

**REGIONAL RIVALS OR ALLIES FOR PEACE? EU-US  
RELATIONS IN THE MIDDLE EAST**

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## **REGIONAL RIVALS OR ALLIES FOR PEACE? EU-US RELATIONS IN THE MIDDLE EAST**

*'The Europeans will be unable to achieve anything in the Middle East in a million years'*. Henry Kissinger (1974)<sup>1</sup>

*'The US has power but Europe has influence'*. Miguel Moratinos (1997)<sup>2</sup>

The USA and the European Union have vital and shared strategic interests in the post-Cold War Middle East. Continuity of oil supplies, a stable commercial environment and the limitation of inter-state conflict are related interests essential to both actors in the region. Yet the USA continues to be the dominant external political force in the area, being both the '*de facto* hegemonic regional power' and seemingly the only actor capable of forcing dialogue between the Israeli government and Palestinian Authority.<sup>3</sup> By contrast, the EU has struggled to make its political impact felt. A combination of a lack of cohesion among the Middle East policies of the Member States, and the weaknesses of the EU's foreign policy-making mechanism, have left it playing second and third fiddle to the US and other mediators. Over time, though, the kind of scepticism exemplified by Kissinger's blunt dismissal of European ambitions has gradually given way to grudging acceptance that the Union may have an important contribution to make to Arab-Israeli bridge-building alongside the US. The

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<sup>1</sup> Cited in Ifestos, P. (1987) *European Political Cooperation: Towards a framework of supranational diplomacy*, Aldershot: Avebury, p. 369.

<sup>2</sup> Turner, M. 'Code aims to aid Middle East talks', *European Voice*, 2-8 October 1997, p. 6.

1990s saw the EU carve out distinct roles for itself as the major financial underwriter of the Palestinians and as a self-styled 'honest broker' in diplomatic efforts to bring the protagonists together. This paper examines the recent history of the EU and US approaches to key issues in the Middle East, and contends that European passivity in the face of the USA's dominance may no longer be tenable.

Section 1 considers US and European reactions to the series of events precipitated by the 1990 Gulf War and the subsequent US-sponsored Madrid conference between Israel and the Palestinians. European and US involvement as the Peace Process evolved is the focus of section 2, which assesses the EU's efforts to increase its diplomatic influence relative to that of the USA. Section 3 examines the transatlantic relationship in a broader context. It assesses the potential for trade, investment and security to be stimuli for competition and collaboration between the EU and USA.

## **1. RELAUNCHING THE PEACE PROCESS**

The 1990 Gulf War altered the political landscape in the Middle East and brought a renewed sense of urgency to the search for a solution to the Arab-Israeli conflict. The US-led coalition's victory, coupled with the departure of the USSR as a major rival in the region, gave the United States 'unprecedented freedom of action'.<sup>3</sup> The scene was set for a sustained, but not always effective, period of US diplomatic activism centring

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<sup>3</sup> Roberson, B. A. (1998) 'Introduction' in B.A. Roberson (ed.) *The Middle East and Europe: The Power Deficit*, London: Routledge, p. 11. (pp. 1-19)

<sup>4</sup> Brzezinski, Z. , Scowcroft, B. and Murphy, R. (1997) 'Differentiated Containment', *Foreign Affairs*, 76 (3), p. 22. (pp. 20-30)

on the Middle East Peace Process and the 'dual containment' of Iran and Iraq.<sup>5</sup> The Bush Administration's efforts to revive the Peace Process were taken up by the first Clinton Administration.

European calls for a 'comprehensive' solution to the conflict also assumed new resonance in view of the involvement of so many of the region's states in the Gulf crisis.<sup>6</sup> But the EU emerged from the Gulf War with a somewhat tarnished reputation among the Arab countries. Visible divisions among the Member States over their respective contributions to the military operation had again exposed the Union's weaknesses as an international power and reinforced the sense of its dependence on the USA in international crises. For the Arab states, the Union's involvement in what was perceived as an American war confirmed its unreliability as a counterweight to the US.<sup>7</sup> In particular, France's role in the coalition was viewed as tantamount to treason by its sizeable population of Arab immigrants, provoking mass demonstrations in Paris.<sup>8</sup>

However, the EU had grounds to anticipate that its growing economic and political weight, further enhanced by moves towards the completion of the Single Market, would enable it to stake a credible claim for a more significant role in the Peace Process. With the Cold War over, balancing independent EU foreign policy positions against harmonious relations with the USA became less imperative. Inside

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<sup>5</sup> Ibid., p. 20.

<sup>6</sup> Most of the states in the region were drawn into the conflict. Jordan, the PLO and Syria backed Iraq, a decision that cost them the financial and political support of their wealthy Arab neighbours. Turkey was used by NATO to police Iraq's northern border. Israel was subject to several Iraqi Scud missile attacks during the military conflict but resisted the temptation, under severe US pressure, to return fire.

<sup>7</sup> For a European perspective on US leadership in the Gulf crisis see Guelton, F. (1996) *La guerre américaine du Golfe*, Lyon: Presses Universitaires de Lyon.

<sup>8</sup> Khader, B. (1997) 'L'Europe, le proche-orient et la Palestine, 1957-1999: Synthèse et enseignements', *Paper presented to Seminar: The EU's Common Foreign and Security Policy and World Responsibilities*, Institut d'Etudes Européennes, Brussels, 3-5 October.

the Community, renewed interest in political integration, inspired by the Delors Commission and the Franco-German alliance, generated political momentum behind the creation of a more coherent and cohesive common foreign policy.

Despite European optimism, the extent of the EU's political marginalisation in the Middle East became clear when it was confined to the role of observer as the USA and Russia co-sponsored the launch of the bilateral track (Israeli-Palestinian) of the Peace Process in Madrid in November 1991.<sup>9</sup> The bilateral negotiations covered the vital political issues in the Peace Process: territorial control, sovereignty, borders, security arrangements and the rights of the Palestinians. European leaders played down the Union's exclusion from the top table. French Foreign Office Minister Roland Dumas, for instance, claimed that his government had actively contributed to the preparation of the Madrid conference, and that US leadership was essential to keep Israel at the negotiating table.<sup>10</sup>

Nevertheless, it was evident that the USA and, equally importantly, Israel, had little appetite for the EU to play a significant political role in the Peace Process. But as Leon Hadar suggests, 'the Gulf crisis showed President Bush that the US needed European support and, perhaps more importantly, European money'.<sup>11</sup> Faced with a huge budget deficit and deep economic recession, the USA's aid budget in the early 1990s came under severe pressure in Congress. Since there was no question of reducing its financial assistance to Israel and Egypt, an alternative source of funds had to be found for the Palestinians, and that source was the European Union.

