seen a period of relatively slow progress representing a missed opportunity for both parties. In large part, this has been because of the Community's long-standing reluctance to conclude a free trade agreement with the GCC states. This, at least in GCC eyes, can be mainly attributed to the effectiveness of the European petrochemical industry in lobbying against the potentially negative effects of the FTA on their industry.⁷⁸ The GCC states, in an effort to diversify their economies, invested in large-scale petrochemical plants using their cheap gas as feedstock. Cheaper GCC petrochemical exports to the Community threatened the prospects of a radical restructuring of the troubled European petrochemical industry and thus raised opposition to the EU-GCC FTA. Certainly, the petrochemical interests in Europe (the European Association of Petrochemicals Producers or APPE, and other trade unions) started appealing to their own governments (via the European Council), the European Parliament, and the European Commission for protection.⁷⁹

⁷⁸ Maria Kielmas, "The Battle for Europe's Petrochemical market," *Middle East International*, December 1, 1989, 19-20; Quentin Peel, "The EEC, Gulf Talks under a Cloud," *Financial Times*, October 14, 1995, 4.

⁷⁹ Paul Aarts, G. Eisenloeffel, and M. Renner, "OPEC's Industrialisation and European Restructuring," in Christopher Stevens and Joan Verloren. van Themaat (eds.) *Europe and the International Division of Labour, New Patterns of Trade and Investment with Developing Countries* (London, Sydney: Hodder and Stoughton, 1989): 150-168.

Moreover, in their efforts to protect domestic production, the petrochemical interests in Europe lobbied for greater protection through the withdrawal of the EU Generalized System of Preferences (GSP) treatment for GCC petrochemical exports and EU governments subjected GCC petrochemicals and aluminum exports to further tariffs and quotas. Furthermore, the European petrochemical lobby was keen to point out the need for compatibility between the EU-GCC FTA and the GATT/WTO rules, and on the inclusion of democracy and human rights in the agreement, similar to the new wave of EU agreements with other partners including the Mediterranean states.

To make matters worse for the EU-GCC free trade negotiations, the EU, in response to global environmental concerns of the late 1980s and early 1990s, proposed the introduction of a global carbon tax (CO₂), in addition to energy taxes already levied by national governments. The objective of the carbon tax proposal was to stabilize CO₂ levels in the atmosphere by 2000 by reducing carbon dioxide emissions. Such a tax, if implemented, would threaten the oil revenues of the GCC states given its intended effect of reducing oil consumption. The GCC governments depend on the proceeds of the sale of oil for up to 80 percent of their revenues. Moreover, oil plays a critical role in the make-up of their GDPs. It was, therefore, not too surprising that the GCC states reacted strongly against the EU proposal. They argued that oil prices were already heavily burdened with various taxes within the EU (e.g. in Italy, Germany, France and the UK) with, in some cases, income from such taxes far exceeding the revenues/rents that the GCC states realized from the sale of their oil products. The issue of the carbon tax, therefore, further distracted the EU-GCC FTA negotiators.

However, the EU was not the only party to blame for this delay of the FTA negotiations – the GCC shared some of the blame. This newly formed regional organization, differing in shape and format from the EU, had little understanding of the nature of its European counterpart, its complicated maze of institutions and the

cumbersome and convoluted nature of its decision-making process. The GCC side also had little experience in collective negotiations and international bargaining. For example, it was only in March 1999, that the GCC side presented a comprehensive mandate for participation in the free trade negotiations.⁸⁰ Indeed, it would have been difficult for meaningful FTA negotiations to progress further given that the GCC negotiators were not mandated. On the institutional side, the slow pace of GCC economic integration, particularly the lack of progress with the customs union and the disagreement over the Common External Tariff (CET), has hindered GCC's negotiations with its trading partners and has certainly become a 'pretext' for the EU to abstain from entering into a free trade agreement. The creation of the CET would help facilitate trade negotiations between the two groups, as it would logically mean a region-to-region FTA rather than a series of bilateral ones. Therefore, the EU made a GCC agreement on a CET a precondition for FTA negotiations. The GCC Council announced plans to lower customs tariffs to 5 percent on all imported, non-customs union foreign commodities and enter into a CET effective January 1, 2003, create a common market by 2007 and have a monetary union with a single currency by the year 2010.⁸¹ The GCC states have also either not fully utilized their bilateral relations with EU member states or have failed to do so in order to put more impetus on the process of FTA negotiations.

