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COMMUNICATION FROM THE COMMISSION TO THE COUNCIL

IMPROVING RELATIONS BETWEEN THE EUROPEAN UNION AND  
THE COUNTRIES OF THE GULF COOPERATION COUNCIL (GCC)

## Executive Summary

Soon after the formation in 1981 of the Gulf Cooperation Council by Saudi Arabia, Kuwait, Bahrain, Qatar, the United Arab Emirates and Oman, the GCC took the initiative to seek a close relationship and free trade agreement with the European Community. The Community's response was positive given the economic importance of these countries and the strategic importance of the Gulf region.

A Cooperation Agreement was concluded in 1988 and free trade negotiations began in 1990. Since then the free trade negotiations have not progressed and results deriving from the Cooperation Agreement have been limited. The two sides held a Troika Ministerial Meeting in Granada on 20 July 1995 to give new political impetus and momentum to their relationship.

The EU and GCC are closely inter-dependent economically. The GCC is the EU's 5th largest export market<sup>1</sup> and the only one of the five in which the EU has a consistent trade surplus. In 1994 EU exports to the GCC totalled 19.3 billion ECU. The GCC accounts for 23.7% of EU oil imports, is the biggest single supplier and has the world's largest oil reserves as well as considerable gas reserves. The EU is both an important export market for the GCC and an important source of investment.

To ensure progress towards a dynamic, mutually beneficial and strategically important relationship, EU and GCC troika ministers in Granada made the following recommendations:

- to strengthen the EU-GCC political dialogue;
- to increase economic cooperation and propose solutions for unblocking the ongoing free trade negotiations;
- to develop instruments of cooperation which will promote increased reciprocal knowledge and understanding, especially in the cultural and scientific fields.

These recommendations have been endorsed by the two sides and decisions should be taken on their implementation at the next EU-GCC Joint Council-Ministerial Meeting in Luxembourg in April 1996.

The basis for strengthening the EU-GCC political dialogue is shared political and security interests. EU countries have played an important rôle in Gulf security during the Iran-Iraq war and in the liberation of Kuwait. The EU should affirm its continuing concern for GCC security in the framework of its Common Foreign and Security Policy. Strengthened political dialogue will also enable the EU and GCC to better appreciate and coordinate their support for the Middle East Peace Process and to discuss international issues of common interest. Twice yearly meetings at senior official level should be proposed.

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<sup>1</sup> Importance of EU export markets (1994) USA, Japan, Central and Eastern Europe, ASEAN, GCC

EU-GCC economic interests are based on energy inter-dependence. This would be reinforced by increased EU-GCC cross-investments, vertical integration and industrial alliances. A free trade agreement would provide a long-term framework for such developments. A free trade agreement remains objectively of interest to the two sides. It would provide duty-free access for the EU to its 5th largest export market and duty-free access for GCC exports to an EU market of perhaps 500 million by early next century. European Commission and GCC officials should make every effort to unblock the negotiations in order to make concrete proposals to the Council and to EU-GCC ministers at the April 1996 meeting. Conclusion of a free trade agreement could be the single most important contribution to ensuring a close permanent EU-GCC relationship. Of course, the speed and the concrete steps with which we wish to achieve a Free Trade Zone, must always depend on careful examination of the advantages and disadvantages that could occur with each further step in those industrial sectors of both sides which must be seen as particularly affected.

The draft Communication stresses the need to open new areas of cooperation and promote increased reciprocal knowledge and understanding. Strengthening political dialogue will contribute to these objectives, enabling a more substantial discussion of questions of human rights and democracy. A key new area would be decentralised levels of cooperation at civil society level. Programmes already established in the framework of EU Mediterranean policy could provide models. GCC participation in the Euro-Arab Management School in Granada and EU-GCC scientific cooperation in the fields of environment and energy, in particular solar energy, would be valuable. By opening a Delegation in Riyadh, accredited to each of the GCC countries and to the GCC Secretariat, the European Commission could contribute directly to strengthening cooperation, increasing the effectiveness of EU business cooperation instruments and promoting increased contacts and understanding.

The successful implementation of these recommendations would lead to a qualitative improvement in EU-GCC relations. The GCC is a region of considerable strategic importance for the EU. A stronger region to region relationship should complement and assist the existing close bilateral relations between EU and GCC countries. It requires, however, that the GCC should continue to strengthen its regional, economic, political and military cooperation. Continuing EU emphasis on relations with the GCC at the regional level does not mean that parallel bilateral relations with individual GCC countries should not also be pursued.

The Commission recommends that the Council should reaffirm the strategic importance of a strong GCC regional group and its commitment to the development of a strong EU-GCC relationship. The Commission will, in accordance with the recommendations of the Granada Troika Ministerial Meeting and its negotiating directive, seek to conclude the free trade negotiations and to make proposals for expansion of EU-GCC cooperation and regional, decentralised programmes of cooperation.

