# Strengthen Europe's Role on the Gulf!

Security-policy Developments and Economic Interests Cry out for Action

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## Executive Summary

The European Union is far from arriving at a common policy on the Gulf. This is as sobering as it is alarming, particularly in view of the open question of Iran's use of nuclear power, the need to secure Europe's energy supply, and the economic boom on the Gulf. Europe has a vital interest in political stability based on regional integration, and its active engagement is theoretically more than overdue.

For the six member states of the Gulf Cooperation Council (GCC), namely Kuwait, Bahrain, Saudi Arabia, Qatar, the United Arab Emirates, and Oman, 2005 has been quite a successful year. Rising oil prices caused a veritable flood of money to pour into the monarchies on the Gulf. In addition, high liquidity at the stock exchanges and progressive diversification of the private economy in these countries caused a boom which, in turn, led to Saudi Arabia joining the WTO as its 149th member in December of that year. First and foremost among the beneficiaries of the Saudis' new wealth was and is the social sector. Civil servants and soldiers had their pay raised, and education now is an object of interest to the government, which has no option but to implement social and educational policy reforms because of the steadily declining average age of the population.

The domestic situation in the Gulf states reflects the authoritarian framework conditions that apply in the entire Arab world. This is why these states remain in the focus of the global security-policy debate after the change of government in Iraq, despite recent tendencies towards political liberalization. Another cause for concern is the way in which the region responded to the growing demand for oil in Asia, particularly in China and India, which is likely to increase Europe's interest in stability within the region even further.

When the GCC was founded in Abu Dhabi in May 1981, its supreme goal was to promote cooperation and integration in a region where Great Britain's withdrawal east of Suez had left a security vacuum behind, and the hegemonial pretensions of both Iran and Iraq emerged ever more clearly. At the time, the GCC set itself goals in foreign and security policy as well as in financial and economic policy, but their implementation has remained fragmentary to this day.

While a rapid reaction force was indeed set up in the military field, it was unable to prevent Iraq's invasion of Kuwait in 1990, and even the security of the region as a whole remains dependent on external powers. After the recent security-policy developments on the Gulf, the GCC states moved forward into the first line of defence. While America's security rests on bilateral agreements with its allies, the role of Europe's anchors of stability, the NATO and the EU, still is minimal. Whereas the USA regard the future of the Middle East as a crucial transatlantic challenge, Europe appears to feel no particular urge to make a move.

At the moment, the foreign policy of the GCC member states is still based on loose coordination, although they are quite capable of holding a common position in the face of common challenges. This was brought home to Mr Ahmadinejad from Iran when he travelled the region early in the year to curry favour for his country's nuclear programme, and failed. In the economic field, the goals pursued by the GCC are ambitious. Adopted in 1982, the Unified Economic Agreement mentions joint principles relating to the establishment of a free-trade area, freedom of movement across borders for all citizens of the member states, and a common banking, financial, and currency policy. And indeed, the first triumphs of integration are at hand: A customs union was established in 2005, the creation of a common market is envisaged for 2007, and the introduction of a single currency is planned for 2010. On the other hand, there are still hurdles impeding the free exchange of services, and there are even questions about the currency union itself that have not yet been answered. One of these is whether the new currency is to be tied to the dollar or to a currency basket, which would include the Euro.

As the nation states themselves control any joint action within the GCC, its structure is clearly intergovernmental. The supreme council adopts political guidelines on the basis of papers and reports submitted by subordinate departments. Next in rank, the ministerial council develops recommendations, supported by committees at the ministerial level as well as by subcommittees. Lastly, there is the secretariat general which sets the stage for the supreme council's decisions. However, the GCC's intergovernmental structure is coming to the end of its tether as economic integration progresses, and the danger is growing that intergovernmental bickering might paralyse the entire process.

Relations between the EU and the GCC have been well regulated since 1988, although some unused potential remains. The Europeans' interests in their dealings with the council focus on securing their energy supply, on business and trade, and on political stability. The next goal envisaged is the conclusion of a free-trade agreement in May 2006.

The main concern of the EU and its member states is the long-term security of the energy supply. Holding 42 percent of the oil and 23 percent of the gas reserves of the world, the GCC states and the Gulf region as a whole attract great interest among Europeans. Very probably, China's oil demand will have doubled by 2025, and that of the USA will grow markedly as well. The question is how the EU, and particularly Germany as its biggest partner, will respond to this situation.

Based on the EC-GCC Cooperation Agreement, the EU and the GCC have been maintaining bilateral economic relations since 1988, with the Europeans pleased to see their export surplus growing steadily since 2005. In the same year, the EU began to call for the establishment of a free-trade area. When the customs union was established in 2001, the region jumped an important hurdle. The EU aims to secure the success of the free-trade agreement within the year, both to consolidate trade relations that are favourable to Europe and to counter the GCC's growing orientation towards the Far East.

Neither Germany nor the EU has any alternative to enhancing relations with the GCC. First, there is no guarantee that trade relations remain as favourable to the EU as they are at present. Second, mutual dependencies between Asia and the Gulf states are reinforced by China’s and India’s growing demand for oil. And third, it is in Europe’s interest to promote the creation of peaceful federations in its own image, thus paving the way for the success of good governance. It would be advisable for Europe to take action swiftly and wisely so as to avoid having to reiterate its complaints about the lack of a common Gulf policy in the next two years.