Trade Relations

Despite shortcomings and delays in the EU-GCC FTA negotiations and an almost complete lack of cooperation in other areas, trade remains significant for both sides. Overall trade exchange has been growing and reached €65 billion in 2004. This is particularly true for EU exports to the GCC, which have been increasing since the

⁸⁰ See Joint Communiqué of the 9th EU-GCC Ministerial Meeting, Dubai, November 2, 1999.

⁸¹ Various communiqués of the Gulf Cooperation Council Summits.

80s. The GCC is currently the EU's sixth largest export market and the EU is GCC's largest trading partner.

In 2004, EU exports to the GCC were around €40 billion while EU imports from the GCC amounted to around €25 billion. This has resulted in trade deficit for the GCC of around €15 billion. This is significant if one also considers that trade in services, where no appropriate statistics are available, is also generally accepted to be in favor of the EU. Indeed, since the 80s, the EU has been enjoying a growing trade surplus with the GCC states, and the GCC has been the only one of the top five trade partners with which the EU consistently has had a trade surplus.

EU exports to the GCC are diversified, but the largest share is that of machinery and transport materials (56 percent), such as power generation plants, railway locomotives and aircraft as well as electrical machinery and mechanical appliances. EU imports from the GCC consist mostly of fuels and derivatives (70 percent of total EU imports from the GCC countries). Given there is no agreement on free trade, the GCC countries currently only benefit from preferential access to the EU market under the EU's Generalized System of Preferences (GSP). EU taxes are imposed on their petrochemicals and aluminum products, the products for which the GCC states have some comparative advantage, averaging 14 percent and 6 percent respectively. Hence one can understand the GCC motives for an FTA. There is also investment exchange but while indirect investment figures are, by their very nature, hard to obtain, direct investment remains low. Between 2001 and 2003, EU investments in the Gulf (six GCC countries + Yemen and Iraq) decreased from €1.8 billion in 2001 to €0.6 billion in 2003.⁸² However, EU capital employed in those countries has increased from 0.4 percent of total EU outward stock in 2001 to 0.9 percent in

⁸² There is currently no data available for the "GCC 6" on investment.

2003. At the same time, the Gulf, mainly GCC, investments in the EU increased from €0.1 billion in 2001 to €0.8 billion in 2003.⁸³

Conclusion and Policy Recommendations

There is no doubt that the Gulf region, given its enormous energy reserves and production potential, remains a strategic prize. For the EU, which imports more than a quarter of its oil from the Gulf, and whose energy needs are expected to grow further, it is imperative to forge close relations with the region.

Political conditions in the region are such that the EU has to follow a differentiated approach by trying to stay engaged in the Gulf region through relations with its three actors, Iran, Iraq and the GCC. However, there are no contractual relations with either Iran or Iraq due to the political turmoil in both states. With Iran, it has proved to be hard for the EU to follow a consistent course and the best attempt was a comprehensive political dialogue with the Islamic Republic to talk about all issues of concern with an offer to enter into a TCA. Iran's nuclear ambitions, however, have recently created further tension in the EU-Iran relationship, where the EU approach for finding a diplomatic solution has been criticized by the US. It is unclear at the moment where this relationship is going until the issue of Iran's intentions regarding attaining further nuclear technology is resolved and a compromise is reached.

Iraq, on the other hand, is a country that is emerging from the combined effects of a protracted sanctions regime under Saddam Hussein's rule and the subsequent US occupation which has not been without much destruction, violence and suffering. Although the EU had no coherent policy on Iraq before and during the invasion, post-invasion EU policy has been to help secure and stabilize the country through humanitarian assistance and help with

⁸³ European Commission http://europa.eu.int/comm/trade/issues/bilateral/regions/gcc/index_en.htm

reconstruction. Following the recent constitutional referendum and elections, EU-Iraq relations are expected to improve given the country's potential – especially in oil and gas – as well as its market. Should the country finally overcome the mayhem created by the invasion and the consequent violence and instability, EU-Iraq economic and political relations would be expected to grow and develop to a higher level to the point where they could quickly go beyond the TCA and, in time, to a free trade arrangement.

