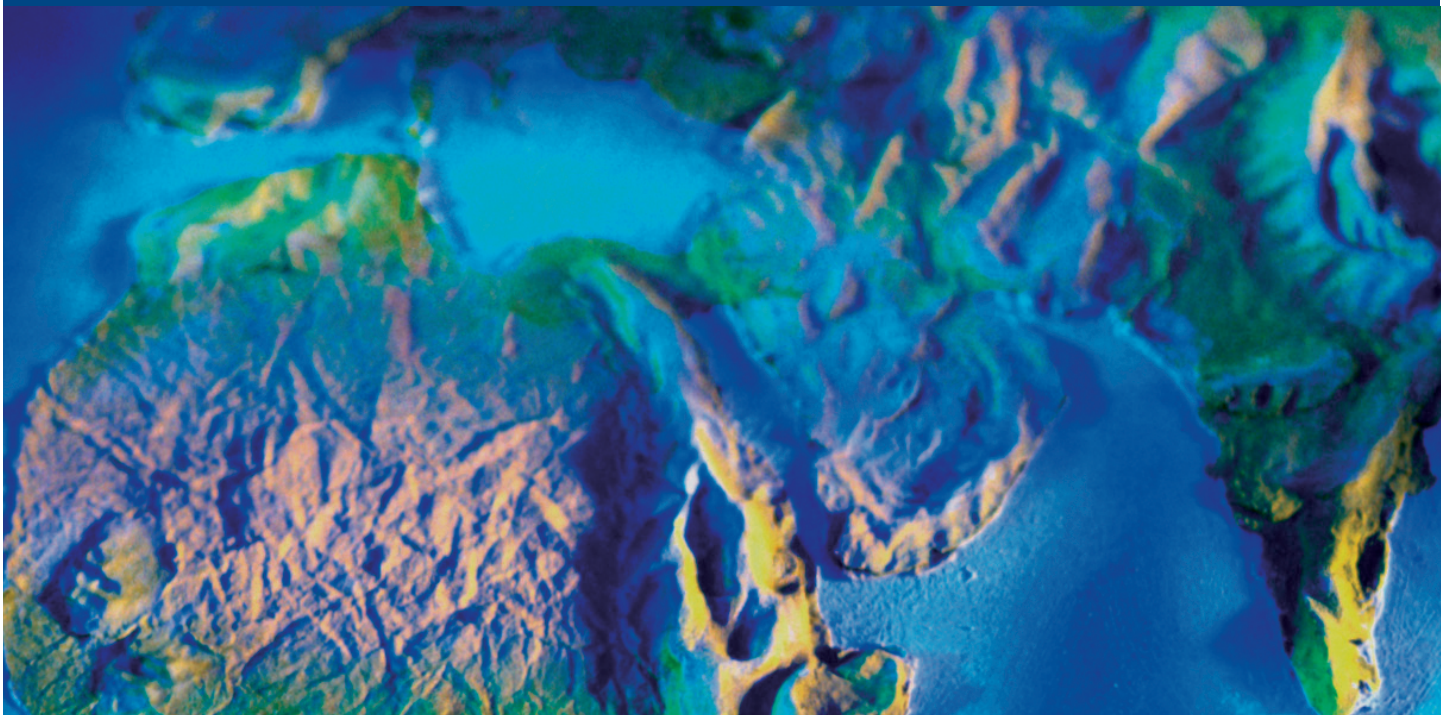


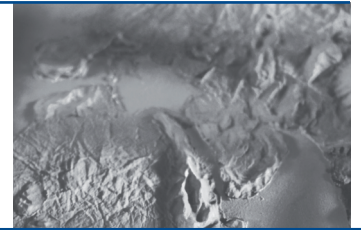
# Europe and the Gulf Region – Towards a New Horizon

Discussion paper – revised version – presented at the 12th Kronberg Talks –  
Special Edition, Riyadh, May 11th–12th, 2009

Jointly organized by the King Faisal Center for Research and Islamic Studies,  
the Institute of Diplomatic Studies, and the Bertelsmann Stiftung







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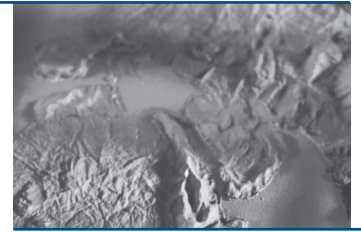
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## Preface: Europe and the Gulf Region

Excerpt from the speech by Dr. Gunter Thielen, Chairman and CEO of the Bertelsmann Stiftung, on the occasion of the opening of the 12th Kronberg Middle East Talks, a Special Edition on “Europe and the Gulf Region,” held on May 11, 2009, in Riyadh, Saudi Arabia.

(...) Europe and the Gulf region have many interests in common, but much remains to be done to promote those interests. Let me list a few of our common goals: stabilizing the international financial markets, redirecting the world economy toward sustainable development, finding a peaceful and fair solution to the region’s conflicts, whether they involve Israel and the Arab world, Iraq or Iran, supporting the modernization efforts of our neighbors in Morocco, Tunisia, Egypt, Jordan and Syria, engaging in intercultural dialogue, establishing networks of universities, and improving educational and health standards. All of these are in our common interest. When we think of the potential of Europe and the Gulf region – knowledge and ideas, financial resources and raw materials, tolerance and openness to the world – then we have some sense of how these two regions might contribute to overcoming the current crisis in the global economy. By working together, we can move toward sustainable growth, modernization and development. It is no secret that Germany, as an exporting country, has been hard hit by the global financial crisis. We are also facing serious challenges stemming not only from globalization, but also from demographic change, an increasingly diverse population and the rapid emergence of a knowledge society. It is therefore particularly important that as Germans we should learn from the world and be receptive to other countries and cultures. This is one important reason why we are so pleased to be with you in Saudi Arabia today. As members of the Group of Twenty, Germany and Saudi Arabia have a special responsibility toward the world. In our efforts to ensure that all regions, nations and peoples have equal access to opportunity and prosperity, and that all of the world’s people come out of the current crisis with new strength, we must also make sure that the established powers will allow the emerging countries of South America, Africa and Asia to become far more vocal. Conversely, we can demand increased participation from those countries. This means not only reforming the governance structures of the World Bank and the International Monetary Fund, but also making changes to the United Nations Security Council.