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<sup>9</sup> Hooper, J. 'Conference Table Built on a Political Minefield', *The Guardian*, 30 October 1991, p. 9.

<sup>10</sup> Dumas, R. 'Interview à Europe 1', *Déclarations de politique étrangère depuis 1990*, Paris: Ministère des Affaires Etrangères, 14 November 1991, «<http://www.diplomatie.fr/cgi/nph-bwgcis/BASIS/epic/www/doc/SF>»

Instead, the EU had to settle for a leading role in the Multilateral Working Groups set up to channel international financial aid to the region and coordinate projects in the economic, infrastructural, social and environmental spheres.<sup>12</sup> The EU acted as co-organiser of the Environment, Refugee and Water working groups.<sup>13</sup> It was made ‘gavel holder’ of the Regional Economic Development Working Group (REDWG), which allowed it to direct international financial assistance to the Palestinian territories.<sup>14</sup> Work in the REDWG was divided into 10 areas, with ‘shepherd’ states responsible for coordinating projects in each area:

#### **EU Member States’ Roles in the REDWG**

France - communications and transport Spain - agriculture UK - financial markets EC - energy and ‘regional networks’ Germany - trade
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In addition to its responsibilities for individual project areas, the Community also provided crucial logistical support. A secretariat and executive secretary for the monitoring committee set up to oversee the projects were funded by the Union. The Union also became an active contributor to the US/Russian-led Arms Control and Regional Security working group (ACRS), another rolling multilateral forum established as a result of the Madrid conference.

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<sup>11</sup> Hadar, L.T. (1991) ‘The United States, Europe and the Middle East’, *World Policy Journal*, Vol 8, No. 3, p. 427.

<sup>12</sup> The multilateral talks ran parallel to the bilateral negotiations.

<sup>13</sup> Hollis, R. (1995) ‘After Madrid: The EU and the Peace Process’, Palestinian Academic Society for the Study of International Affairs, Seminar, March, «<http://www.passia.org/>»

<sup>14</sup> Muscheidt, B. (EU Representative Office, Jerusalem) (1995) ‘The European Union and the Peace Process Since Madrid’, Palestinian Academic Society for the Study of International Affairs, Seminar, March, «<http://www.passia.org/>».

The importance of the multilateral track should not be overstated. Madrid served as powerful reminder that the US was the only external power capable of acting as a mediator. But the post-Madrid decisions did at least open a window of opportunity for the EU to gain influence over the longer term in the Middle East. As Peters argues, the multilateral track was based on a ‘functionalist-liberalist conception of cooperation’ where the enmeshing of the region’s states through multi-sectoral cooperation would enable them to set aside their political differences.<sup>15</sup> The initiation of this functionalist-inspired multilateral track was suited to the Union external policy strengths, which were to be found in its trade and aid policies, and to its own experience with regional economic and political integration. The European Commission was quick to recognise the opportunity, arguing that:

On the economic front the time is now right for the EC, together with the international community and especially the Gulf countries, to embark on an ambitious cooperation programme which would embrace the economic development of the West Bank and Gaza, bearing in mind the need also for international efforts in favour of the region as a whole.<sup>16</sup>

The economic development of the occupied territories, and support for economic integration between the Arab countries, became the guiding principles of the EU’s contribution to the Peace Process.

It is arguably in these attempts to devise new frameworks for intra-regional cooperation that the seeds for future EU-US rivalry were sown. The multilateral track was constructed as a means to encourage regional inter-governmental cooperation,

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<sup>15</sup> Peters, J. (1997) *Europe and the Middle East Peace Process: Emerging from the sidelines*, Centre for Euro-Mediterranean Studies, University of Reading, «<http://www.rdg.ac.uk/EIS/GSEIS/EMC/pubs.html>», May, pp. 5-6.

<sup>16</sup> European Commission (1993) ‘EC Support to the Middle East Peace Process’, *Communication from the Commission to the Council and the European Parliament*, COM (93) 458, 29 September, p. 1.

and later to capitalise on any peace dividend. The EU's policy on the Peace Process was devised at the same time as the development of its new Mediterranean strategy. Both emphasised the potential economic benefits to European capital of encouraging economic integration in the region, particularly intra-regional trade among the Arab states and Israel. From a US point of view, any assistance in the creation of a more stable environment in the region was to be welcomed, since it also promised to benefit American interests in the long run. But any positive development in international relations in the region proved to be a distant prospect in the face of the inexorable, and arguably inevitable, breakdown of the Madrid process.

## **2. THE EU, US AND THE PEACE PROCESS**

The signature of the Oslo Declaration of Principles and Washington Agreements in September and October 1993 was a major breakthrough in the Peace Process, and injected new dynamism into Israeli-Palestinian negotiations, which had begun to flag soon after Madrid. Even the Clinton Administration proved powerless to bring the dovish Rabin government and Arafat's beleaguered and conciliatory PLO together. It was left to Norway, not an EU member state, to act as a secret intermediary and restart the talks. Between March and September 1993, a series of discussions, initially between academics and researchers, led to the historic mutual recognition agreement by the Palestinian and Israeli authorities. The Washington Agreements set a timetable for the withdrawal of Israeli forces from the West Bank and Gaza.