## **IMPROVING RELATIONS BETWEEN THE EUROPEAN UNION AND THE COUNTRIES OF THE GULF COOPERATION COUNCIL (GCC)**

### **1. INTRODUCTION**

Historically, soon after the formation in 1981 of the Gulf Cooperation Council by the original and present 6 member countries (Saudi Arabia, Kuwait, Bahrain, Qatar, United Arab Emirates and Oman), the GCC took the initiative to establish a close relationship and free trade agreement with the European Community. The Community's response was positive, recognising the vital importance of these countries for the supply of oil to its economy and, more widely, of their role as energy suppliers to the international economy. The Community also recognised the significance of a regional grouping of these countries for promoting stability in the strategically vital Gulf area.

The institutional framework for EC-GCC relations was provided in 1988, when the European Community and member countries of the GCC concluded a Cooperation Agreement. The EC-GCC Cooperation Agreement was the first of a new generation of EC international agreements which included provisions for complementing and strengthening relations by providing for the negotiation of a free trade agreement. With the conclusion of the Cooperation Agreement the two sides recognised the objective importance of their relations based on economic and energy interdependence.

Confirming the EC's commitment to developing free trade relations with the GCC, the Commission obtained from the Council a first negotiating directive in 1990. The Gulf War in 1990/91 was a traumatic experience for the GCC countries. It prompted immediate European solidarity and participation in the international alliance which enabled the liberation of Kuwait. Following the Gulf War, at the request of the GCC countries, the European Community modified its first negotiating directive to provide more balance and a reduced transitional period. The second negotiating directive included comprehensive provisions on tariff dismantling and transitional measures to take account of particularly sensitive sectors in the EU, and of infant industries in the GCC.

However, since the adoption of the second negotiating directive, the negotiations for a free trade agreement have not progressed at all. The GCC side have not offered a comprehensive response to the EC proposals. In April 1993, they insisted instead that the free trade negotiations should concentrate first on priority sectors and put forward proposals for the energy sector, the effect of which would have limited the EC ability to introduce a carbon energy tax, a proposal which the GCC side considers would harm their energy interests.

In parallel to the free trade negotiations, concrete results deriving from the Cooperation Agreement have been slow and limited to:

- Cooperation in the field of customs and from this year in the field of standards.
- Energy cooperation with the holding of a number of EC-GCC Energy Working Group meetings, an EU-GCC Energy Symposium in Muscat in April 1994, and the EU-GCC Ad-Hoc Group's Joint Report on Interrelated issues of Energy and the Environment.
- EC-GCC Industrial Conferences (Granada, 1990; Doha, 1992, and in Muscat from 16-18 October 1995).
- Environment cooperation with the setting up of a marine and wildlife sanctuary in Jubail (Saudi Arabia).

This year's scheduled Joint Council-Ministerial Meeting was postponed and a first-ever EU-GCC Troika Ministerial meeting was held in Granada on 20 July 1995 to assess relations between the two groups. In agreeing to hold this meeting, the two sides recognised, in effect, that special attention was required if new political impetus and momentum were to be given to their relationship.

## **2. THE IMPORTANCE OF EU-GCC RELATIONS**

The original premises of EU-GCC cooperation, namely a high degree of economic and energy inter-dependence, have not changed.

### **2.1. The importance of the GCC for the EU**

Despite a small total population of just over 21 million inhabitants, the GCC is the 5th largest market for EC exports<sup>1</sup>, larger than China and the CIS and the only one of the 5 with which the EC has consistently, an export surplus. Total EC-GCC bilateral trade reached over 30 billion ECU in 1994. EC exports amounted to 19.3 billion ECU and the EC trade surplus was 7.9 billion ECU. It is important to recognise, however, that since crude oil represents 70% of EC imports from the GCC, the level of the EC trade surplus is to a large degree a reflection of low oil prices. The weakness of the US dollar compared to EC currencies is another factor influencing the size of the EC trade surplus.

Oil continues to be the most important component of EC energy consumption: 45%. In 1994 the GCC countries were the single most important source of EC oil supplies, accounting for 23.7% of total imports. EC external energy dependence is estimated to increase from 50 to 60% by 2010. By then, oil and gas will be the most important components of energy consumption. GCC countries have the largest oil reserves in the world, 47%, and 14.5% of world natural gas reserves. EC energy dependence on the GCC in the medium term is therefore bound to increase.