We invite you, the nations of the Gulf Cooperation Council, to join us in shaping the road that lies ahead. Despite the potential for closer cooperation between us, which I have outlined, we must not lose sight of our problems and differences of opinion. Yes, our views on a number of political and social issues differ from yours. We can and should talk about these differences – respectfully, calmly and courteously. The twenty-seven member states of the European Union are home to nearly half a billion people. They include over sixty regional languages and twenty-three official languages. Seventy-five percent of Europeans are Christians, eight percent are Muslims. Every five years Europeans go to the polls to elect the



European Parliament. The global financial and economic crisis is presenting the European Union with the greatest challenge in its history. Only a strong and united Europe will be able to deal with this crisis and its aftereffects. Only a Europe based on solidarity will be able to stand its ground in our troubled world. Surveys conducted recently by the Bertelsmann Stiftung have shown that our citizens want their leaders to make sure that Europe is strong and capable of protecting them. They want a Europe that speaks to the world with one voice, and acts in unison. They want a Europe that functions more efficiently and transparently, and that recognizes its role as a center of power.

The Gulf Cooperation Council has decided to introduce a common currency. We are honored that you are consulting the European Central Bank in Frankfurt in this context. It reflects the importance of the EU's monetary union, which was implemented over ten years ago. It was not easy, particularly in Germany, to reach a consensus on giving up our national currencies for a common currency in order to strengthen the European domestic market. In the current crisis, many European countries are seeking security in the euro zone. Perhaps our experiences will encourage you as you take this step. We are fortunate to be part of a generation that has responded to the devastation of war in Europe by working together in peace and by forming a political union.

For over twenty years, the Bertelsmann Stiftung has tried to help promote the European ideal. Its theoretical and practical activities are devoted to the development of the European Union and to greater understanding between Europe and its neighbors. (...)

The countries of the Gulf Cooperation Council are surrounded by regions of crisis and instability. These conflicts are also part of our European neighborhood. As a German foundation that is involved in activities throughout Europe, we seek to identify paths leading toward solutions. For many years our global network of thinkers and scholars has pointed out that the different conflict layers are closely interrelated. President Obama has put the Middle East at the top of his list of urgent problems, and perhaps his first term will offer an opportunity for dialogue and action aimed at finding solutions to the many conflicts in this part of the world. Perhaps it is now time to stop simply trying to manage one conflict or another, as we have done in the past, and instead to place all of the conflicts on the table, in a clear and open manner. We need to take into account the interests and concerns of all the actors involved, and to invite all of the parties to these conflicts to participate in a dialogue. The people who live in the European Union and the countries of the Gulf Cooperation Council, as well as our neighbors, expect us to play an active role in resolving conflicts and encouraging modernization. Let us get down to work. I have no doubt that our talks here in Riyadh will produce ideas that will help us to make progress. (...)

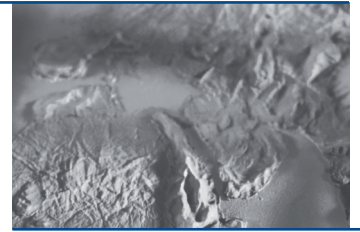
## I. Abstract

**Political potential** The relations between the European Union (EU) and the countries of the Gulf Cooperation Council (GCC) have great potential. The importance of the Gulf region as a political partner, a supplier of energy, as an international investor, and as a market for Europe is immense. The same applies vice versa. The EU and its member states provide the Arab Gulf states with an excellent opportunity to diversify their external relations, and the European integration project may also offer interesting ideas for the regional integration efforts within the GCC.

**Economic interests** Moreover, Europe and the Arab Gulf states play important roles within the global economy, and their responsibility and influence within the institutional frameworks is growing. Both regions are well integrated into the global economy and their national prosperity depends on functioning global markets. They share an interest in overcoming economic and financial turmoil and establishing an international economic and financial order that is attuned to the challenges of globalization and based on principles like transparency, responsibility, and sustainability.

**Shared security concerns** With regard to the three most pressing regional challenges, the Israeli-Arab conflict, Iran, and Iraq, the EU and the GCC share many common interests. One of the most important issues now is to support and strengthen the administration of President Barack Obama in its new comprehensive and inclusive approach to the region. In the case of Iraq, Europe and the Arab Gulf states possess the resources to help the country overcome the legacy of Saddam Hussein and the US invasion and to contribute to the consolidation and regional re-integration of the new regime. With regard to Iran's unclear foreign and security policy agenda, the EU and the GCC states should support efforts to include the country in a sub-regional system for cooperation and security. At another difficult moment in the Israeli-Arab conflict, the EU, the GCC, and the new US administration should revive the Arab Peace Initiative as for the time being it provides the most hopeful approach to resolving this aggregation of conflicts and implementing the two-state solution in Israel and Palestine.

**Upgrading and expanding the political relations** In the past both regions acknowledged their respective international significance. However, inter-regional relations were by and large dominated by the negotiations on the Free Trade Agreement (FTA) and related issues. Crucial as the FTA is, the relationship between the EU and the GCC states has the potential to go far beyond trade in order to become a strategic partnership that contributes to addressing today's major challenges. To achieve this, the EU and the GCC should reflect on ways of strengthening and expanding their shared political framework. This might include upgrading the yearly EU-GCC Joint Council and Ministerial Meetings, as well as the resumption of the EU-GCC economic dialogue or the establishment



of additional forums if deemed appropriate by both sides. This would help the EU and the GCC to engage in a constant exchange of views on the various issues of common concern and to deliberate on ways of addressing them, and to discuss ways of including third parties such as the US or other important international actors in their activities. It would also enhance the well-established and highly esteemed bilateral relations between the European and the Arab Gulf states.

Moreover, the EU and the GCC have already identified various issues on which they seek to intensify cooperation. Of particular importance are subjects like energy, environment, health care, education, and culture. Many of these topics are of complementary interest for both the EU and the GCC, so that cooperation would create synergies and yield mutually beneficial results. Furthermore, the practical implementation of projects in these areas would encourage the establishment of a decentralized infrastructure of cooperation and create a societal fabric that could substantiate and enhance political and economic relations between the EU and the GCC.