Relations with the GCC are, however, institutionally much more developed given the signing of the 1989 cooperation agreement. The GCC poses no political or even economic challenge to the EU and one would have expected the relationship to have developed into a more beneficial, strategic partnership. Institutional mismatch, sectarian interests and lack of political will have hampered this from happening all along the way, ultimately resulting in missed opportunities. There are signs of a recent flurry of activities to change this, following developments within the EU Neighborhood Policy (ENP)⁸⁴ and the document on the EU Strategic Partnership with the Mediterranean and the Middle East.⁸⁵ The fact that the US has moved ahead with its own Greater Middle East Initiative, signed bilateral free trade agreements with some GCC states (Bahrain and Oman) and is negotiating further agreements with other GCC states has also prompted EU action.⁸⁶ Recent EU-GCC communiqués have indicated that negotiations on the FTA are gathering pace with some minor technical issues being

⁸⁴ European Commission, "Wider Europe – Neighbourhood: A New Framework for Relations with our Eastern and Southern Neighbours," Communication from the Commission to the Council and the European Parliament, COM (2003) 104, Brussels, March 11, 2003. available at http://europa.eu.int/comm/world/enp/index_en.htm

⁸⁵ European Council, 'The EU Strategic Partnership with the Mediterranean and the Middle East', Final Report approved by the European Council in June 2004.

⁸⁶ Rodney Wilson, "Evaluating the Impact of the FTA on the Overall GCC-EU Relationship," *GCC-EU Research Bulletin*, Issue No. 2, June 2005, 12-13.

finally resolved and the agreement is expected to be ready for signing this year.⁸⁷

Indeed, given the significance of the region, the new economic and political realities, and the length of time it has taken for the FTA negotiations, reaching an agreement on the EU-GCC FTA is vital for both sides' interests. The FTA agreement should not be an end in itself but a prelude to unlocking cooperation in other areas and attaining a more balanced strategic partnership between the two sides. Such a partnership should not only include cooperation in existing economic, cultural and technical areas but extend to making the Gulf a more secure and stable region. This is particularly important because, in the last three decades, the Gulf has seen three destructive and devastating wars and the threat of yet more conflict is on the horizon. Through the reinforcement of political dialogue, both sides should work to make the Gulf a common area of peace and stability. A forum or a Gulf Conference for Security and Cooperation (GCSC) for political and security dialogue should be considered for discussing and deliberating pressing political and security issues. It should include other riparian states like Iran and Iraq as well as Yemen.⁸⁸ Indeed, further progress in EU relations with both Iran and Iraq would, theoretically, make such a forum more meaningful and vice versa. Moreover, improved EU relations with both Iran and Iraq could play a role in inducing them to work together, as well as with the GCC states, for a stable and secure environment in the region,

⁸⁷ For some of the latest analysis on this see, Christian Koch, *Gulf Yearbook 2004* (Dubai: Gulf Research Center, 2005): 189-195.

⁸⁸ For forum or GCSC idea, see Giacomo Luciani and Felix Neugart, *The EU and the GCC: A New Partnership* [2005 updated version] (Gütersloh/Munich: Bertelsmann Foundation/Center for Applied Policy Research, 2005) available at http://www.cap.lmu.de/download/2005/2005_GCC-EU.pdf: 23; and in more detail, Gerd Nonneman, "The Gulf: background assessment," in Nonneman, *The Middle East & Europe, op. cit.*, 55-62; and Gerd Nonneman, *Terrorism, Gulf Security and Palestine: Issues for an EU-GCC Dialogue*, RSC Policy Paper 2002-2 (Florence: Robert Schuman Centre, European University Institute, January 2002) available at http://www.iue.it/RSCAS/WP-Texts/02_02p.pdf.

improve confidence building and intra-regional cooperation. Furthermore, Yemen, which in 1998, signed a cooperation agreement with the EU, is slowly being integrated into the GCC through gradual participation in some GCC bodies. The EU experience in preparing aspiring states in meeting accession criteria is of some relevance to Yemen, which needs to be brought in from the cold into the GCC structure and into any future Gulf security forum.