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<sup>1</sup> Importance of EU export markets (1993), USA, Japan, C. & S. Africa, Europe, ASEAN, GCC

## **2.2 The importance of the EU for GCC countries**

Although Asia is the single most important destination for GCC oil exports, the EC is the second most important market, accounting for some 15% of GCC oil exports in 1992. Whereas some minor spot LNG sales to some Member States took place recently, the GCC does not yet supply natural gas to the EC on a contractual long-term basis, but as EC demand for gas increases, GCC gas production plans will inevitably lead to significant GCC gas exports to the EC in the future. Overall, and leaving aside the question of future EU enlargement, the importance of the EC energy market for the GCC should increase in relation to increasing EC external energy dependence.

In terms of diversification of GCC exports, the EC absorbs a major share of GCC exports of refined petroleum products, petrochemical products and aluminium.

EU Member States are also the second most important foreign investor in the GCC, ahead of Japan and second only to the US. In contrast to US investment, which is concentrated in one sector, petrochemicals, EU Member States investment is widely spread through industrial sectors. For example, in Saudi Arabia the EU Member States are the principal foreign investor in 6 out of 7 industrial sectors and second in the one sector, petrochemicals, in which the United States leads. On the other hand, the EU Member States are the second destination of GCC outward investment. While there is considerable direct GCC foreign investment in the Member States, in particular in refining and distributing automotive fuels, the bulk of GCC investments in the EU Member States are portfolio investments in deposits, bonds and equities.

## **3. EU-GCC INTER-DEPENDENCE AND THE NEED FOR A STRONGER RELATIONSHIP**

As the above paragraphs indicate, the key word in describing EU-GCC energy, trade and investment relations is inter-dependence. An annex provides full statistical details. But close relations cannot be based simply on a strong trade and investment foundation; although this is a vital pre-requisite. To ensure progress towards a dynamic, mutually beneficial and strategically important relationship, it is necessary that EU-GCC relations should be based on shared political and security interests, a framework for their strong trade, energy and economic interests, good cultural relations and cooperation between civil societies. The Granada Troika Ministerial meeting of 20 July 1995 addressed all three areas and made the following recommendations:

- to strengthen the EU-GCC political dialogue;
- to increase economic cooperation and propose solutions for unblocking the ongoing free trade negotiations;
- to develop instruments of cooperation which will promote increased reciprocal knowledge and understanding, especially in the cultural and scientific fields.

These recommendations were endorsed by EU and GCC Foreign Ministers meeting in New York on 29 September 1995. The two sides are now committed to decide on the implementation of these recommendations on the occasion of the 6th EU-GCC Joint Council-Ministerial Meeting which it has been agreed to hold under Italian Presidency on 22-23 April 1996 in Luxembourg.

It is the purpose of this Communication to review these recommendations and prepare for their successful implementation.

#### **4. STRENGTHENING THE EU-GCC POLITICAL DIALOGUE**

Events in the political and security spheres in recent years ought, if anything, to have strengthened the objective, economic basis for a stronger EU-GCC relationship. During the Iran-Iraq war EU countries helped ensure, by their naval presence, that the Gulf, through which 45% of world oil supplies pass, remained secure for shipping oil to export markets. More dramatically, in 1990-91, the important role of EU countries in the US-led alliance to liberate Kuwait from Iraqi invasion demonstrated Europe's commitment to GCC security and independence. Joint EU-GCC support for the Middle East Peace Process, and a common desire to see a balanced approach to resolving the most dangerous and recurrent cause of conflict in a region directly bordering on GCC territory, ought also to have confirmed the underlying convergence of EU-GCC political and security interests.

One of the shortcomings of the EU-GCC relationship, however, has been the absence of a forum, apart from annual, formal ministerial meetings, where these common interests could be acknowledged, discussed and effectively developed. On the EU side there is, correspondingly, the absence of an appropriate place for relations with the GCC in the Common Foreign and Security Policy (CFSP). Lack of active affirmation at an EU level of interest in GCC security has led to the impression in the GCC that the United States plays an almost exclusive role in the political and security spheres. This impression is erroneous. Experience has amply demonstrated, that no international alliance in support of the GCC would be complete or effective without the backing of EU countries. Lack of active affirmation of EU interest in GCC security has also helped companies in the United States to benefit economically from the perceived US position as sole champion of GCC security, not only with regard to military sales but also in key sectors such as civil aviation and telecommunications.

The establishment of a regular, senior-official level, reinforced "political dialogue", as recommended by the EU-GCC Ministerial Troika in Granada on 20 July 1995, should therefore provide an opportunity for both sides to better appreciate the extent of their shared political and security interests. The EU should in this context consider GCC security concerns. Events of the past decade have identified the GCC-Iran-Iraq triangular relationship as one of the key issues for international security. The EU should therefore use the machinery of CFSP to study the issues and examine them with its GCC partners in the framework of the strengthened EU-GCC political dialogue.