Deepening and decentralizing  
cooperation



## II. Introduction

### A world in turmoil

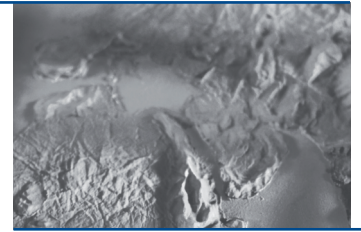
As a result of the economic and political hubris of the last decade, the order parameters of the international economy and of the international security architecture have been called into question. America's hegemonic position within the international economy and its role as leading actor in international security have been seriously weakened. The basic principles of international economic relations and security policy arrangements in different parts of the world have become unsustainable. These changes have created a multitude of political and economic risks and uncertainties that directly or indirectly affect the European Union (EU) and its member states and the countries of the Gulf Cooperation Council (GCC). Both regions share an interest in promoting steps designed to overcome the global and regional turmoil at the beginning of the 21st century.

### Global governance and international economic and security policy

However, every crisis also contains the seeds of a new beginning. Hence the EU and the GCC should interpret the turmoil as a chance to contribute to the establishment of an international order that is based on the principle of sustainability and facilitates increased participation and the development of every state and region. In the realm of economics this means that international finance requires political regulation and needs to be more in touch with the real economy. Moreover, a changed paradigm of economic growth would have to include ecological, social and cultural considerations. With regard to international security policy it implies an international order that is based on a wider concept of security that goes beyond the state as the target of security, and the use of military capabilities as the major tool of security policy. The security risks of the 21st century include diverse issues such as regional conflicts, terrorism, proliferation of weapons of mass destruction, and state failure. Tackling these challenges requires collective action on an international scale and a cooperative understanding of security policy.

Today's crisis is also a crisis of global governance. Global institutions need to be readjusted in order to keep up with the challenges of economic globalization, the emergence of transnational security risks, and shifts in political power. Debates about reforming the United Nations (UN) and institutions such as the International Monetary Fund (IMF) or the international trade regime have been going on for quite some time. Against this background the G20 has established itself as the new forum for global economic leadership. Yet global governance cannot be left entirely to global institutions. Given that many political issues emanate from the regional level, regional security arrangements and regional economic integration will have to play a major role in the reordering of the international economy and the international security architecture.





Europe and the Arab Gulf states possess the political, economic, and cultural resources needed to make a substantial contribution to overcoming the global crisis and to supporting either the establishment of new or the readjustment of existing institutional structures. This would be even more the case if they were to coordinate their efforts to deal with the issues of common concern and, where appropriate, to interact with their international partners, in particular the US. The consolidation of relations between the EU and the GCC is a precondition for going beyond ad hoc cooperation and achieving sustainable results. In order to accomplish their own goals and for the sake of international order, Europe and the GCC should assume increased responsibility in international affairs.

A role for Europe and the Arab  
Gulf states

### III. Global financial crisis and economic recession

Whereas the financial and economic crisis is being felt both in Europe and in the GCC states, the effect of the crisis and the vulnerability of the two regions to the international turmoil are not identical. Yet the EU and the Arab Gulf states are totally integrated into the international economy, and their prosperity depends on an open and functioning global economic system. They therefore share an interest in the creation of an international economic order that is based on standards, ethical principles, and institutions capable of overcoming the weaknesses of established structures.

#### Restructuring the international economic order

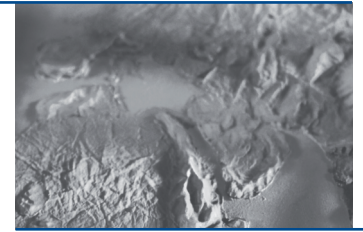
##### Crisis management and reform

The financial and economic crisis poses a short-term and a medium-term problem. In the short run the international financial system needs to be stabilized, the negative impact of the crisis must be contained, and measures designed to counter the global economic downturn need to be implemented. A more challenging task is the question of how the lessons learned from this crisis can be translated into policy initiatives that will make it possible to avoid repeating the mistakes of the past. In order to restructure and consolidate the international financial architecture, which will be a major political task in the years to come, the measures will have to be internationally coordinated and implemented on the national level. Otherwise the sustainability of the organizational principles will be in doubt and there may well be a negative impact on other aspects of international political cooperation. The G20 summits in Washington in November 2008 and in London in April 2009 provided valuable guidelines for reform on the international and national levels that were welcomed both in the EU and in the GCC.

Whereas the G20 acknowledged that an open global economy and a liberal financial system contribute greatly to economic growth, they also agreed that the current crisis cannot be overcome without making certain structural changes. A lack of transparency in international financial markets, the complexity of financial products, the inadequacy of evaluation tools, and insufficient risk management capacities within the private sector, as well as an institutional framework that has been taken to its limits – all this has contributed to the turmoil we have been witnessing over the past months.

##### A strengthened political framework

Against this background the G20 agreed at their meetings to a substantial overhaul of the international financial system. In their communiqué after the summit in London they agreed to strengthen financial supervision and regulation by means of appropriate regulatory systems on the national level, and the establishment of international institutions such as the Financial Stability Board (FSB) that will cooperate with the IMF as an early warning mecha-



nism. Moreover, the regulation of actors and products in the financial markets will be improved, and there will be new capital requirements for the banking sector. In addition to the enhanced regulatory regime, the G20 agreed to increase the financial endowment of the global financial institutions, the IMF, the World Bank, and other multilateral development banks, and to restructure them in order to enable them to meet the challenges of economic globalization. Moreover, the G20 agreed to work on a new consensus on key values and principles for sustainable economic activity.

The participants of the G20 summits in London and Washington, France, Germany, Italy, Saudi Arabia, the United Kingdom, Spain, the Netherlands, and the EU Presidency all support the far-reaching agenda described above. Their regional partners also subscribed to these proposals for reform.

#### Implementing the G20 agenda

Given this all-embracing agenda for reform, the EU and the GCC states might consider a revival of their Economic Dialogue as they had announced in the communiqués after the EU-GCC Joint Council and Ministerial Meetings in 2006, 2007 and 2008. This forum would provide the EU and the GCC states with a framework within which to discuss issues such as domestic regulatory oversight, standards for the activities of rating agencies and the financial reports issued by banks, or for the rating of corporations. On these matters the EU and the GCC might engage in an exchange about best practices. As a next step they could reflect on the implementation of regulatory and judicial reforms based on the decisions of the G20 and jointly identified best practices. By doing this, the EU and the GCC states could greatly increase their attractiveness for international investors. Whereas there are often fears that market regulation and rigorous legal standards will increase the costs and diminish the competitiveness of market actors or financial centers, this is the best way of regaining trust, which is a major asset in the current crisis. In fact costs that are incurred now will soon be recouped, since investors are bound to welcome the introduction of such measures.