Immediately after the Washington meeting, the REDWG was convened in order to discuss a World Bank report, co-financed by the EC, US and Norway, about

economic rebuilding in the region. As one commentary put it, ‘the Israel-PLO agreement will only survive if it results in a quick and sustainable improvement in the standard of living of the people of the occupied territories.’<sup>17</sup> At the Washington Donors’ Conference (1 October 1993), EU heads of government pledged 500 million ECUs from the Community budget to be channelled to the region from 1994-98 through the Commission (250 million ECUs per annum in grants) and the European Investment Bank (250 million ECUs per annum in loans), the largest single pledge.<sup>18</sup> A new body - the Ad Hoc Liaison Committee (AHLC) - chaired by Norway, was mandated to coordinate and promote aid from individual donors to the Palestinian people.

**Figure 6.2 Donor Pledges October 1993- November 1996 (Million ECUs)**

Donor	Grants	Loans	Total
European Union (Budget+EIB)	250	250	500
USA	315	105	420
Japan	215	0	215
Saudi Arabia	168	0	168
Norway	126	0	126
Netherlands	101	0	101
Germany	78	0	78
Italy	67	0	67
Sweden	58	0	58
France	54	0	54
Denmark	43	0	43
Spain	43	0	43
Canada	28	0	28

<sup>17</sup> O’Sullivan, E. (1995) ‘Cementing Peace with Prosperity’, *MEED: Middle East Business Weekly*, Vol. 37, No. 38: p. 4.

<sup>18</sup> European Commission (1993) op. cit., p. 2. By the end of 1997, the EU had committed ECU 444 million ECUs in grants from the EU budget, 100 million ECUs in EIB loans, and 156 million ECUs made available by the EU to the UNRWA under the standard budget support programme. The priority areas were: education - 130 million ECUs; health care - 33 million ECUs; humanitarian assistance - ECU 36 million ECUs and contributions to the UNRWA - 156 million ECUs.

World Bank/IDA	0	176	176
Israel	21	42	63
Other donors	297	239	537
<b>Total</b>	<b>1864</b>	<b>858</b>	<b>2667</b>

Source: Data extrapolated from various sources.

The EU thus firmly established itself as the biggest contributor to the Palestinian state-in-waiting, a fact that not only made it indispensable to the economic track of the Peace Process, but provided the Union, and the West, with an additional instrument with the potential to influence the behaviour of the both the Arabs and the Israelis.<sup>19</sup> That said, political influence was not a logical corollary of aid. That depended on the multiplier effect of aid, including anticipated dividends such as increased inward investment, the stabilisation of the business environment and the normalisation of relations at both the governmental and societal levels.<sup>20</sup> For many inside the Union, though, this potential economic leverage did not go far enough. In an exchange with the Belgian Council Presidency, one MEP complained that:

you have not explained what the European Community or European Union specifically intends to do to encourage the ....I have the impression that Norway has done a great deal more in real terms than the European Union and I am rather sad about that.<sup>21</sup>

In a thinly veiled attack on US dominance, a French official argued that:

<sup>19</sup> EU aid to the Palestinians removed some of the cost to the Israelis of paying for security in the occupied territories. It enabled the Israeli government to reduce the number of Palestinians employed in the Israeli economy on the assumption that donors would pick up the bill through business projects.

<sup>20</sup> For contrasting evaluation of the utility of aid, see Beck, M. (1997) 'Can Financial Aid Promote Regional Peace Agreements? The Case of the Arab-Israeli Conflict', *Mediterranean Politics*, Vol. 2, No. 2, p. 66; Artis, V. (1998) 'Can Financial Aid Promote Regional Peace Agreements? The Civilian Power Europe Approach Towards Mediterranean Global Security', Presentation to Summer School on The Mediterranean and the New International Order, University of Catania, 5-12 July.

<sup>21</sup> Langer, B. 93/451, Question No H-1095/93 on the Israel/Palestine Peace Process, *European Political Cooperation: Documentation Bulletin*, Brussels 1993, p. 538.

the Community should have a position reflecting its economic dynamism. It should not just serve as a cash register for policies decided elsewhere.<sup>22</sup>

At this juncture the EU made a bid for greater political influence alongside the USA by attempting to set out the roles it might play. At the Brussels European Council of December 1993 a list of possible initiatives was set out by the Heads of Government identifying priority areas for EU initiatives in order to capitalise on its status as bankroller of the Palestinians. The principle themes of the framework were as follows:

**Figure 6.3 Proposed EU Initiatives in the Peace Process**

- 1) Participation in international supporting arrangements.
- 2) Strengthening the democratic process through, *inter alia*, assisting with the preparation and monitoring of elections in the Palestinian territories.
- 3) Building regional cooperation, chiefly through participation in the REDWG and Arms Control and Regional Security Working Group.
- 4) Support for Palestinian institution building through the mobilisation and implementation of EU aid programmes for the occupied territories.
- 5) Providing bilateral aid to other parties to the bilateral negotiations.
- 6) Assuring follow-up to action underway on confidence-building measures submitted to the regional parties.
- 7) Using the EU's influence to encourage full support on all sides for the Peace Process.<sup>23</sup>

Consistent with Europe's call for a global settlement, the Communication emphasised the Union's specific role in promoting regional cooperation and stressed the need to involve Israel in 'a balanced triangular relationship' with Europe and the Mashreq

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<sup>22</sup> Spurrer, A. op. cit., p. 9.

countries.<sup>24</sup> It is important to note the emphasis on the regional dimension of the Peace Process. There was no question of the EU seeking a diplomatic position in support of the Palestinians equivalent to that of the US in support of Israel.

Implementation of the Oslo process soon reached an *impasse*, ostensibly over the speed and scale of the hand-over of the occupied territories. However, the stalemate was symptomatic of a more serious problem: the irreconcilable Israeli policies of withdrawing troops while simultaneously expanding Jewish settlements. The massacre in January 1994 of dozens of Palestinians in a Mosque in Hebron by an Israeli settler vividly exposed the fragility of the process and called into question the ability of the two sides to guarantee the security of their respective populations. The Clinton Administration reacted by calling Prime Minister Rabin and Chairman Arafat to Washington. The EU's reaction to events in Hebron was confined to a short statement by the Council condemning the massacre, and calling for 'the [Israeli] authorities to take full responsibility for protecting the inhabitants of the occupied territories'.<sup>25</sup>

It was at this stage that divergences among the EU Member States began to surface over how to respond to developments in the region, thus undermining the projection of European unity.<sup>26</sup> The election of Jacques Chirac as President in May 1995 heralded a new interventionism in French foreign policy, an interventionism that

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<sup>23</sup> European Council (1993) 93/506 'Conclusions of the European Council meeting in Brussels' (10-11 December 1993), *European Political Cooperation: Documentation Bulletin*, 9, p. 590.