Another area in which both sides should benefit from a reinforced political dialogue is the Middle East Peace Process. The important roles played by the EU and the GCC in the Peace Process, notably the economic aspects<sup>2</sup>, demonstrate that a new Middle East region requires an active economic role by both the EU and the GCC. GCC energy and capital combined with EU Member States private investment and the large EU market will be decisive elements in determining the economic future of the region. These roles and shared interests should be subject to much greater discussion and exchange and, where possible, co-ordination. The reinforced political dialogue should greatly assist such a process.

A further area in which the EU should seek to benefit from a reinforced EU-GCC political dialogue is in relation to EU Mediterranean policy. As the above discussion of security issues underlines, an EU vision to promote security and stability in the Mediterranean should not stop at the frontier of Saudi Arabia and the edge of the Arabian Peninsula. Equally, GCC political and security interests cannot be confined exclusively to the geographic area of the Gulf. The GCC countries are as much interested in the Mediterranean area between them and Europe as Europe is. They stand to gain as much from our efforts to create a vast Euro-Mediterranean free trade area as Europe and the Mediterranean countries themselves. Strengthened political dialogue will enable the two sides to better appreciate their common interests in the Mediterranean area.

The importance of the GCC in the political field is not confined to the Gulf and the Mediterranean regions. The GCC countries play a major role in international organisations such as OPEC and the Islamic Conference Organisation. They have important energy markets in Asia. They have been actively interested in developments in Central Asia since the end of the Soviet Union and they have followed with great concern events in former Yugoslavia. It is for this latter reason that the EU wishes to enlist their support for the reconstruction of Bosnia. All of these issues could be usefully discussed in the framework of a strengthened political dialogue.

Finally, a strengthened political dialogue would enable the two sides to discuss questions of human rights and democracy which are of importance both at the international level and the level of relations between the EU and GCC. Discussion of these questions and others such as prevention of terrorism is essential if the two groups are to establish a closer political relationship. Frank and constructive discussion would also promote increased reciprocal knowledge and understanding as recommended by EU and GCC ministers in Granada.

To implement the recommendation to strengthen the EU-GCC political dialogue the EU should quickly propose modalities for holding twice-yearly meetings at senior official level to discuss all aspects of EU-GCC and international political and security issues of common interest.

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The EU and the GCC are the principal financial supporters of the Peace Process



## **5. STRENGTHENING THE FRAMEWORK OF EU-GCC ENERGY AND ECONOMIC INTERESTS**

By virtue of its importance to national economies and the international economy generally, oil is not just a commodity like any other. Its key role requires that EC-GCC energy inter-dependence should be accorded its full significance. Because EC-GCC relations have not developed the full potential of early aspirations, the significance of this inter-dependence has been sidelined in recent years by other considerations. The GCC countries have tended to consider that by means of its European Energy Charter initiative, the EC and its Member States are giving priority in its external energy policies to Russia and the former Soviet Union. The EC has tended to consider GCC objections to issues, such as a possible EC-carbon energy tax, as concerns with the shadows rather than the substance of energy inter-dependence.

Energy policy is intimately connected with economic policy. For example, there is no doubt that the underlying realities of energy inter-dependence would be reinforced by greater cross-investments, with more GCC investment in EU refining and downstream activities, accompanied by EU countries investment in GCC upstream and downstream energy and energy-related activities. Already important downstream investments in Europe, in particular in the refining industry, have been made by Kuwait, Saudi Arabia and the United Arab Emirates. Furthermore, European companies have carried out upstream investments in several GCC countries (UAE, Qatar and Oman, in particular) and in the refining industry in Saudi Arabia. However, this process would be greatly assisted by an improved framework for EC-GCC energy and economic relations.

Regarding future trade trends, GCC countries are as concerned today, or possibly even more concerned, to diversify their industrial base and prepare for the post-oil age as they were when taking their initiative to approach the EC for a preferential trade agreement in the mid-1980s. An EC-GCC free trade agreement would give duty-free access for the products of GCC industrial diversification to a huge, geographically close market of some 500 million inhabitants by early next century.

For the EC, given the continuing importance of the GCC market as described above, a free trade relationship is as much in our interest today as it was at the time of the adoption of the first negotiating directives in 1989. It is obviously of interest to secure duty free access for EC exporters in the 5th most important EC export market. In terms of reciprocal concessions which would be made to secure a free trade agreement, the basic considerations are as follows:

- On a larger volume of trade, EC exporters pay GCC duties which are on average higher than EU duties, whereas
- 79% of GCC exports to the EC enter duty free under MFN arrangements and a further 15% could currently benefit from GSP advantages.

Finally, for both the EC and the GCC, a free trade relationship would provide their economic operators a permanent framework for developing cross-investments, vertical integration and industrial alliances which it is clear from experience that the EC-GCC Cooperation Agreement alone does not provide.