Transparency of  
financial markets

Moreover, when it comes to the question of ethical principles designed to ensure the sustainability of economic activity as demanded by the G20, it seems that an important contributory element in the financial crisis was the fact that sections of the international financial markets no longer bore any relation to what was going on in the real economy. Instruments designed to offset the fluctuation of exchange rates and commodity prices or to act as an insurance against credit default are important tools, which ensure the smooth functioning of a modern, globalized economy. However, some of these instruments were simply used for

The principle of sustainability

the purposes of speculation and contributed to an expansion of virtual liquidity that became a destabilizing factor. The Arab Gulf states and the Europeans should perhaps look back at their own financial traditions to find examples of financial practices that are more down-to-earth, e.g. Islamic finance, the German “cooperative banks,” or traditional commercial banks which have never lost sight of the real economy and could serve as models for a financial approach that is more closely attuned to the real economy and therefore more sustainable.

#### G20 institutional infrastructure and agenda

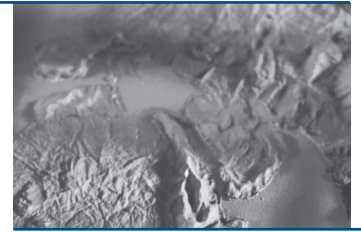
The international attention accorded to the G20 summits in November 2008 and April 2009 shows the importance ascribed to this institution and the authoritative guidance these summits have provided. Now and in the future the G20 will have to play a decisive role as a forum for global economic leadership. Since the EU and the GCC states have repeatedly voiced their support for this forum, they could talk to their international partners about measures designed to endow the G20 with an appropriate institutional infrastructure. This might include a permanent G20 secretariat as well as a G20 secretary-general. An enhanced institutional setup would help the G20 to act as an agenda setter and permit the forum to develop an institutional identity and memory.

It might be advisable for the EU and the GCC states to make a discussion of their expectations of the G20 meetings a regular feature of their political relations. In this context they could reflect on the prospects of using the forum to engage in a dialogue on the regulation of international energy markets that would allow all the stakeholders to voice their interests. The high volatility of oil prices is welcomed neither by oil exporters nor by importing countries and time and again poses serious problems for the global economy. Moreover, the EU and the GCC states may also wish to discuss their expectations regarding the reforms of international financial institutions that have been outlined by the G20. For the sake of economic stability the EU and the GCC states should insist that these institutions are given the appropriate tools needed to perform their watchdog role with regard to the developed economies. Moreover, changes in financial contributions should be reflected in the debating procedures and decision-making rules of international organizations such as the IMF or the multilateral development banks.

#### Addressing international currency, trade, and investment relations

##### A GCC currency

Yet global economic governance is not of importance only on a global scale, but increasingly on the regional level. The European example shows that closer economic and political integration on a regional level can provide an additional safeguard against the uncertainties of economic globalization. The GCC states are pursuing a similar path. The single market and



customs union are successful regional projects of both economic and political importance. The envisaged creation of a monetary union seems to be a logical step in this process. A common currency and a GCC central bank would not only complement economic integration, but would also be a very visible symbol of political cooperation among the GCC states and at the same time could increase the GCC's significance in the international financial community. A common currency of the Arab Gulf states would have the potential to become the third major reserve currency internationally next to the US dollar and the euro and a GCC central bank would be a major player in the international monetary arena.

As emphasized by the G20, the economic crisis should not be allowed to become a pretext for protectionism. Europe and the GCC states could play a leading role in countering such tendencies and taking a firm stand in favor of an open, liberal, politically regulated and regionally integrated international economic system. In this context the successful conclusion of the protracted negotiations on a Free Trade Agreement (FTA) between the EU and the GCC would not only be a major improvement in inter-regional relations, but over and above this would be an internationally visible symbol of opposition to protectionism and economic nationalism.

[Free Trade Agreement](#)

In the past some EU member states viewed the Sovereign Wealth Funds (SWF) of the Arab Gulf states and other countries with some skepticism. With the global economic crisis and the shortage of liquidity this is no longer the case, though such political sentiments may change yet again. The EU member states should reaffirm the position of the European Commission that the SWFs possess the same rights and obligations as any other international investor, and they should issue a statement that Europe welcomes the SWFs as investors. Yet once the economic turmoil has subsided, the issue might once again become politicized. In order to prevent this, and in view of the fact that regulation and transparency are the cornerstones of the G20 guidelines, the GCC might think about implementing the IMF's Santiago Principles relating to the transparency, governance, and accountability of SWFs.

[Sovereign Wealth Funds](#)

Moreover, a sustainable economic recovery cannot be based only on government spending, but also needs the backing of the private sector. In this area the European and the Arab Gulf states have hitherto tended to concentrate on large companies. However, small and medium-sized enterprises (SME) make a substantial contribution to economic growth, employment, and technological innovation. Hence it might be advisable for the EU and the GCC states to reflect on ways of improving the business climate for SMEs, and of providing them with political support when needed and funding where this makes economic sense.

[Small and medium-sized enterprises](#)

## IV. Security Challenges

## IV. Regional security challenges

Iraq, Iran, and the  
Israeli-Arab conflict

The future of Iraq, Iran's nuclear program and its unclear foreign policy agenda, and the Israeli-Arab conflict are the most pressing security challenges in the region. The new Iraq is still politically unstable, and its future role in the region has still to be defined. Iran's growing assertiveness and its nuclear program have political and security implications for the Arab Gulf states, and for external players such as the US, the EU, and Russia. There is no stable security arrangement in the Gulf region based on a cooperative understanding of security. The prospects for a successful resolution of the Israeli-Arab conflict are not very encouraging. The chances of implementing a two-state solution in Israel and Palestine are deteriorating.