<sup>24</sup> European Commission (1993) *Future Relations and Cooperation between the Community and the Middle East*, COM (93) 375 Final, Brussels, 8 September, p. 4.

<sup>25</sup> Press Statement, Greek Presidency, 'Statement on events in Hebron', *European Political Cooperation: Documentation Bulletin*, No. 9, 1994, p. 131.

<sup>26</sup> Such divergences of opinion have historically undermined EU attempts to differentiate its position from that of the USA. After the 1980 Venice Declaration, for instance, differences over how to proceed from the Declaration quickly surfaced in the Council. The EU subsequently failed to take its high profile diplomatic intervention any further.

was not popular with either the Israeli government or the Clinton Administration. From the outset, Chirac demanded a greater say for Europe, suggesting that ‘the situation in the region requires that Europe in general, and France in particular, take account of their traditional links and historical interests’, promising ‘a bigger French presence’.<sup>27</sup> In April 1996, when Foreign Minister Hervé de Charette travelled in quick succession to Beirut, Jerusalem and Damascus to negotiate a cease-fire after the Israeli shelling of Southern Lebanon. France’s part in securing the ceasefire won it a seat as co-chair of the monitoring committee alongside the USA. In contrast to Chirac’s diplomatic efforts, the collective response of the EU to the Lebanon crisis could best be described as tardy. The Troika, led by Council President Susanna Agnelli, arrived in the region behind the French team.

An opportunity for the EU to gain credibility among the Arab states was missed after Benjamin Netanyahu’s election in May 1996. Despite the obvious implications for the Peace Process and political relations with Israel, no statement was issued on what the Union expected from the new government *vis-à-vis* the Oslo process.<sup>28</sup> Only after a summer of violence precipitated by Israel’s failure to adhere to the Oslo accords and the USA’s reluctance to put pressure on the Likud-led government did the EU finally grind into gear, launching a thinly veiled attack on Israel in a CFSP statement and despatching Irish Foreign Minister Dick Spring to the Middle East for talks with Netanyahu and Arafat.<sup>29</sup> In a sudden flurry of diplomatic activity, the Troika also held talks with Arafat and Israeli Foreign Minister David

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<sup>27</sup> De Charette, H. (1995) ‘Interview with the Minister of Foreign Affairs in “Al-Ahram Weekly”, *Official Documentation: Ministry of Foreign Affairs*, Paris: Ministry of Foreign Affairs, 26 July.

<sup>28</sup> By contrast, the Arab states were quick to react collectively, discussing Netanyahu’s election victory and the possibility of a common position on it at the Cairo Summit in June 1996.

Levy, but were able to offer little more than consoling words to the Palestinians, and were rebuffed by the Israelis. The Union's efforts were met with an extraordinary warning from US Secretary of State Warren Christopher. In a letter to each of the 15 member governments, Christopher exhorted the Union to refrain from interfering in the Peace Process at such a 'delicate moment'.<sup>30</sup> The Union's tentative diplomacy, and the USA's warning, were followed by another high profile diplomatic foray by Chirac who controversially grabbed centre stage with his own tour of the region.

One outcome of the Union's experience during this tense period was the decision to appoint a special envoy, Miguel Moratinos, to represent the EU in the Peace Process. The appointment of Moratinos was a shrewd move by the EU. A former Spanish Ambassador to Israel, the special envoy had considerable inside knowledge of regional politics, and the respect of the parties concerned.<sup>31</sup> His mandate contained the following objectives:

#### **Figure 6.4 Special Envoy's Mandate**

- To establish and maintain contacts with all the parties involved.
- To observe the negotiations, offer the EU's advice and its 'good offices'.
- Contribute to implementing international agreements and 'engage with them diplomatically' in the event of non-compliance.
- To promote, by engaging with signatories, compliance with norms of human rights, democracy and the rule of law.
- To report to Council bodies about the best way of pursuing EU initiatives and ongoing Peace Process-related business.
- To monitor actions which might affect permanent status negotiations (ie actions in the occupied territories).<sup>32</sup>

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<sup>29</sup> 'Declaration by the Presidency on Behalf of the European Union on the Middle East Peace Process', PESC/96/83, October 1 1996, Rapid Database, <http://europa.eu.int/rapid/cgi>.

<sup>30</sup> Fisk, R. 'US Warns Europe on Middle East Meddling', *The Independent*, 22 October 1996, p. 12.

<sup>31</sup> Without exception, all the officials interviewed in connection with this research mentioned Moratinos' reputation and experience in the region as a reason for the good working relationships he managed to establish with all the major players in the Peace Process.

Moratinos' remit appeared carefully judged and realistic: to project a relatively low profile political presence of the EU by offering its good offices rather than by attempting major diplomatic offensives. As the Special Envoy himself observed, 'my role is complementary to the US. It has to be so. My role is not about competing for influence but in striving to help the Middle East Peace Process.'<sup>33</sup>

The Israeli government would certainly have reacted negatively to the appointment of a high profile political figure, while the US would have been similarly unlikely to welcome overt political interference.

Moratinos' experience as Spanish ambassador in Israel also made him acutely aware of Israeli sensitivities. Any kind of direct European pressure on Netanyahu would have further weakened EU mediation. At first, the Israeli government had been sceptical, with David Levy arguing that 'the [Israeli-Palestinian] negotiations must be direct and without any external pressure'.<sup>34</sup> But Moratinos patient, neutral approach gradually won him the approval of Netanyahu's government and the US administration. The reaction of the US Administration to Moratinos' successful efforts to broker a meeting between Levy and Arafat in July 1997 illustrates the point:

'We don't necessarily do the same things and say the same things, but our strategy is aligned and I think we're serving the same cause - that is to try to convince the Israelis and Palestinians that it's time to move forward.'<sup>35</sup>

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<sup>32</sup> Council of Ministers, 1958th Council Meeting: General Affairs, Luxembourg: 28-29 October 1996, «<http://europa.eu.int/rapid>».

