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The EU and the GCC. A New Partnership

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ROBERT SCHUMAN CENTRE FOR ADVANCED STUDIES

The EU and the GCC – A New Partnership

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INTRODUCTION¹

In the process of progressively defining its Common Foreign and Security Policy, it is time for the European Union (EU) to focus on the Gulf region. In the wake of the September 11 terrorist attacks and the regional realignment stimulated by the campaign against terrorism, an intensification of EU engagement in the Gulf region is imperative. A full-fledged Common Strategy toward the Gulf will have to include the EU's position towards Iran, Iraq, Yemen and the countries of the Gulf Cooperation Council (GCC).² As a first step towards this goal, this paper focuses in particular on the relationship with the GCC, drawing on several background papers prepared by distinguished experts exploring various fields of EU — GCC co-operation.³

The relationship between the EU and the GCC and its member countries has been of low intensity, and reflects neither the geographic proximity nor the vital links in several fields existing between the two sides. The involvement of certain EU member countries has been very substantial both historically and in recent times, but it has not led to significant involvement on the part of the EU as such. It is striking that the Gulf region is the only part of the world where the EU Commission does not have any diplomatic delegation. The existing co-

¹ This document results from a joint initiative of the Robert Schuman Centre for Advanced Studies at the European University Institute and the Bertelsmann Foundation in collaboration with the Bertelsmann Group on Policy Research at the Center for Applied Policy Research who organised several meetings of a group of European experts and diplomats in Florence and Munich from March to November 2001. The final drafting, which reflects as best as possible the comments and suggestions that came from the participants, was prepared by Giacomo Luciani and Felix Neugart.

² The Gulf Cooperation Council formed in 1981 is constituted of Saudi-Arabia, Kuwait, Bahrain, Qatar, the United Arab Emirates and Oman.

³ These background papers are being published as seven titles in the Policy Papers series of the Robert Schuman Centre for Advanced Studies at the European University Institute in Florence. Titles include:

1. E. Brodhage and R. Wilson "Financial Markets in the GCC: Prospects for European Co-operation"
2. G. Nonneman "Governance, Human Rights and the Case for Political Adaptation in the Gulf: Issues in the EU-GCC Political Dialogue"
3. G. Luciani, G. Nonneman, R. Wilson "EU-GCC Co-operation in the Field of Education"
4. G. Nonneman with A. Ehteshami and I. Glosemeyer "Terrorism, Gulf Security and Palestine: Key Issues for an EU-GCC Dialogue"
- M. Chatelus, G. Luciani, E. Rhein "EU-GCC Co-operation in the Field of Energy"
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operation agreement between the GCC and the EU of 1988 essentially failed to spark any meaningful co-operation.

There are several reasons for the underdevelopment of GCC-EU relations. First of all, the GCC as a regional organisation does not match the EU in its objectives and institutions. The GCC originated as a security pact and has made progress in economic co-operation, but has not yet succeeded in establishing a common market. In contrast, the EU is based on economic co-operation and is over time progressively developing a foreign policy and security dimension. On some of the issues of great importance for both sides — e.g. energy — neither the EU nor the GCC enjoy a strong mandate. Because of the importance of issues that have remained primarily under the control of EU member governments, bilateral relations have prevailed — sometimes with mercantilist undertones, especially in the field of arms trade — that tended to hamper common EU action. In the case of other regions, specific member countries have promoted a greater involvement of the EU, but the same phenomenon has not taken place for the Gulf.

It is therefore appropriate to reflect on how to shape these vital relations, in the medium and long term, in such a way that both sides may draw optimum benefits.

A new departure in EU-Gulf relations requires a new set of premises. The EU should start looking at its relations with the GCC as a *sui generis* partnership that should be based on fostering key common interests of the two sides, and compromising on points of inevitable conflict. The GCC countries are only partially comparable to other developing countries and must not be approached solely with classical development tools. GCC interests have to be taken into account and co-operation has to be based on fields of mutual interest and cost-sharing between the parties. First and foremost, the EU should show its determination to intensify its relations with the GCC countries through the opening of an EU delegation in the GCC, preferably in Riyadh.

As indicated, in spite of major progress made in the last decade the capability and coherence of the EU's Common Foreign and Security Policy is limited, most strikingly in the military sector. Specifically, the weak mandate of the EU commission in several important fields hinders the EU's capability for consistent action. Therefore, a detailed division-of-labour between the EU and national governments has to be agreed upon, in order to ensure implementation.