Although it would not necessarily resolve all of the region's intractable problems or long-standing political disputes, such a forum could go a long way towards improving region-based dialogue and confidence building. The forum would be an appropriate setting for dialogue and may even go a long way in helping to tackle some of the lingering and thorny issues such as Iraq's need for access to Gulf waters, Iran's nuclear ambitions, the UAE islands dispute, and ridding the Gulf of WMDs. Some of these issues certainly require regional solutions and the forum could well provide the start. Indeed, the forum should also include other outside interested parties such as the US, China and Russia. Learning from EU experience in other successful regional-based discussions such as the Helsinki agreement on the Organization for Security and Cooperation in Europe (OSCE), the forum should also include such other issues as good governance, reforms and human rights. The EU, through its member states, could encourage NATO with its Istanbul Cooperation Initiative, which is currently only offered to those interested countries in the GCC on a bilateral basis, to extend the cooperation program on a regional basis.⁸⁹ Certainly, Gulf security must be collective for it to succeed and different US, EU and NATO initiatives must not only complement each other but also bring peace and security to all concerned.⁹⁰ The EU should also

⁸⁹ For the NATO Istanbul initiative see Nicola de Santis, "Opening to the Mediterranean and broader Middle East," *NATO Review*, Autumn 2004 available at <http://www.nato.int/docu/review/2004/issue3/english/art4.html>

⁹⁰ Roberto Aliboni, *Europe's Role in the Gulf: A Transatlantic Perspective* (Dubai: Gulf Research Center, August 2006).

encourage and devise plans for rapprochement between peoples through a social, cultural and human partnership aimed at encouraging understanding between cultures and exchanges between civil societies.

Failing, for the time being, to extend the EMP or the ENP to the Gulf or indeed to include the GCC/Gulf into any existing EU strategies, there is a need for the EU to address its critical interests in the Gulf with a more pronounced comprehensive policy. This could be done by linking the different strands of EU policies – those toward Iran, Iraq, the GCC, and even Yemen – into an overarching EU policy framework complementing, but not necessarily competing, with that of the US. For practical and political reasons, such a policy would not immediately encapsulate the region into a single policy but like that of the EMP, it could have different speeds and could have both bilateral and regional dimensions. It is in the EU and Gulf States' interest to help the construction of a zone of shared prosperity through an economic and financial partnership and the gradual establishment of a free trade area in the Gulf and Arabian Peninsula, which could at a later date be linked to the Mediterranean region.

Finally, for the sake of not repeating good work done by others⁹¹ on the subject, and for the sake of brevity, EU-Gulf cooperation in the fields of oil and gas, human resources, education and training, as well as a host of other technical, cultural and economic issues that have been mooted but not acted upon, should also be enhanced as part of this new partnership. Issues such as human rights, good governance and democracy should also be

⁹¹ See for example, Abdulla Baabood, "The EU-GCC Partnership: A New Way Forward for Inter-regional Co-operation," in Christian Koch (ed), *Unfulfilled Potential: Exploring the GCC-EU Relationship* (Dubai: Gulf Research Center, 2005, 43-54; Giacomo Luciani and Felix Neugart, *The EU and the GCC: A New Partnership* [2005 updated version] (Gütersloh/Munich: Bertelsmann Foundation/Center for Applied Policy Research, 2005), available at http://www.cap.lmu.de/download/2005/2005_GCC-EU.pdf.

tackled not only at the bilateral level but also on a regional level. The EU's liberal and civilian nature gives it the added advantage of being able to carefully nurture such issues without trying to impose outside norms and values. Without a colonial and mercantilist attitude, a European comeback to the Gulf could well be a welcome opportunity to balance US dominance. More importantly, it would create a partnership to promote security and stability not only through Gulf regional integration, but also with the wider Middle East and the Mediterranean area, into the larger European space, and further into the global economy.

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Dr. Abdulla Baabood is an academic and businessman with over 15 years of experience. He is a graduate in business and economics, and holds a Masters Degree in Business Administration (MBA), a Masters in International Relations and a Ph.D. from Cambridge University. His areas of interests include GCC economic, social and political developments as well as external relations. Dr. Baabood has several publications to his credit and has participated in numerous international seminars and workshops. He is also a member of a number of academic and professional bodies.

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