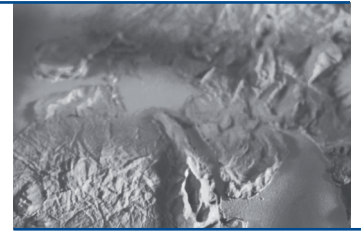
## EU-GCC Strategic Dialogue

These are crucial security concerns for the Europeans as well as for the Arab Gulf states. Therefore it might be advisable for the EU and the GCC states to upgrade their yearly Joint Council and Ministerial Meetings in order to engage in a Strategic Dialogue and intensify their exchange of views about these challenges, to keep each other informed about their respective political agendas, to reflect on how to coordinate their efforts so as to create synergies, and to find ways of jointly interacting with third parties with a view to establishing a broad international coalition.

A Strategic Dialogue might also provide the EU and the GCC with the appropriate forum in which to discuss ways of contributing to the stabilization of other regional hotspots in greater detail than has hitherto been the case. Of particular importance for the Arabian Peninsula is the stability of Yemen, a country beset with internal strife. Moreover, this could include conflicts in the Levant, as well as the consolidation of fragile states and regions of conflict such as Somalia, Afghanistan, and Pakistan. Addressing these hotspots calls for a comprehensive political approach. The EU and the GCC states possess useful resources and knowledge of these states. By sharing their experiences and coordinating their efforts they could enhance their involvement and increase their leverage with regard to these conflicts.

Prospects for a new  
partnership with the US

In international security affairs in general and in the Gulf region and the broader Middle East in particular, the US will remain a key actor for the foreseeable future. Europe and the Arab Gulf states are well aware of this fact. The EU and the GCC welcome the open-mindedness and the new approach to international cooperation displayed by the administration of President Obama. They should embrace this change in attitude and draw to Washington's attention their interests and concerns about the issues mentioned above, offer their advice and support with regard to the policies of the new US administration, and try to coordinate them with their own wherever this seems appropriate. An enhanced partnership between the GCC, the EU, and the US would provide all of the participants with increased room for maneuver and could make a significant contribution to meeting the regional security challenges.



### Assisting Iraq's stabilization and regional re-integration

The EU and the Arab Gulf states share an interest in a politically and ethnically unified and economically prosperous Iraq that can play a constructive role in the Middle East and the Gulf region.

The intra-European disputes in the run-up to the US invasion in 2003 still cast a shadow on European engagement in Iraq. Apart from European financial support for the UN and World Bank activities in Iraq, direct engagement is still limited: There has been an EU mission to support the Iraqi judicial system since 2005, and in 2008 the EU Ministers of the Interior decided, after protracted discussions, to take in 10,000 Iraqi refugees. The Arab Gulf states find themselves in a similar position. They were also critical of the US invasion of Iraq in particular and the Bush administration's approach to the Middle East in general. Moreover, their extremely negative experiences with Iraq in the past still have an impact on their relationship today. In addition to this there is an undeclared fear among the Arab countries that, since the majority of the Iraqi population is Shiite and in view of the apparently strong influence of Iran on the country, the new Iraq might in fact not be rooted in the Arab camp as strongly as in past. Moreover, the emerging federal structure of the new Iraqi political system is fundamentally different from the political structure of the GCC states. These anxieties are in parts understandable. Yet the GCC states and the EU and its member states are in a unique position to help Iraq to overcome the legacy of Saddam Hussein and the US invasion and become a cooperative player in the Middle East.

Still limited engagement

The administration of President Obama is clearly trying to make up for the political sins of its predecessor, and the Europeans and the Gulf Arabs should respect this. Thus the EU and the GCC could tell the US what they think about Iraq and discuss ways of coordinating their attempts to stabilize the country. The improved security situation provides an excellent opportunity to contribute to Iraqi economic reconstruction, national reconciliation and political consolidation, which is all the more important given that general elections are due to be held in January 2010, and that President Obama has decided to withdraw the majority of US forces by August 2010.

A window of opportunity

Both the EU and the GCC might reflect on ways of upgrading their relations with Iraq. Like the Europeans, most of the GCC states have accepted the new Iraqi government as a political actor. For this reason they might consider engaging the Iraqi government more directly in order to increase their influence on the development of the political identity of Iraq. In this context the GCC states could discuss political gestures such as opening embassies in Baghdad or bilateral state visits. The EU could conduct its energy dialogue with Iraq on a more regular basis and with more high-level participation. It could be used as a forum to discuss



European investments in the Iraqi energy sector, cooperation in the exploitation of oil and natural gas fields, connecting Iraq to regional pipeline projects, etc. In addition to this the Partnership and Cooperation Agreement (PCA), which is currently under negotiation, could be expanded to give Iraq preferential access to the European market for a transitional period. An energy dialogue and the PCA are useful tools that can help to strengthen Europe's economic relations with a key state in the area of international energy and security.

#### Options for engagement in Iraq

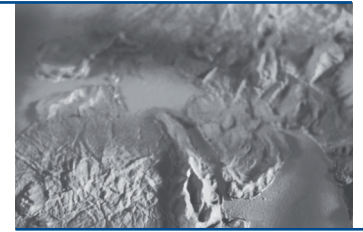
Furthermore, the EU and the GCC might reflect on ways of contributing to the political and economic consolidation of Iraq. The EU should initiate a program for technical and, where this seems advisable, human resources cooperation on issues such as the establishment of administrative capacities, the implementation of elections, the reform of the judicial and security sectors, and the fight against corruption. The Europeans possess valuable experience in these areas and should make it available to Iraq. In order to coordinate such programs and to underline its commitment, the EU should appoint a special representative for Iraq. Similarly, the GCC states could do a great deal to facilitate Iraqi development if they were to include the country in their cooperation programs. Moreover, given the ongoing instability of the Iraqi economy, the high level of foreign debt that accumulated during the time of Saddam Hussein constitutes a major impediment to Iraq's recovery. Saudi Arabia and Kuwait might consider discussing with Iraq a type of debt restructuring that would respect Saudi and Kuwaiti claims, and at the same time facilitate Iraqi economic recovery and development. In addition to this the Arab Gulf states could think about ways of supporting Iraq through other regional institutions such as the Arab Monetary Fund or the Islamic Development Bank.