WHY THE GULF MATTERS

The countries of the Gulf Cooperation Council are of enormous strategic importance for the European Union. Their importance is even bound to increase in the 21st century.

- Islam, one of the great monotheistic faiths in the world, originated some 1380 years ago in the Arabian peninsula, which has maintained spiritual significance for over one billion Muslims all over the world. The cities of Makkah and Madina are the holiest sites in Islam and are visited by millions of believers, including many Muslims from the EU, especially during the annual haj pilgrimage.
- The GCC countries are of overwhelming importance for the global supply of fossil energy. They account for almost half of global oil reserves and about 15% of natural gas reserves, although presently their share in global production is significantly smaller. Due to their enormous reserves and the comparatively low production cost, the importance of the GCC countries for the global supply of energy is expected to increase in the near future, in line with the projected growth in demand from industrialising economies. This poses several questions: will the Gulf producers be willing substantially to increase their production levels, given that in some cases the resulting revenue may go well beyond their needs? Will appropriate channels for managing the huge implied investment effort created? Will global dependence on Gulf oil and gas not grow beyond what may be considered safe levels?
- The GCC countries have engaged in a determined and relatively successful effort to achieve development and diversification of their economic base. Their political systems have shown remarkable stability over the last decades, combining traditional values with modern elements. This is not just a function of the large cash inflow triggered by the increase in oil prices, as the failed example of several other oil-rich developers proves. Yet, GCC countries are not as rich as commonly perceived, per capita income is generally lower than in Western industrial countries. Furthermore, the GCC countries always substantially maintained a free trade environment and are progressively eliminating remaining limitations originally intended to protect domestic investors. With the exception of Saudi Arabia, they are already members of the WTO, and Saudi Arabia is expected to gain membership soon. The GCC has the most developed financial markets in the Arab World owing to the oil wealth in the region, the free convertibility and stability of the currencies and the relative openness of the economies to international trade. Finally, these governments wish to integrate into the emerging system

of global governance, and are keen to adapt their policies to the best international practice, within the limits imposed by some special cultural traits of the countries in question.

- The GCC countries have been witnessing varying degrees of evolution towards widening participation. The traditional social contract has been challenged by the combined impact of the evolution of oil prices and markets, globalising pressures in the world economy, the population explosion and social change. The growing size and complexity of these societies also means that traditional channels for airing grievances, and traditional bases of legitimacy, are decreasingly able to assure popular acquiescence. GCC states also have significant human rights problems, although these vary from state to state. Many of the problems stem from conservative patriarchal social values rather than from government abuse.
- The fact that the Gulf countries have created a regional organisation, which already guarantees freedom of movement, residence and establishment among its members, and will achieve a Customs Union by 2003 under Muscat agreement reached on 31st December 2001 makes it into a natural partner for the EU, although there is no perfect parallelism between the GCC and the EU. As regional integration within the GCC will progressively deepen, it will be possible for the EU to deal with a single interlocutor, characterised by considerable homogeneity in social, political and cultural systems.
- The GCC countries have consistently supported the policies of the West and have never resorted to violent means for the resolution of conflicts. They have shown moderation with respect to the position of Israel while at the same time upholding their position with respect to the need for a peace based on international law and UN resolutions. Thus, the GCC countries have proven to be an anchor of stability in a troubled environment where peace has been repeatedly challenged, most dramatically by the expansive design of the Iranian revolution in 1979, and by the Iraqi attack on Kuwait in 1990. They have on several occasions resorted to international arbitration to resolve their bilateral disputes and have accepted the decisions of the International Court of Justice in this respect.

Main Objectives

The European Union has the following goals for its policy towards the GCC:

- Fostering long-term stability in the region, for any conflict threatens to interrupt the stable supply of oil and gas and jeopardises the global economy.

Stability implies the recognition of the territorial integrity of each of the regional states within their present borders and the establishment of a mechanism for the peaceful resolution of conflicts. For this to succeed it is imperative to bring Iraq back into the international community as a partner fully respectful of international law and the integrity of its neighbours, and to encourage the further re-integration of Iran.