The key to strengthening the framework of EC-GCC economic interests therefore could lie in the conclusion of a free trade agreement. Such an agreement could be, objectively, in the interest of the two sides. As to the World Trade Organisation the Community would ensure that such an agreement would comply with its requirements and in particular ensure that it would cover essentially all trade between the two parties and all sectors. Since the harmonised reduction of duties on petro-chemical products in the Uruguay Round, the concerns of this important European industry should also be more easily met. Finally, with the progressive graduation of GCC countries from the EC's Generalised System of Preferences, it is urgent to avoid what could become, in future, increasing trade frictions between the two groups.

Among GCC countries, Kuwait, Bahrain and Qatar are members of the WTO. The UAE are still negotiating their accession. Saudi Arabia has applied for WTO membership and Oman has declared its intention to do so.

The group of Commission and GCC experts proposed at the Granada meeting to study the unblocking of the ongoing negotiations should make every effort to overcome the obstacles which have so far prevented progress in these negotiations. Concrete proposals should be finalised by April 1996 to enable decisions by ministers at the 6th EU-GCC Joint Council. If these proposals lead to the conclusion of a free trade agreement, this would be perhaps the single most important contribution possible to ensuring a close permanent EC-GCC relationship. Of course, the speed and the concrete steps with which we wish to achieve a Free Trade Zone, must always depend on careful examination of the advantages and disadvantages that could occur with each further step in those industrial sectors of both sides which must be seen as particularly affected.

## **6. PROMOTING INCREASED RECIPROCAL KNOWLEDGE AND UNDERSTANDING**

The GCC countries have long enjoyed good bilateral relations with EU Member States and of course a number of GCC countries gained their independence from the United Kingdom just over 30 years' ago. Despite these advantages, EU-GCC bilateral and regional relations have not promoted sufficient contacts and exchanges to accompany and assist the development of official links between the two regions. In particular, the younger generations are not fostering bonds of contact and understanding which previous generations have done by virtue, mainly, of shared historical and educational backgrounds and experience.

The EU-GCC Troika Ministerial Meeting in Granada therefore rightly stressed the need to open new areas of cooperation and promote reciprocal knowledge and understanding. The scope for action at the EC level to correct these deficiencies is, of course, limited. Bearing in mind the principle of subsidiarity and the considerably greater opportunities for action at national level, it is mainly for Member States to adopt policies to expand the scope of contacts and exchanges with GCC countries.

Nonetheless, at the EU level, the Granada recommendations will be significant. As mentioned above in Section 4, strengthening political dialogue will contribute to these objectives by a more substantial discussion of human rights and democracy.

A commitment to human rights and fundamental freedoms is at the heart of EU policy world-wide. The EU believes that the espousal of international standards of human rights and their respect are essential for long-term social and political stability. In this framework, GCC countries should be encouraged to become signatory parties and fully apply international instruments in relation to human rights. The EU is ready to help the GCC countries to establish a civil society founded on the primacy of law in conformity with the Declarations and Action Programmes of United Nations conferences such as Vienna (June 1993), Copenhagen (March-April 1995) and Beijing (September 1995).

These subjects have not been adequately discussed at ministerial level and there has tended to be a dangerous silence on sensitive matters which, if not properly handled, could affect the progress of relations. More openness and transparency on these issues would help counter reflexive European media and parliamentary critics of GCC practices. The EU should seek through its relations with the GCC countries, which have a special position in the Islamic world, to obtain better insight and judgement on how traditional Islam can accommodate modern concepts of human rights. The official political dialogue should also be used for understanding and appreciating democratic and constitutional developments. The breadth and diversity of EU experience could be valuable to GCC countries which are having to realise constitutional changes which have taken decades and longer in European systems.

But a key new area of cooperation to which Troika ministers referred in Granada was not at the official level but at decentralised levels of cooperation, involving civil society and non-governmental organisations. The possible participation of GCC countries in some horizontal programmes of cooperation on the model of those established for the Mediterranean countries could be very positive. They could lead to greatly increased grass root contact and cooperation in education, training and youth, as well as science, local government and press and television which is an essential accompaniment to the promotion of good official relations. This type of regional, decentralised cooperation would undoubtedly contribute to better regional relations and understanding.

The GCC countries should also be natural partners for collaborating with the Euro-Arab Management School in Granada. Economic development and diversification of GCC economies is producing the need for an increased supply of well-trained managers. Moreover, rapid GCC population growth makes it imperative to create productive job opportunities for new generations.