<sup>33</sup> Quoted in Dempsey, J. 'EU envoy builds a Mideast role', *Financial Times*, 7 February 1997, p. 4.

<sup>34</sup> Cited in Awwad, E. (1997) 'Paix menacée au Proche-Orient', *Défense Nationale*, 53, January, p. 102.

<sup>35</sup> Nicholas Burns (1997) Press Briefing, US Department of State, 22 July, «<http://secretary.state.gov/www/briefings/9707/970722db.html>»

For the Palestinians and the Arab side in general, who saw Moratinos' appointment as a promising development, the special envoy's official role was therefore a disappointment in some respects. An Arab official lamented that:

Moratinos would have been more effective if there was an effective mandate, an effective initiative. He needed something to offer in the framework of an initiative. It is a good thing for the Arabs to underline the importance attached to a European role, but Moratinos must have a clear position. He must be able to use all the resources at Europe's disposal.<sup>36</sup>

Another Arab diplomat expressed similar sentiments, arguing that:

A clearer mandate is necessary. At the moment, his role is presenting the European Union's position and going back to Brussels.<sup>37</sup>

The point here is that Moratinos was more important to the Palestinians than the Israelis. The Arab states expected the special envoy to back the Palestinians in the same way that the US government backed Israel.

However, despite their respective efforts at mediation, the US and EU continued to be powerless to prevent further deterioration of Israeli-Arab relations. Netanyahu's policy of expanding Israeli settlements in Arab East Jerusalem sparked renewed violence and effectively halted the peace process. President Clinton's deliberate snub of Netanyahu during the latter's visit to the USA in November 1997 had little effect in the face of support for the Israeli Prime Minister from the pro-Israeli lobby. The growing frustration of the EU was expressed by the Member States in a terse attack on the Prime Minister Netanyahu. Meeting on 24 November 1997, EU foreign ministers castigated Netanyahu, with Luxembourg Foreign Minister Jacques Poos stating that:

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<sup>36</sup> Interview 1.

<sup>37</sup> Interview 2.

Our basic approach is that of land for peace. The policy of Prime Minister Netanyahu does not enjoy our support. It is a narrow minded policy.<sup>38</sup>

However, such interventions by the European were occasional and clearly had little effect on a defiant Israeli government. Only when the EU used its economic policy instruments was it finally able to wield effective influence over Israel. In May 1998, the European Commission's patience with Israel was pushed to the limit as instances of products from the Occupied Territories being exported to the EU under the Israeli flag came to light. The Commission officially notified Israel that the terms of the agreement were being violated, and that products originating from the occupied territories might be excluded from the EU-Israel free trade area, a threat backed by the Council.<sup>39</sup> Commissioner Manuel Marín was defiant: 'We gave peace a chance. But now we are acting.'<sup>40</sup> Netanyahu's retort was equally confrontational:

Be careful with the use of ultimatums and dictates of any kind. That is the one thing that doesn't go well in Israel and with me.<sup>41</sup>

In spite of Netanyahu's attempt to play the 'anti-Israel' card, Israeli officials were forced to sit down with the Commission discuss ways of lifting the restrictions on Palestinian trade.<sup>42</sup>

As the peace process foundered, it was left to the Clinton Administration to bring the Israelis and Palestinians together. The diplomatic process that led to the

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<sup>38</sup> Quoted in Foreign Minister of Luxembourg, *European Report*, No. 2271, November 26 1997, Sect. V, p. 10.

<sup>39</sup> European Commission (1998) 'EU - Israel : Implementation of the interim agreement in the framework of a strengthened regional cooperation', *Press Release IP/98/426*, Strasbourg, 13 May; General Affairs Council (1998) *2111th Council meeting*, Luxembourg, 29 June.

<sup>40</sup> Quoted in *Financial Times*, 27 May 1998, p. 7.

<sup>41</sup> Quoted in Harries, D. and Gilbert, N. (1998) 'Netanyahu blasts EU boycott', *The Jerusalem Post: Internet Edition*, May 20, <http://www.jpost.com/com/Archive/20.May.1998/News/Article-0.html>.

<sup>42</sup> Lemaître, P. 'La Communauté européenne accuse Nétanyahou de politiser le débat commercial', *Le Monde*, 19 May 1998, p. 3.

Wye River Memorandum of October 1998 required intensive mediation by US officials. The EU apparently played little part beyond a symbolic visit to the Middle East by the Council Presidency as an expression of support for the negotiations. Shortly after the Wye agreement, Special Envoy Moratinos expressed a measure of exasperation with the Union's continued exclusion, stating that:

'We do not want to do only cheque-book diplomacy. The EU wants to be a player, not only a payer.'<sup>43</sup>

The Washington Donors' Conference, held on 30 November 1998 following the signing of the Wye River Memorandum, reaffirmed the supporting role of the EU. At the end of 1998, it accounted for 53 per cent of total financial assistance to the Palestinians. The conference saw €3.2 billion in aid pledged over a five-year period up to 2003. This figure included €400 million from the European Union budget, with Member States offering a similar amount. At the EU-US summit on 3 December, the Union unambiguously emphasised its support for US-led mediation in a joint statement on the implementation of the Wye agreement.<sup>44</sup>

The USA and EU have since proved largely powerless to prevent the breakdown of the Middle East Peace Process. The two did appear to coordinate over last ditch diplomatic action to prevent the unilateral declaration of the establishment of a Palestinian state ahead of the Israeli elections of 1999. The Clinton Administration announced that final status talks would commence immediately after the Israeli elections. Meanwhile, the EU's Berlin Declaration of March 1999 explicitly recognised the Palestinians' right to a state. Both actions helped to dissuade Arafat

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<sup>43</sup> Cited in Ciriaci, F. (1998) 'Jordan, EU working closely to ensure being 'associated' with final status talks', *Jordan Times*, 10 December, «<http://www.jordanembassyus.org/121098003.htm>» The phrase 'payer, not player' was originally used by

from carrying out his threat. But later attempts to broker final status talks were a failure, leaving the Peace Process in tatters by 2000.