- Supporting the path of development chosen by the GCC countries through intensive co-operation in the fields of economic diversification, investment and education. The success of the GCC countries' development effort could prove to be contagious and positively influence all neighbouring countries, including those in the Mediterranean region. The EU should encourage the development of GCC political systems aimed at implementing the values of good governance and respecting human rights while avoiding anything that might be perceived as a patronising attitude.
- Assuring the stable supply of oil and gas at reasonable prices through a dialogue focusing on reducing market volatility and improving price stability, investment in the oil and gas sector in the GCC and development of natural gas supply routes to the EU. The EU shares with the GCC countries a strong concern to keep energy prices in a range that will simultaneously encourage energy conservation, the rational utilisation of traditional fossil fuels and the development of non traditional fuels and other sources of energy.
- Reinforcing the European Union's presence in the GCC, reflecting the strategic importance of the Gulf region, in order to foster mutual understanding and convergence of interests, and to share in its rising prosperity. This requires an increased commitment towards the region on the diplomatic, economic and cultural planes.

AREAS OF CO-OPERATION

a) Political and Security Dialogue

The GCC countries and the EU attach highest importance to the co-operation in political and security issues, especially in the light of the recent terrorist attacks on the United States of America. Security and stability in the Gulf region can only be assured by the co-operation of all riparian states in a framework that defines principles to ensure the maintenance of peace in the region and instruments for the peaceful resolution of regional conflicts. Any such framework will have to take into account the EU's efforts at regional integration in the Mediterranean basin, mainly through the Euro-Mediterranean Partnership,

and links to neighbouring geopolitical areas such as Central Asia and the Horn of Africa.

- The EU should pursue a close dialogue with the GCC states over Gulf security, aimed at bringing Iraq, Iran and Yemen into a Gulf-wide security system. The EU should explore the idea of a Gulf Conference for Security and Co-operation (GCSC). This organisation should include all the riparian states and be devolved into subject-specific working groups on issues like arms control, resolution of territorial disputes, economic co-operation, energy and water. The EU should function along with the US and Russia as a facilitator for the establishment of this framework and as an observer of its proceedings. The GCC has contributed to the peaceful solution of territorial disputes among its member countries. Furthermore the EU member countries should set the future sale of weapons systems to the GCC against the background of the development of an EU-wide approach to Gulf security.
- Although there is no agreed international definition of terrorism this should not inhibit dialogue with the GCC on this issue on a pragmatic basis. There will be scope for agreement on controlling financial flows to groups recognised by both sides as terrorist and on the common threat which terrorism poses. We should recognise that the GCC may raise issues with respect to "terrorist" operating freely in European countries, and attempt to link this with dissidents. The EU should not shy away from this debate. This links with the question of human rights. Our ability to extradite individuals is ultimately linked to the establishment of the rule of law, recognition of human rights and freedom of expression in GCC countries. Increasingly GCC countries' willingness to co-operate in the international campaign against terrorism will be a determinant in the EU relationship with the Gulf.
- The EU has developed a significant *sui generis* partnership with Iran since the election of President Khatami in 1997. This comprehensive dialogue covers global issues (terrorism, human rights and proliferation), regional issues (Gulf, Central Asia and MEPP) and areas of co-operation such as drugs, refugees, energy, trade and investment. -There is a lack of any contractual relations for the time being, although preparations for negotiations towards a Free Trade and Co-operation Agreement are under way. Therefore relations between the EU and Iran are more intensive but less institutionalised than relations with the GCC. The EU should pursue a policy of convergence in its relations with the two regional actors aimed at establishing a regional security framework as outlined above.
- There are at present no contractual relations whatsoever between the EU and Iraq. The EU should move towards a swift implementation of a regime where

restrictions on Iraqi non-military imports are lifted. At the same time military controls must be kept in place, and WMD monitoring needs to be re-established. Given the transatlantic differences the EU should agree with the United States on a common agenda for a *post-Saddam* era in Iraq, regardless of when and how it comes about. Conditions could be outlined under which an Iraqi government could be reintegrated into the international community, and receive the support required for the reconstruction of its infrastructure. These principles should include (1) continuation of Iraq as a single, independent state, (2) substantial progress towards democratic, accountable institutions, as signalled in particular by the dismantlement of instruments of mass repression and acceptance of freedom of expression (3) federalism or decentralised government institutions which take into account the rights of minorities (4) the recognition of the territorial integrity of adjoining countries, and (5) the abandonment of efforts to acquire weapons of mass destruction and a substantial scaling down of military expenditure as a whole.