#### Iraq and its Neighbors

Furthermore, the EU and the GCC might think about the possibility of a common approach of the regional environment to Iraqi stabilization and political integration. They could pool their activities and use the existing "Iraq and its Neighbors" structure as a forum for establishing, implementing and monitoring multilateral guidelines on non-interference in internal Iraqi affairs, border security, regional economic cooperation, etc. Of particular importance in this regard are Turkey and Iran. The heads of state of both countries have already visited Iraq since Saddam Hussein was overthrown, and both countries have strong societal links with Iraq's Shiite and Kurdish population. In the long run the "Iraq and its Neighbors" structure might also provide a building block for a sub-regional security policy network.

#### Dealing with Iran's nuclear program and regional ambitions

Internal and external perceptions of Iranian politics are fundamentally distinct from each other. The US, the EU, Saudi Arabia, the small states on the Gulf, and other states in the



## Iran and the Middle East

region perceive Iran, to varying degrees, as a threat to their strategic interests and as a danger to regional and international security. In fact, Israel sees Iran as an existential threat. Moreover, the GCC states in particular view the Iranian nuclear program not only as a security problem, but also as a serious environmental risk. In contrast to this, the Iranian elites feel threatened by the US and Israel. For this reason they give the highest priority to the survival of their regime. The option of nuclear weapons is seen as a “bargaining chip.”

## The nuclear program

Against the background of aggressive rhetoric by all the participants, of the absence of international control options and diverging reports by American intelligence services, the International Atomic Energy Agency (IAEA), and other actors, it is impossible to provide a reliable evaluation of the state of the Iranian nuclear program in this context. However, it is a fact that the UN Security Council believes that Iran has cooperated insufficiently with the IAEA and has imposed sanctions on Iran with UN resolutions 1803 (2008), 1747 (2007), and 1737 (2006). These sanctions target a number of individuals and companies closely linked with the Iranian nuclear program. Furthermore, the resolutions prohibit the sale of sensitive technologies to Iran. Yet the resolutions are accompanied by offers of cooperation if Iran decides to comply with the demands of the UN.

## A need for a new strategy

The confrontation resulting from Iran’s nuclear program could very easily escalate. For the time being the strategy of the EU3 (France, UK, and Germany) and the US toward Iran is a mix of incentives and pressure which shows that it is virtually impossible to isolate Iran in any kind of effective way. The country has an influential political and geo-strategic position in the Middle East and in the Gulf region. A stabilization of Iraq or Afghanistan can hardly be achieved without Tehran’s support. As a supporter of Hamas Iran has acquired an influential position in the Israeli-Palestinian conflict, whereas its relationship with Hezbollah gives it access to Lebanese politics. Iran’s role as an exporter of oil and gas is the source of considerable revenues on the one hand and makes it a desirable partner on the other. So far only the sanctions against the Iranian banking sector have had any effect. In order to strengthen the effectiveness of the international strategy it requires a broader basis and needs to be fundamentally overhauled. This would include widening the negotiating agenda to include issues beyond the nuclear program, and a closer integration of other regional actors – such as the GCC states, Turkey, or Russia – into the diplomatic process. In fact the dispute with Iran can be resolved successfully only in the context of a regional approach that takes into account the interests of all the regional stakeholders.

The EU and the GCC states could take the lead and make Iran a major topic of cooperation. The approach of the GCC states has always placed the emphasis on dialogue, which is remi-

#### Support for the new US approach

niscent of the policy of the Europeans. Both might consider making this priority more of an issue. Against this background both should welcome the new stance of the US administration, i.e. its willingness to embark on negotiations with Iran. However, if the negotiations are to be a success, it is crucial that increased US engagement is not at the expense of the Europeans and the Arab Gulf states. They possess valuable experience as a result of their diplomatic relations with Iran, which is something the US does not have. Moreover, any US-Iranian realignment without taking into account the interests of the Arab Gulf states or Europe would probably not yield sustainable results. Together with the US, the EU and the GCC states could discuss additional issues that they want to put on the Iranian negotiating table. A broadening of the agenda might initially produce some positive results, which may facilitate progress on the more protracted issues.

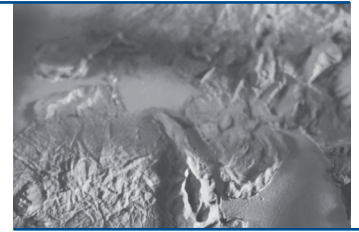
#### Iranian elections

The Iranian presidential elections in June 2009 will be a key event in this context. The winner will be in a position to engage in meaningful dialogue about the nuclear program and regional affairs. However, the EU and the GCC states (as well as the US) should be aware of the fact that a scenario in which Iran gives up its nuclear program completely is a very unlikely outcome of the negotiations. The importance of the nuclear program for Iran has been reaffirmed by all the candidates and is clearly shared by the Supreme Leader, Ayatollah Ali Khamenei, who is the key player of the Iranian political system. For this reason they should try to define an attainable outcome and at the same time one that would be acceptable to Iran. In this context it might be worth considering a scenario in which Iran ratifies the Additional Protocol, which it signed in 2003, and complies with the demands of the IAEA, which wishes to ensure the transparency of its nuclear program and make it possible to verify its civilian nature.

#### Enhancing security cooperation in the Gulf region

#### From zero-sum games to cooperation

The Gulf faces the dilemma that regional security relations can in many respects be defined in terms of a zero-sum game. Even though the US is still a key actor in Gulf security affairs, its credibility for an ongoing role as an external security balancer has been seriously weakened. The current climate of insecurity and mistrust in inter-state relations in the Gulf may well initiate a regional arms race, since the actors might decide to take unilateral action to increase their security even if the most pressing regional concerns, such as Iraqi stability and Iran's nuclear program, were to be dealt with successfully. Yet the revival of a regional balance-of-power system seems neither very promising, nor would it yield sustainable results.



A sub-regional system for cooperation and security

Hence, even though a project such as the frequently cited sub-regional system for cooperation and security is not something that can be accomplished quickly, it is nonetheless worth bearing in mind as a strategic goal. The need for such a system has been repeatedly voiced by actors inside and outside the region. On the basis of a regional framework for Iraqi recovery and progress in the negotiations with Iran, the EU and the GCC might envisage a regional security architecture constructed on the principles of cooperation and responsibility. Moreover, such an arrangement would have to be willing to include the regional stakeholders and allow for discussion of all regional concerns. In this context the 6+2+1 format (the six GCC states, i.e. Saudi Arabia, Kuwait, Bahrain, Qatar, the United Arab Emirates and Oman, Iraq and Iran, and finally Yemen) might be worth thinking about.