The future of the Peace Process, and with it the longer-term prospects for political and economic stability in the greater (or wider) Middle East. What the deterioration of the relationship between the Israelis and Palestinians has shown is that external diplomatic intervention has little utility in the absence of political will on the part of the key players to sit down together. The new Bush Administration appears to have openly conceded as much, despite its recent, widely reported, condemnation of the Israeli government's decision to move military forces into the Gaza area. Given the strength of the pro-Israeli lobby in the USA, it is difficult to envisage the conditions for its 'constructive disengagement' from the peace process. Some scaling back of the USA's mediation role, and perhaps a reduction of financial aid to Israel are conceivable. Any serious challenge to the bottom line security guarantees that the US provides is not.

The EU's role in Arab-Israeli relations is likely to remain subordinate to that of the USA. Its own internal divisions, its lack of effective political influence over Israel and US reservations about European interference confine it to the back seat. It will, however, continue to be an essential underwriter of the nascent Palestinian state, though the efficacy of that aid has been called into question by the Palestinian Authority's apparent maladministration of the funds. Patient diplomatic efforts behind the scenes, building on its more favourable position with Arab governments, may see the Union gradually become a bigger player.

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<sup>44</sup> Council, 'EU-US Summit', *Rapid Database*, Pres/97/356, «<http://europa.eu.int/rapid/cgi>».

### 3. REGIONAL FUTURES:

#### *Trade and Investment*

The potential for economic competition between the EU and USA in the wider Mediterranean region is limited by the comparatively weak economic performance of the region and the low-level of intra-regional economic activity.<sup>45</sup> The World Bank has recently reiterated its concern about the integration of the Middle East and North Africa (MENA) region into the global economy, suggesting that it continues to lag well behind other developing economies in East Asia and Latin America.<sup>46</sup> Efforts by western governments to stimulate the region's economy in the post-Oslo environment assumed a future peace dividend. The annual Middle East and North Africa economic conferences, for instance, launched in 1994 and vigorously promoted by the Clinton Administration, aimed to promote regional economic integration by regularly bringing together business leaders and politicians. Among the initiatives on the negotiating table was a regional development bank. But 1998 saw the conferences halted as the Middle East peace process became deadlocked. Such multilateral action, whether led by the USA or EU, is likely to remain on the back burner for the foreseeable future. However, given projections of rapid population growth and the existence of comparatively under-exploited markets, trade competition may increase.

Trade figures indicate the current relative economic importance of the MENA region to the EU and USA. In terms of the total value of their global imports and

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<sup>45</sup> Peter Petri provides excellent analyses of the MENA region's economic prospects. See Petri, P. A. (1997a) *Trade Strategies for the Southern Mediterranean*, OECD Development Centre, Technical Papers, No. 127; Petri, P. A. (1997b) *The Case of Missing Foreign Investment in the Southern Mediterranean*, OECD Development Centre, Technical Papers, No. 128, p. 1.

<sup>46</sup> World Bank (2000) *Annual Report*, «<http://www.worldbank.org/html/extpb/annrep/mna.htm>»

exports, the region is not of great significance to either the USA or the EU. For the USA, the MENA region absorbs around 3.6 per cent of exports, and accounts for 2.7 per cent of imports.<sup>47</sup> Imports from the Middle East and North African region are inevitably dominated by oil (just under 50 per cent of the total). Exports centre on machinery and transport equipment, particularly aircraft.

For the EU, the Mediterranean 12 and the Gulf states together account for around 8 per cent of its trade in goods.<sup>48</sup> The EU Member States have a more diverse range of trade with the MENA states, partly a historical legacy of the colonial period and the close proximity of the two regions. While the 1990s saw an gradual rise in trade between the EU and the Mediterranean non-member countries, European trade with other parts of the world, including the USA and the Central and Eastern European candidate countries, has expanded at a much more rapid rate.

How, then, have the EU and US acted to manage and further develop their trade relations with the Middle East region? A major part of the EU's Mediterranean strategy is geared towards boosting commercial opportunities for European exporters in the region. The Euro-Mediterranean Partnership initiative is predicated on the assumption that the creation of a regional free-trade zone – potentially the world's largest - will bring long-run benefits to the European economy as well as promoting social and political stability. Initiatives launched under the Barcelona Process, such as the creation of a network of investment promotion agencies and the provision of structural adjustment funding, are geared towards developing a more 'trade friendly'

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<sup>47</sup> Data based on trade with 18 states and the Occupied Territories. Extrapolated from: International Trade Administration (2001) *U.S. Aggregate Foreign Trade Data*, «<http://www.ita.doc.gov/td/industry/otea/usfth/aggregate/H99t07.txt>»

climate. Yet the EU has remained reluctant to open up its markets to sectors in which the Union's Mediterranean partners enjoy a competitive advantage over European producers, particularly agricultural goods. As Toviás and Bacaria argue, failure on the part of the EU to effectively encourage industrial diversification is self-defeating, and may have negative consequences for social and political stability over the longer term.<sup>49</sup>

The promotion of US commercial activity in the Middle East and North Africa is conducted principally through bilateral trade and investment agreements and the WTO. Leaving aside trade in oil, however, it is clear that the priorities for market expansion for the US International Trade Administration and US industries lie elsewhere. The Clinton Administration's seventh Annual Export strategy report does make a case for exploiting dividends from the Peace Process.<sup>50</sup> But it emphasises Asia-Pacific, and particularly China, as key markets for the future. Looking further down the line, we may see the US commercial presence in the region diminish relative to that of the EU as the latter seeks to capitalise on its dominant economic position in its *chasse gardée*.

### *Investment*

As is the case with trade expansion, a good deal of diplomatic effort is being expended on boosting inward foreign direct investment in the MENA region.