- It is in the EU's as well as in the GCC's interest to support Yemen's regional integration and to stabilise Yemen domestically to avoid a failed state scenario in the most populous and economically weak country on the Arabian peninsula. EU support for Yemen's integration with the GCC states contributes to improve the political stability and economic development of the whole area. Therefore, the EU should welcome the GCC's recent decision to respond to Yemen's application for membership with a strategy of close co-operation. The establishment of a Euro-Yemen Partnership Agreement would be a clear signal of the EU's support for the integration of the region and is comparatively easy to achieve. This would involve the renegotiation of the existing EC-Yemen Co-operation Agreement, parallel to the Euro-Gulf Partnership negotiations.
- Putting an end to Israeli-Palestinian conflict is a joint interest of the GCC countries and the EU. The European Union should seek the support of the GCC countries in promoting a just resolution of the Israeli-Arab conflict, including of the Palestinian question, based on the long-standing and well-known positions of the EU.⁴ Yet, the development of a security and co-operation framework in the Gulf region should not be made dependent on progress in the Israeli-Arab peace process.

⁴ cf. especially the declaration of the European Council of Berlin (1999) on the Middle East Peace Process.

b) Good Governance and Human Rights

Because regional security is ultimately linked to the stability of political systems, any European concept for regional security includes good governance and respect for human rights as essential elements of contractual relations. Gradual political evolution towards greater political participation, transparency and accountability in the GCC is inevitable if the economic reforms are to be enabled that will be necessary to cope with the pressures of globalisation and a fast-growing population. Taking into account that the instruments and the language used will have to reflect cultural understanding, the EU should:

- Engage in an open and fruitful dialogue that is explicitly two-way and rests on persuasion rather than pressure. Neither in the political realm nor in that of other human rights, should 'Islam' be seen as an obstacle, only particular politically or socially determined interpretations of religious rules can be seen as such. Short of dismissing the *Sharia* legislation as such, matters of interpretation and implementation, judicial systems and training, and policing, can fruitfully be addressed in exchanges of views at the non-governmental as well as the governmental level. The EU should seek the support of European Muslims on an organisational and individual level to promote the value of religious tolerance in GCC societies.
- Offer to share European experience with governments engaged in discussing, designing or implementing electoral principles or procedures, and constitutional reform — in the conviction that the process of European integration and the diversity of EU member states provide valuable experience in government reform. Moreover, the EU should foster the study of politics as a discipline and understanding of European politics, e.g. through the establishment of Centres of European Studies at Gulf universities, support the expansion of Gulf studies in Europe including the stimulation of joint research projects and inviting trainees and young scholars to EU institutions.
- Offer support for the reform of the legal and law-enforcement system of the GCC members. The EU and the GCC countries should collaborate in judicial training and penal reform including professional training for lawyers in the courts, training in international law; and training in human rights law. The EU should support activities to train military and police personnel in human rights issues and in civil-military and community-police relations.
- Seek a stipulation on co-operation with civil society in future EU-GCC agreements and inclusion of some GCC initiatives among the portfolio of the European Initiative for the Democracy and Human Rights (EIDHR) for a

broad dialogue between representatives of civil society is necessary to identify common ground and reduce mutual distrust. It should stimulate exchanges and networking at all levels, e.g. parliamentarians, young leaders, academics, journalists and other professionals. The EU and the GCC should collaborate in women's professional educational programmes and support for local NGO activities aimed at women's issues.

c) Human Resources and Education

The importance of investment in education has always been clear to all of the GCC governments, and substantial funds have in fact been channelled to improve the human capital of these countries. Starting from a very low level – one in which the vast majority of the population was illiterate – major progress has been accomplished, though much still remains to be done. The demand for improved education services is evident and will be there for a long time to come. In this context, co-operation in the field of education and human resources is of crucial importance for the long term, possibly the most important item for future EU-GCC relations. Investment in this sector will contribute to the political and economic development of the GCC countries and ultimately to regional stability.

The new EU-GCC Partnership should attribute the greatest importance to co-operation in the field of education. This is in many ways more urgently needed than co-operation in trade, finance or energy. The very high priority attributed to co-operation in education should be made into the distinguishing feature of the new EU-GCC Partnership, and generous financial means should be made available to substantiate it

Therefore the EU should:

- Strive to attract GCC students to EU universities. The EU should play a promotional role by improving information and facilitating the overcoming of the language barrier. Offering financial support should generally not be contemplated, yet should not be ruled out in cases in which students that the European institution deems worthy cannot get support from their own countries.
- Encourage twinning arrangements to improve the quality of teaching in the GCC universities, especially in technical fields such as engineering, medicine, architecture and economics. Twinning arrangements should include the temporary posting of European instructors in GCC universities, and may envisage a shorter (e.g. 1 year) presence of the Gulf students in Europe (on diploma and masters programmes).

- Encourage European education institutions to set up subsidiaries in the Gulf, operating on a commercial basis.