It seems advisable to pursue such a goal in terms of an incremental process starting with a few promising topics that are relevant for all the actors and from which the participants could all benefit. These might include education, work, infrastructure, health, environmental issues, confidence-building measures, and maritime security.

#### The three tracks of the Israeli-Arab conflict

The Israeli-Arab conflict consists of the Israeli-Palestinian, the Israeli-Syrian and the Israeli-Lebanese tracks. Within this aggregation of conflicts only the Israeli-Syrian track has witnessed some progress over the past few years. Turkish mediation efforts yielded some positive results, even though they have not resulted in direct negotiations between Syria and Israel so far. With the support of the new administration of President Barack Obama it might be possible to revive the diplomatic process that came to a standstill in December 2008. The inauguration of Michel Suleiman as Lebanese president allowed Lebanon to regain some of the political stability it had lost in the aftermath of the Israeli-Hezbollah war in 2006. It is likely that an Israeli-Lebanese understanding will make progress in the context of an Israeli-Syrian rapprochement. On the other hand, on the Israeli-Palestinian track the prospects for a resolution of the conflict are far less promising. The Annapolis process, which was initiated by the former US administration, has as yet failed to achieve any substantial results. As a result of the three-week Hamas-Israeli war in the Gaza strip between December 27, 2008 and January 18, 2009, the prospects for a successful continuation of the Israeli-Palestinian negotiations and the implementation of the two-state solution have deteriorated.

Addressing the Israeli-Arab conflict

The war in Gaza also led to some uneasiness in EU-GCC relations. To some extent this was due to the differences in the media coverage, which meant that the war was perceived differently in Europe than in the Gulf region. Many people in Arab and Islamic countries considered

**Two strategic aims**

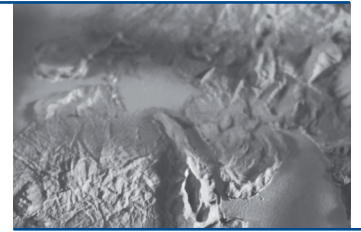
the European reactions to the Hamas-Israeli war as very biased and not in keeping with the image of an impartial mediator, which the EU had been trying to cultivate. The EU should make an effort to increase its understanding of the way in which the GCC states see regional developments and the implications of the war. A greater reciprocity of views on the Israeli-Palestinian conflict could help the partners to coordinate their policies in regard to this hot-spot in a more effective way. In particular there are two strategic aims that the EU and the GCC states might continue to pursue. These are the re-unification of the Palestinian camp and the two-state solution.

**Intra-Palestinian reconciliation**

In 2007 Saudi Arabia hosted negotiations between Hamas and Fatah in Mecca that resulted in the formation of the National Unity Government. At the time the breakthrough was short-lived, as it did not gain the support of the US. So far Egypt's efforts to mediate between the two Palestinian camps have also failed to produce results. Nonetheless the reconciliation of Fatah and Hamas still constitutes a precondition for any progress on the Israeli-Palestinian track. The EU and the GCC states should continue to support Egypt and other actors in their efforts to establish a Palestinian unity government. A logical consequence would be that the EU and the US will stop isolating Hamas. The EU and the Arab Gulf states should include this point in their respective dialogues with the US in order to increase President Obama's awareness of the importance of this issue.

**The Arab Peace Initiative**

The Arab Peace Initiative offers Israel an exchange of land for peace, meaning that the Arab states would fully recognize the state of Israel and sign a peace agreement if Israel for its part were to withdraw from the territories it has occupied since 1967, attain a just solution to the problem of Palestinian refugees in accordance with the UN provisions, and accept the establishment of an independent Palestinian state. This initiative was put forward by Saudi Arabia for the first time in 2002 and still represents the most important package deal designed to resolve all three tracks of the Israeli-Arab conflict. Despite the problematical developments on the ground, in particular the expansion of Israeli settlements and Palestinian disunity, there is no suitable alternative to the two-state solution. Indeed, there is a real urgency to move from rhetorical commitments to practical implementation as it becomes more and more unattainable. Other than in the case of the sub-regional security system in the Gulf, the Arab-Israeli conflict can only be addressed on the basis of a comprehensive package deal which includes the elements listed in the Arab Peace Initiative and has a specific timeframe, clear benchmarks, and a monitoring mechanism. Hence if progress is to be made, it will require the active support of all the Arab states, of Europe and of the US for the Arab Peace Initiative so that both Arabs and Israelis can adopt this approach to peace-making.



## Exercising political leadership beyond the Gulf

The GCC states have also demonstrated diplomatic leadership in addressing several regional hotspots other than Iraq, Iran, and the Arab-Israeli conflict. Arab Gulf states successfully supported the resolution of the internal Lebanese power struggle between the Lebanese government and Hezbollah, helped mediation efforts in Yemen in mid-2008, and provided support for the negotiations between the Sudanese government and rebel groups in February 2009, to name only a few examples.

Regional mediation

In addition to these practical issues, King Abdullah has made religious dialogue one of his political priorities. This includes intra-Islamic relations, in particular between the Shiite and Sunni branches of Islam, as well as the inter-faith dialogue. The kingdom has organized high-profile conferences on both topics. Given his status as Custodian of the Two Holy Mosques in Mecca and Medina, King Abdullah possesses the necessary authority to promote such attempts at religious reconciliation. These efforts to foster inter-faith and intra-religious understanding create a more favorable atmosphere when it comes to addressing the political conflicts in the region.

Religious dialogue

The EU and its member states acknowledge these important contributions and try to support them whenever they can. France, Spain, and other member states have already played an important role in this context. Thus the EU and the Arab Gulf states should continue and intensify their exchange of views on these issues and discuss possibilities of coordinating their activities where it seems appropriate. This might also apply to the Mediterranean countries, which have received renewed attention from the EU on account of the newly founded Union for the Mediterranean. The GCC states and their development funds are also active in many of these countries. Hence the EU and the GCC might consider an exchange of views about their respective priorities in order to unlock synergies in their cooperation projects.