Information and communication technologies constitute a vital sector for modern economies and key conditions for the emerging information society. They are of particular relevance for the GCC countries due to the high technological level they have already reached and the challenges they face for the setting up of a post-oil economy. Such areas should offer a new field of cooperation focusing on the dialogue of the premises of the information society and aiming at the realisation of pilot projects to demonstrate the feasibility and the concrete benefits of the applications of these new technologies.

The intention of Troika ministers in Granada to increase scientific cooperation merits special attention. GCC scientific capacity is already significant in several sectors but could be strengthened in cooperation with European scientific institutions. Common interests are numerous, ranging from global warming to urban and industrial pollution. Energy related subjects could be prominent, including renewable energy. The Arabian peninsula offers among the best available sites world-wide for the production of solar energy in the 21st century. Consequently, there are vast untapped opportunities for future cooperation between Europe and the Gulf in the field of solar energy. Scientific and technological cooperation between the EU and the GCC should start as of now to make these new resources fully available in due time. The Institute for Prospective Technological Studies in Seville could provide the framework for this cooperation.

Finally, it is essential to underline the fact that the pursuit of sustainable development is a factor underpinning EU relations with all third countries (or regional groupings). More specifically, four of the six GCC states (except UAE and Qatar) have ratified the Convention on Global Climate Change, which calls - *inter alia* - for a reduction in global emissions from fossil fuels. There is therefore a direct link between the GCC states' principal means of achieving economic growth - the export of oil - and the concern they and the EU share (with others) for the global environment. All GCC states formed part of the consensus at the Rio Conference in 1992 which adopted the Rio Principles.

Topics in the field of the environment where preliminary discussions indicated that the mutual interest could be further explored include marine pollution, hazardous waste management, nature protection, air pollution and international environmental cooperation policies.

If a joint commitment exists to cooperate together in these regional, decentralised, scientific and other programmes it should not be difficult for the EU and GCC to work out modalities and methods of co-financing as recommended by Troika ministers in Granada. The EU has experience of cooperating in such programmes with countries which have similar or higher levels of per capita income. Shared experience in these and similar EC-GCC cooperation activities should help significantly to consolidate and extend official-level relations.

The European Commission could itself make an important contribution to strengthening EC-GCC cooperation and promoting increased contacts and understanding by opening a Delegation in Riyadh, capital of Saudi Arabia and seat of the headquarters of the Secretariat of the Gulf Cooperation Council. A Commission Delegation would be accredited to the governments of all six GCC countries.

In this third, general area, implementation of the Granada recommendations provides many possibilities :

- promoting mutual understanding by discussing questions of democracy and human rights in the strengthened official political dialogue;
- including the GCC countries in EC programmes of regional, de-centralised cooperation to increase contacts and grass roots cooperation in education, training and youth matters, and in science, local government, business education and the media.

- improving transport links and strengthening cooperation;
- scientific cooperation, especially in areas of common interest such as energy.
- cooperation in the field of management training, both private and public, through initiatives such as the Euro-Arab Management School;
- as a result of establishing a Commission delegation in the GCC region, the EC could effectively promote these programmes of cooperation and effectively introduce a number of instruments to strengthen economic cooperation such as the Business Cooperation Network (BC Net), Bureau de Rapprochement des Entreprises (BRE) and the European Community Investment Partners (ECIP).

## **7. TOWARDS A QUALITATIVE IMPROVEMENT IN RELATIONS**

The intention of EU-GCC Troika ministers in Granada in making recommendations to strengthen political, economic and cultural and scientific relations was to provide for a qualitative improvement in EC-GCC relations. Indeed, strong economic inter-dependence and shared political and security interests, support the view that the two regions should develop, over time, a strong, strategically important relationship.

This view of an evolving, strong relationship is not one which puts in question the present, pre-dominant role of the United States in GCC military security. This is a fact. It should not obscure, however, the role which Europe has played, and will, no doubt, continue to play in the broader context of GCC security in particular economic security. It is also a fact that since the original EC-GCC commitment to establish close relations, the EU is giving new emphasis to relations with countries to the south. This new emphasis in EU external policy, a direct result of the end of the Cold War and a desire to balance the EU's East and South policies, implies increased importance for the EU of the GCC. The view of an evolving, strong EU-GCC relationship continues, of course, to be most firmly based on the present and future importance of EU-GCC economic and energy inter-dependence.

The above analysis has shown, however, that an important relationship, such as the EU-GCC relationship, cannot be taken for granted and left to take care of itself. All important relationships must be worked at and given the correct attention and priority by both sides. In the case of the EU and GCC member states, there has been a tendency to look at the trade figures and at bilateral relations and to leave everything at the regional level to take care of itself. The EU-GCC relationship provides complementary, regional added value to bilateral relations. But if regional relations are neglected, or become the source of irritants, then region-to-region relations can spill over and have harmful effects on bilateral relations.