Furthermore the EU should co-operate with the GCC to:

- Establish a programme to encourage distance learning and use of the Internet, for allowing GCC institutions and students access to some of the educational offerings of European institutions.
- Establish special programmes for enhancing the knowledge of their respective societies, focusing initially on languages, history, politics and law, but progressively expanding to other aspects including literature and the visual arts. One joint aim should be to establish of European Studies Centres in Gulf universities, together with a demonstration that the expansion of Gulf studies in Europe is seen as important. The aborted EU-GCC University Cooperation project offers a useful model – indeed should be relaunched in some form.
- Establish an Erasmus-type programme for the exchange of students and support the closer interaction of the educational systems.

d) Trade and Investment

The EU and the GCC are currently negotiating a Free Trade Agreement (FTA) which will, in parallel with the WTO accession of Saudi-Arabia, open the GCC countries to international competition and communication, eventually promoting economic reform and social change. It is thus part of a broader project aimed at integrating the GCC countries into a globalised world. The prospect of international investment in GCC economies will contribute to an improved business climate, reinforce the rule of law and generally accelerate the process of domestic reform. Furthermore, the FTA will strengthen the GCC institutionally and transform it into a sizeable market. Taking into account that the FTA negotiation process has to be linked to the WTO framework, the EU should:

- Encourage GCC regional integration to facilitate negotiations by reducing differences in tariffs and regulations among the GCC countries and creating one interlocutor. The agreement for the GCC to bring forward its date for the completion of the customs union to the 1st of January 2003 is welcome, as is the implementation of a unified tariff of 5%, rather than the more complex dual tariff scheme originally proposed for 5.5 and 7.5 percent bands on basic commodities and luxury goods respectively. The EU should offer its rich

experience in regional integration to support this process and to strengthen GCC multilateral institutions.

- Support the accession of Saudi Arabia to the WTO by engaging in co-operative diplomacy to find a swift solution to the outstanding problems preventing a positive conclusion of negotiations. Signing the WTO treaty will also boost the negotiations for the FTA.
- Establish a Free Trade Area with the GCC countries covering all industrial products without exceptions, preferably already in 2003 in conjunction with the completion of the GCC customs union. This Free Trade Area should be aimed specifically at enhancing intra-industry integration, both horizontal and vertical, by supporting greater freedom of investment, including in the services sector. Co-operation with the GCC authorities will be fundamental to achieve an optimal implementation of the new investment legislation and to raise the awareness among EU companies of the opportunities offered by all the GCC countries.
- Establish co-operation for the enforcement of intellectual property rights in line with best international practice.
- Integrate the future EU-GCC free trade area horizontally with the emerging free trade area in the Mediterranean; this will give a powerful push to free trade between the GCC and the Southern Mediterranean countries and have a positive impact on regional Arab co-operation. In fact, an EU-GCC FTA is expected to become a reality well before the Mediterranean FTA, and may well act as a catalyst to overcome residual resistance to the latter.
- Establish an EU-GCC business dialogue to foster business contacts and encourage the business sector to formulate proposals for administrative and regulatory improvements. The EU should also offer its technical advice and assistance in areas like standards, legal frameworks, banking surveillance, central banking, administrative rules and procedures.

e) Oil and Gas

Though the market for oil is global in nature, a regional dialogue between the EU and the GCC may contribute to improving European and global energy supply conditions, and should be pursued. This dialogue does not exclude parallel initiatives promoted from other institutional forums, and should be co-ordinated with the latter. In particular, the IEA should be encouraged to pursue

dialogue with OPEC along the same lines proposed for the EU-GCC, and the proposal, put forward by Saudi Arabia, to establish a permanent secretariat to the Energy Forum — that last met in Riyadh in November 2000 — should be carefully considered. Nevertheless, the geometry of such alternative discussion forums would not be the same as a EU-GCC dialogue, and the latter would have the advantage of setting energy in the context of broader co-operation for development and stability in the region, a difference which has considerable importance.