However, the political climate has been a key factor in limiting its attractiveness to

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<sup>48</sup> European Commission (1999) *Trade in Goods*, DG Trade, «<http://europa.eu.int/comm/trade/goods/stats.htm>»

<sup>49</sup> Toviás, A. and Bacaria, J. (1999) 'Free Trade and the Mediterranean', *Mediterranean Politics*, 4 (2), page no.?

inward direct investment. Many governments have resisted, or have been slow to adopt, the type of public sector reform demanded by the US, EU and the multilateral financial institutions. As Peter Petri argues, much of the Mediterranean region has consequently ‘missed the extraordinary surge of private international investment in recent years.’<sup>51</sup> Net FDI flows to the region between 1992-96 averaged around 0.5 percent of GNP between 1992-96, compared to approximately 1.5 percent for all developing countries. The 12 Mediterranean ‘partner’ states of the EU absorb only 1 per cent of total world FDI, and just 2 per cent of European FDI.<sup>52</sup>

In a sense, action to increase the presence of European capital in the Middle East and North Africa might be viewed as Europe’s answer to US governments’ moves to strengthen the presence of US capital in Central and South America and the Asia Pacific region. European capital would be an essential stimulus to investment in the region.

One of the principal objectives of the Euro-Mediterranean Partnership is to remove barriers to the movement of capital around the region. Along with the ‘MEDA’ financial instrument, which provides funding to encourage private sector development and structural reform (€3.4 billion 1995-9), the European Investment Bank has provided loans (€4.6 billion 1995-9) to support infrastructure development and the financing of small and medium sized enterprises.<sup>53</sup> Further pressure for investment-friendly reform is exerted through the bilateral Association Agreements

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<sup>50</sup> Trade Promotion Coordinating Committee (2000) *The National Export Strategy: Working for America*, Seventh Annual Report to the US Congress, March, see <<http://www.ita.doc.gov>>

<sup>51</sup> Petri, P. (1997b), op. cit.

<sup>52</sup> European Commission (2000) *The Barcelona Process Five Years On: 1995-2000*, Luxembourg: Office for Official Publications of the European Communities, p. 12.

<sup>53</sup> European Commission (2000) *Annual Report of the MEDA Programme 1999*, COM (2000) 472, Luxembourg: Office for Official Publications of the European Communities, p. 5.

which impose conditions covering, for instance, intellectual property, competition law, public procurement, state aids and rules of origin.

The USA, as the world's major source of FDI, must also be seen as a motor of investment growth in the region. As is the case with the European Union, the US administration uses a mixture of bilateral agreements, financial aid and financial institutions to assist US capital. A range of trade and investment agreements, many signed or upgraded during the 1990s, are now in place. Through institutions such as the U.S. Overseas Private Investment Corporation (OPIC), the U.S. Export-Import Bank (Ex-Im), and the U.S. Trade and Development Agency, increased support is being offered to U.S. investors. These channels, along with aggressive advocacy on behalf of large corporations in the World Trade Organisation, enable the US to exert pressure on MENA governments to adapt their investment regimes in favour of inward FDI.

In the final analysis, trade and investment competition or collaboration between the EU and USA in the MENA region will increasingly be driven by the emerging global regulatory framework. The degree to which the EU will be able to exploit its proximity to the embryonic Mediterranean free-trade area will be limited by the need for agreements to conform with WTO rules. Collaboration to alleviate the negative socio-economic effects of the liberalisation process will serve the interests of both sides.

*Security*

Both the EU and US count continuity of oil and gas supplies among their 'vital' strategic interests in the region. Recent OECD forecasts suggest that the importance of Middle East oil is likely to grow in the 21<sup>st</sup> century, suggesting a 'return of geopolitics'.<sup>54</sup> For Southern Europe in particular, the strategic significance of Gulf oil is now being matched by a growing dependence of south western Europe on Algerian gas.<sup>55</sup> European and US-based multinational corporations have substantial and expanding investments in the oil and gas industries, and the protection of such investment is a sensitive political issue for governments. The potential for substantial growth in these sectors will keep regional political stability high on the agenda.

The EU is much more directly exposed to the effects of political, social and economic instability in the Mediterranean region. Illegal immigration into Europe from the Mediterranean area has become an increasingly politicised issue, with governments seemingly ill-equipped or undecided about how to deal with the problem either individually or collectively.<sup>56</sup> Violence linked to the activities of armed Islamic opposition groups in Algeria sporadically spilled over into France during the 1990s, highlighting the potential vulnerability of the EU the effects of conflicts in the region. Also, weapons proliferation remains a concern, particularly for southern European states who fear the acquisition of ballistic missiles by so-called 'rogue' regimes.

The Euro-Med Partnership was designed to respond to this 'new', post-Cold War security agenda. In terms of the rhetoric, the three baskets of the Partnership aim at fostering socio-economic and political stability via economic growth, and political

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<sup>54</sup> OECD (1999) 'Energy in the 21<sup>st</sup> Century: The Return of Geopolitics?', *International Futures Programme*, OECD Information Base, 17 May, <<http://www.oecd.org/sge/au/highlight17.html>>

<sup>55</sup> Spain now receives around 70 per cent of its gas supplies from Algeria through the trans-Maghreb pipeline. Algeria has become Europe's biggest single supplier.

and cultural dialogue. But progress on political and security cooperation has inevitably been painstakingly slow given the sensitivity of the issues at stake, but a small number of ‘confidence-building’ measures have been discussed. These include a network of foreign policy institutes, a register of bilateral agreements and a natural disaster management system. A Charter of Peace and Stability is gathering dust, since its operationalisation in the current climate is inconceivable. The utility of these measures must be doubted in the absence of progress in the peace process, but as Commissioner Chris Patten has put it, ‘we should make sure that we can capitalise on that progress when the time is right.’<sup>57</sup>

For many of the non-EU participants in the Euro-Mediterranean Partnership, the very essence of the so-called ‘Barcelona spirit’ was the novelty of having Israel, Lebanon and Syria engaged together in dialogue in a multilateral forum, something neither the multilateral track of the Peace Process nor the MENA summits had achieved. While the Commission and the Member States have consistently tried to play down the linkage between the Euro-Med Partnership and the Middle East Peace Process, describing them only as complementary, it was clear from the outset that the fortunes of Euro-Med were almost entirely dependent on the state of Arab-Israeli relations. An Arab diplomat was unequivocal about this linkage:

There is no way that this process will succeed without progress on the Peace Process....How can we talk about economic cooperation while we have a government [in Israel] that is reneging on all its previous international commitments?<sup>58</sup>

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<sup>56</sup> The issue becomes even more complex when it is recognised that Europe’s contracting workforce may actually necessitate increased immigration in the near future.