Of course, the development of the region-to-region relationship depends on the development of the regional structures and competences of the two sides. It is therefore essential that the process of GCC cooperation and integration continues as its member countries have resolved. An economically, politically and militarily strong GCC, constituting a firm, independent pillar in the sensitive and strategically important Gulf area security system is of major interest to the European Union. A weak and divided GCC would add dramatically to the potential for instability in the area and the potential for interference by the GCC's powerful neighbours. In the context of the follow-up to the

Granada Troika Ministerial Meeting and the desire for a qualitative improvement in EU-GCC relations, it is, therefore, important that the GCC should go on with its policy commitments to strengthen integration and the role of the GCC. This does not mean that, in parallel, bilateral relations with each of the Gulf countries should not be pursued and encouraged according to each country's specific characteristics.

Implementation of the recommendations of the Granada Troika Ministerial Meeting will constitute a test case for EU-GCC relations. Reinforcing the political dialogue, finding solutions to problems obstructing progress towards strengthening economic relations and developing new cooperation and a meaningful cultural dimension to relations, is a realistic agenda. It is in line with the approach followed in the Euro-Mediterranean partnership framework. It does not require, either, a shift in GCC policies or orientations. If the agenda is implemented, it would provide for the desired qualitative improvement in relations. The EU should therefore make a maximum effort to ensure that, in accordance with the recommendations of the Granada Troika Meeting, the relevant decisions can be prepared for a successful 6th Joint Council-Ministerial Meeting.

## **8. CONCLUSIONS AND RECOMMENDATIONS**

In the light of the above review of EU-GCC relations, the Commission recommends that the Council should:

- reaffirm the strategic importance of a strong GCC regional group capable of playing a progressively more important role in the economic, political and security spheres;
- reaffirm its commitment to the development of strong, mutually beneficial EU-GCC relations;
- confirm the need to include the GCC countries in the EU's global strategy for improving relations with partners from other regions and in particular with the Mediterranean area;
- reaffirm its commitment to follow-up and implement successfully the recommendations and conclusions of the Granada Troika Ministerial Meeting and thereby achieve a qualitative improvement in EU-GCC relations;
- in particular, the Council should agree to reinforce EU-GCC ministerial level political cooperation by holding twice-yearly meetings at senior official level to discuss all aspects of EU-GCC, and international, political and security issues of common interest.

For its part, the Commission will

- in accordance with the Granada Troika Ministerial meeting recommendations and its negotiating directive, identify with its GCC counterparts obstacles to progress in the ongoing EC-GCC free trade negotiations with a view to re-launching these negotiations, ensuring that a resulting agreement would be in conformity with the requirements of the WTO;

- in liaison with its GCC counterparts and in the framework of the 1989 Cooperation Agreement, make proposals for a significant expansion of cooperation in areas of mutual interest;
- make proposals for increasing contacts and understanding in the fields of regional, decentralised cooperation, scientific and management cooperation and programmes to strengthen economic cooperation.
- study the suitability of presenting to the Council a complementary mandate for negotiation concerning services in line with the OMC dispositions after having carried out the appropriate research into the legal and economic impact on the Free Trade Zone and taking into account the offers presented by the GCC within the GATS framework.

The Commission will keep the Council fully informed of its actions in following up the recommendations of the Granada Troika Ministerial Meeting, including developments in the free trade negotiations and make appropriate proposals in time for the preparation of a successful 6th EU-GCC Joint Council-Ministerial Meeting to be held on 22-23 April 1996 in Luxembourg.

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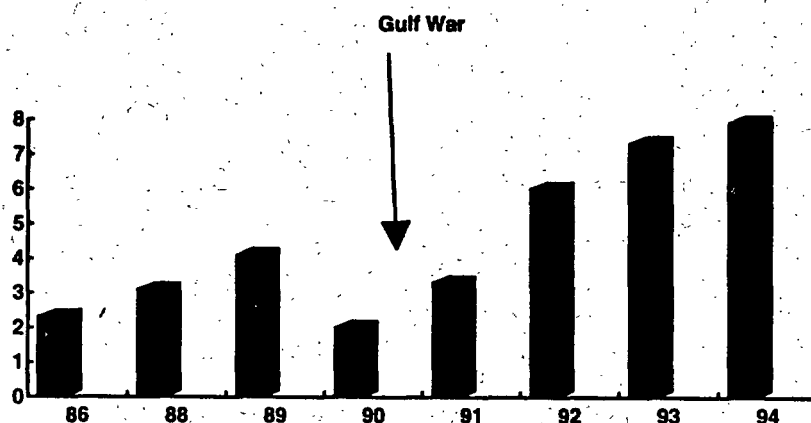
## 1. EU-GCC Trade