The EU-GCC dialogue should be based on a mandate to achieve the following:

- All parties agree that the price of oil should be set by market rather than administrative mechanisms. However, the oil market as presently organised is highly imperfect and lacks transparency. Only a small percentage of crude exchanged internationally is actually traded on the market. The bulk of it, and notably almost all Gulf exports, is exchanged outside the market on the basis of a system of reference pricing which lacks rational foundations. This structure tends to contribute to the volatility of prices and market insecurity. Therefore, widespread misgivings exist about the current functioning of the international oil market and pricing mechanisms, and many believe that improvements to transparency and efficiency of the market would be possible. The EU and the GCC should jointly study initiatives to propose, implement or promote the required changes.
- Both the EU and the GCC agree that prices should not be “too low” – which would be negative for conservation and the development of alternative energy sources – nor “too high” – which would lead to slower economic growth and possibly large reserves of oil being left in the ground. Furthermore, both sides agree that price volatility should be contained if possible, as it has important negative effects on the real economy. This common ground may be enough to start a meaningful dialogue about prices, in view of progressively narrowing differences and improving mutual understanding.
- Security of supply is a corollary of reliable markets and stable prices. Maintaining the required excess capacity – for the production and transportation of crude oil and the refining of products – is a source of additional costs that will not be borne by private profit maximising operators. The EU and the GCC should agree on ways to address security of supply at the regional level. This includes establishing guidelines for the accumulation and liquidation of stockpiles, and supporting investment in transportation facilities in order to avoid bottlenecks or emergencies.

- System stability is improved by vertical integration in both directions: oil producing countries should be allowed and indeed encouraged to integrate downstream through their national oil companies to gain more direct contact with the final consumer and acquire a more direct interest in the economic well-being of the importing countries; and the international oil companies based in the major industrial countries should be allowed to invest upstream in the producing countries. Negotiating an appropriate instrument to regulate and protect cross investment in energy is an important objective.
- The EU is expected to increasingly rely on gas to cover its energy needs. Diversification of suppliers and connecting to the European market increasingly distant suppliers are required to foster security of supply of gas. The EU should launch an initiative following in the footsteps of INOGATE to support the creation of long distance export pipelines from the GCC to serve the Mediterranean Partner countries and connect into the European grid.⁵
- In a closely integrated world economy negative externalities for the environment affect both suppliers and consumers. The EU and the GCC should start a dialogue on collaboration to minimise the danger for the environment through energy production and trade, especially by ensuring the implementation of the Kyoto Protocol on the reduction of emissions.

f) Financial Markets

The GCC markets are essentially national, although Bahrain has emerged as a significant regional financial centre. Nevertheless, the GCC has the most developed financial markets in the Arab World. This is largely a consequence of the oil wealth in the region, the free convertibility and stability of the currencies and the relative openness of the economies to international trade that requires financing. The EU should offer co-operation to enhance the integration of Gulf financial markets with European and global markets in order to facilitate the financing of investment projects in the Gulf, and possibly in the Mediterranean and other industrialising countries of common interest. With their traditional emphasis on providing finance to capital-intensive "old economy" industries, in

⁵ The recently published Communication from the Commission to the Council and the European Parliament on "European Energy Infrastructure" comes to the same conclusion and proposes the TEN programme with revised priorities as the key instrument to pursue this goal. It mentions, in particular, the need to establish an interconnection between Turkey and the European gas network to facilitate imports of gas from Central Asia and the Middle East. However, the initiative can only be effective in the long run if it is undertaken in the context of dialogue with potential exporting countries to ensure that the complete infrastructure chain is put in place.

particular in the small and medium size enterprise sectors, European financial institutions have an important experience to share with their GCC counterparts. On the other hand, given the importance of private Gulf placements into the European financial markets, greater integration will also facilitate market efficiency and convergence of interests. The EU should

- Establish co-operation in the regulation of banking and other financial intermediaries. Regulatory issues in the GCC differ from those in the European Union, but there are many areas of shared interests, e.g. in respect of rating systems or the application of specific Basle II-requirements, which offer wide scope for co-operation with agencies in Europe such as the Financial Services Authority in the United Kingdom, that liaises with Gulf central banks in any case regarding banks from the region with a presence in London.
- Establish co-operation between the ECB and GCC Central Banks in the light of the former's experience in managing the single currency, and of the GCC countries' stated aim to maintain fixed parities between their currencies as a move towards a regional currency union, which under the Muscat agreement will be established in 2010.
- Pursue greater integration of capital markets through cross listing of major Gulf companies and the provision of technical assistance to Gulf markets on the part of the major European exchanges. Improve conditions for electronic trading of European stocks in the Gulf and promote the opening of Gulf stock markets to European investors under conditions of stability and transparency.
- Promote the further opening of financial markets in the Gulf to European banks and other intermediaries taking into account the WTO and the FTA framework as a tool to favour increased competition, improved services and greater integration with the European financial markets.
- Support the growing use of the Euro as a reserve, trade and investment currency also for transactions between the two regions.



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