The Arab partner countries perceived the Barcelona process as a means to draw the EU further into the Peace Process and as a potential counter-weight to US dominance. Their enthusiasm was inevitably dampened when it became clear that the EU did not share the same vision of the process. If the EU is ever to take a lead in the construction of new regional security architecture, credibility with the Arab states will be an essential pre-condition.

Regardless of the EU's activities, the USA remains the major security 'provider' in the Middle East and Mediterranean.<sup>59</sup> The Sixth Fleet maintains an imposing presence in the region. The failed attempts by France to wrest the command of Allied Forces Southern Europe (AFSOUTH) away from the US to Europe reinforced US dominance. As Helene Sjursen argues, command of AFSOUTH 'is seen as a condition for the United States' continued participation in NATO.<sup>60</sup> The creation of EUROFOR and EUROMARFOR, small scale ground troop and naval contingency forces to which France, Italy, Portugal and Spain contribute, merely offer a token Euro-Med military presence in the western Mediterranean.

Yet there are grounds for calling into question the extent to which the EU and its Member States can continue to guarantee their strategic interests through the transatlantic relationship.<sup>61</sup> George Joffé, a leading commentator on MENA

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<sup>57</sup> Patten, C. (2001) *Joint debate on common strategy for the Mediterranean and reinvigorating the Barcelona process*, Speech/01/49,

«[http://europa.eu.int/comm/external\\_relations/news/patten/speech\\_01\\_49.htm](http://europa.eu.int/comm/external_relations/news/patten/speech_01_49.htm)»

<sup>58</sup> Interview 3.

<sup>59</sup> Roberson, B. A. (1998) 'Introduction' in B.A. Roberson (ed.) *The Middle East and Europe: The Power Deficit*, London: Routledge, p. 11.

<sup>60</sup> Sjursen, H. (1998) 'Missed opportunity or eternal fantasy? The idea of a European security and defence policy' in J. Peterson and H. Sjursen (eds) *A Common Foreign Policy for Europe? Competing Visions of the CFSP*, London: Routledge, p. 110.

<sup>61</sup> On this point, see Roberson, B. (1998), op. cit., p. 14.

affairs, argues that ‘for the United States, the Middle East is – despite Congressional obsession and public concern over Iraq and Iran – now a strategic backwater in which only the question of Israeli stability retains official attention.’<sup>62</sup> That in turn calls into question the long-standing US policy of dual containment. Condoleeza Rice has argued that Arab-Israeli peace is ‘not the whole story of stability in the region’, hinting at a policy of encouraging Israel’s defensive self-reliance.<sup>63</sup> Calls made in the afterglow of the Cold War for Europe to play a greater role in guaranteeing security in its own back yard may assume new resonance in the 21<sup>st</sup> century.

## CONCLUSIONS

It is evident that the EU has settled for modest influence in the Middle East Peace Process rather than outright power. Regardless of its more successful initiatives, it is the continued presence of the USA that has helped keep the Israeli-Arab dialogue from ceasing altogether. It was difficult to conceive of any Israeli government turning to the EU for solutions. There is still an obvious, deep-seated mistrust of Europe arising from its history of mistreating its Jewish communities, and of its motives for seeking to increase its influence in the region. Suspicions on both the Arab and Israeli sides suggest that the Union views the region as an untapped market which it is in the best position to exploit. Whereas a US presence seems to remain essential to progress in the Peace Process, the EU does not yet possess sufficient leverage with the Palestinians to be regarded as indispensable.

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<sup>62</sup> Joffé, G. (1998) *The Euro-Mediterranean Partnership: Two years after Barcelona*, Briefing Paper No. 44, Middle East Programme, Royal Institute of International Affairs, 4 May, <<http://www.riia.org/briefingpapers/bp44.html>>

What does it mean to be influential in the Peace Process? In practical terms, exerting influence on the peace talks has meant bringing the Israelis and Palestinians together to the same table. The importance of this seemingly modest achievement should not be underestimated since convincing successive Israeli governments to constructively engage with the Palestinians has vexed everyone involved in the Peace Process. European diplomats of the 1970s and 1980s were unable to consistently play the role of broker, relying instead on exchanges with individual governments and painstakingly negotiated *démarches*. Multilateral forums such as the Euro-Arab dialogue could hardly be described as effective substitutes. The Europeans of the 1990s, however, have manoeuvred themselves into a position where their diplomacy has become a useful supplement and, at times, a foil, to that of the USA. The distinction between influence and power made above rests on the ability of external mediators to effect changes in the behaviour of the Arabs and Israelis. Coercion, sanctions and threats are the traditional tools of power politics, options to which the EU infrequently turns.

The EU has proved itself much better equipped to exercise 'soft power', using economic and financial instruments to ensure the viability of the nascent Palestinian economy and contribute to the stabilisation of the Palestinian Authority. That said, the recent disputes over trade with the Israelis suggest an increasing willingness on the Union's part to flex its economic muscles in order to send out strong political signals. Internally, the defects of the CFSP in forcing the Member States to coalesce

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<sup>63</sup> Rice, C. (2000) 'Promoting the National Interest', *Foreign Affairs*, 79 (1), p. 61.

around a single position were clear and recognised as serious barriers to the Union's ability to project itself as a political force in the region.<sup>64</sup> As one official put it,

The EU's role is to balance the role of the USA which in our opinion is dictated by the powerful Israeli lobby. Until now, the American's have not put enough pressure on the Israelis who have not respected the Oslo accords. Unfortunately, an EU role is not yet possible, not just because the US and Israel don't want it, but because there is no CFSP.

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<sup>64</sup> Marín, M. (1997) 'The European Union's Mediterranean Policy', *Address at the Nobel Institute*, Oslo, 23 May, «<http://europa.eu.int/rapid/cgi>».