### EVOLUTION OF EU-GCC TRADE:

(Billion ECU)	Exports to GCC	Imports from GCC	EU Surplus
1985	19.8	16.4	3.3
1986	14.7	12.3	2.3
1987	13.2	10.1	3.1
1988	12.9	8.7	4.1
1989	15.4	11.7	4.1
1990	13.9	11.8	2.0
1991	16.8	13.4	3.3
1992	18.3	12.3	6.0
1993	19.6	12.3	7.3
1994	19.3	11.3	7.9

The quantitative significance of our trade relations is coupled with a considerable trade surplus which was of 7.9 Billion ECU in 1994. For every ECU we imported from the GCC (predominately crude oil) we exported 1.7 ECU of manufactured goods to the GCC region.

### EVOLUTION OF EU SURPLUS WITH THE GCC:



The GCC is the EU's largest trading partner in the Arab world totalling almost 40% of our trade with Arab countries and 4% of total EU's exports to third Countries.

### COMPARISON BETWEEN EU'S EXPORTS TO THE GCC AND OTHER ZONES OR COUNTRIES:

1994 EU EXPORTS TO	Billion ECU
GCC	19.3
China	12.5
Maghreb	12.7
Mercosur	14.8
Ex-Soviet Union	15.8

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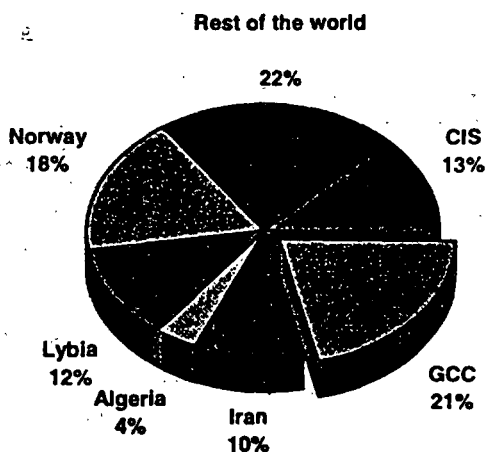
## 2. The EU-GCC Energy Interdependence

Half of EU's energy is imported and two thirds of those total imports are oil. More than 20% of oil imports are provided by the GCC. This means that approximately 10% of EU's energy consumption is supplied by GCC countries.

However, GCC's share in EU's energy consumption is forecast to increase because:

1. European Union energy production will decline by more than 10% by 2010 increasing import requirements from the present 50% to 60% of EU's energy consumption;
2. In all scenarios oil will retain the highest share of energy consumption;
3. The GCC holds 46% of the world's proven oil reserves.

### EU'S SUPPLIERS OF CRUDE OIL:



EU-GCC interdependence is reinforced by the fact that the EU is the closest destination of GCC's oil exports and the largest importer of GCC oil after Asia:

### DESTINATION OF ENERGY EXPORTS FROM THE GULF REGION:

EU	25.7 %
US	11.3 %
Japan	23.7 %
Arab countries	9 %
Asia exc. Japan and China	19.1 %

3. GCC Member States

	Saudi Arabia	Kuwait	Bahrain	Qatar	UAE	Oman
<b>Population (Milion)</b>	16	1.75	0.5	0.5	2	2
<b>GDP (Million USD)</b>	108,000	25,000	4,600	8,800	63,800	16,400
<b>Per Capita Income</b>	11,000	15,100	12,000	17,500	24,000	10,000
<b>Unemployment</b>	6.5%	Negligible	13%	NA	Negligible	NA
<b>Exports(Million USD)</b>	39,000	11,800	3,300	3,000	21,329	5,488
<b>Imports(Million USD)</b>	26,000	6,800	3,500	2,100	20,430	4,506
<b>Balance(Million USD)</b>	+12,000	+5,000	+200	+900	+899	+981
<b>Exports to</b>	US 21% Japan 18% Singapore 6% France 6% Korea 5%	France 16% Italy 15% Japan 12% UK 11%	Japan 13% UAE 12% India 10% Pakistan 8% Singapore 6%	Japan 61% Brazil 6% Korea 5% UAE 4% Singapore 3%	Japan 39% Singapore 5% Korea 4% Iran 4% India 4%	UAE 30% Japan 27% Korea 10% Singapore 5%
<b>Imports from</b>	US 18% UK 12% Japan 10% Germany 5% France 5%	US 35% Japan 12% UK 9% Canada 9%	Saudi Arabia 42% US 14% UK 7% Japan 5% Germany 4%	Japan 14% UK 12% US 12% Germany 9% France 5%	Japan 14% UK 9% US 8% Germany 6%	Japan 20% UK 19% UAE 14% US 7%

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Source: Eurostat, official GCC statistics, International Energy Agency, Green Paper for a EU Energy Policy

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