Engagement in the Mediterranean

Another obvious challenge where cooperation is possible is the issue of piracy and the stability of Somalia. The seas around the Horn of Africa and the Gulf of Aden have become infamous for piracy. Hijacking merchant ships, oil tankers and yachts has increased tremendously in recent years and constitutes a major problem for Europeans and Arab Gulf states, since vessels from both regions frequently use this route. Whereas there has been a considerable international effort to increase maritime security in the region, a sustainable solution to the problem will only be achieved if Somalia regains the status of a properly functioning state and has a viable government that controls Somali territory and holds a monopoly on power. The African Union and the UN are the key actors likely to contribute to the stabilization of Somalia. Europe and the GCC states should keep in touch with both these institutions and offer their support for whatever measures they decide to adopt.

Piracy and Somalia

## V. Sustained Partnership

### V. A sustained partnership in times of global change

#### Enriching inter-regional relations

The European initiative for a Strategic Partnership with the Middle East of June 2004 notwithstanding, political relations between the EU and the GCC states are characterized by a distinct bilateralism. The GCC states, as well as the EU member states, first and foremost maintain bilateral relations with individual states in the other region. Some EU states possess historical ties to the region, whereas the GCC states themselves see only certain European states as strategically relevant actors, and not the EU as a whole. Inter-state relations are well established and valued on both sides. They will continue to form the main element in relations between Europe and the GCC states. Yet in order to develop and establish a sustainable basis for the relationship between Europe and the Arab Gulf states, it is crucial to go beyond bilateralism. The issues of common concern, as well as the already existing inter-regional structures, offer various starting points for an enhancement of the EU-GCC partnership.

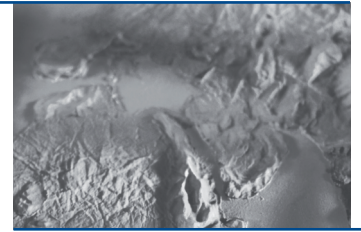
#### Finalizing the EU-GCC Free Trade Agreement

A major step for the development of inter-regional relations would be the successful conclusion of the negotiations on the Free Trade Agreement (FTA) between the EU and the GCC. The negotiations on the FTA have been a constant topic of the regions' political relations for years. Apart from some technical aspects, the main obstacles are the GCC states' demand to be permitted to levy export duties, and the EU's insistence on including a human rights clause in the FTA. Human rights in particular became a contested issue, and the GCC states suspended the negotiations on the FTA in late 2008. Efforts to restart them are in full swing.

#### Economic and political importance

Despite its practical economic value, the FTA has become a seismograph of the state of relations between EU and the GCC. Given the long history of the negotiations and the level of agreement that has already been reached, its central importance for inter-regional relations and the international economic environment, the EU and the GCC should not give up the FTA at this point. A failure to adopt the FTA would go against the economic interests of both sides and affect their relationship in a negative manner. Acting in a spirit of partnership and trust, the EU and the GCC should seek ways of overcoming these obstacles and to finding a compromise that is acceptable to both sides. The European Commission and the EU member states should explain to the GCC states that the human rights clause is not particularly aimed at them. It is a standard clause that reflects the political identity of the EU and is therefore included in all EU Free Trade or Partnership and Cooperation Agreements. If, as currently seems to be the case, there is no room for compromise with regard to export duties, the parties might consider leaving this issue unresolved and addressing it within the framework of the World Trade Organization. Whereas this would require a new mandate from the Council of the EU for the European Commission that is conducting the negotiations,





it seems nonetheless the most promising approach to overcoming the final obstacles in order to finalize the FTA.

### Enhancing institutional and political relations

In view of their mutual importance as trading and investment partners and their role in the global economy, the EU and the GCC should revive their Economic Dialogue in order to discuss the international and bilateral economic issues alluded to above. The same applies to security policy. As we have seen, the EU and the Arab Gulf states share many security concerns in the Gulf region and beyond. Moreover, they exhibit an increasing willingness to assume responsibility for security matters. Hence upgrading the EU-GCC Joint Council and Ministerial Meetings into a Strategic Dialogue between the EU and the GCC states might provide them with an improved framework within which to discuss these issues and possible joint initiatives.

Economic and Strategic Dialogues

With the creation of a customs union and a single market the GCC states have chosen a model of integration not unlike that of the EU. The European Commission can offer the GCC advice and help with regard to the establishment of its regional institutions. An exchange of views about best practices may well be of some use. Furthermore, the European Commission should be empowered by the member states to upgrade its representation in Riyadh and open additional offices in the capitals of the Arab Gulf states. A strengthened representation in Saudi Arabia and additional delegations in other GCC states would hone the European profile in the region and facilitate political communication.

A stronger role for the European Commission

The cooperation between the European Central Bank and the GCC states' central banks on the subject of the envisaged GCC monetary union could be expanded to include an exchange of views about the lessons learned from the financial crisis and its impact on monetary integration. Moreover, these institutions could discuss issues of common interest in the area of international finance and explore the possibilities for coordinated action in international forums, e.g. the Bank for International Settlements or the newly established Financial Stability Board.

Cooperation between the central banks

The GCC states have started to implement political reforms in order to broaden the legitimacy of their political systems. These include constitutional changes, the expansion of opportunities for political participation, and the establishment or strengthening of institutions that represent the different groups and segments of society. As envisaged in its initiative for a Strategic Partnership of 2004, the EU should offer to assist in this area and be willing to cooperate with the new institutions if it is called upon to do so.

Societal and political developments

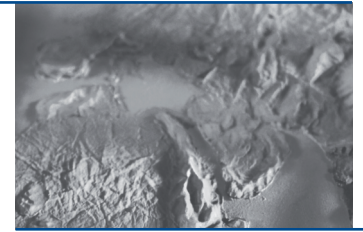
As a result of the reforms and other more general societal developments, the GCC states are witnessing the emergence of more and more non-governmental or semi-autonomous actors such as associations, chambers of commerce, research institutes, and think tanks. These actors have a strong interest in building international networks. The EU and equivalent actors in Europe should actively support these activities, publicize their interest in partnerships, and throw open existing networks.

#### Synergizing on energy and environment

Political measures destined to deal with the economic downturn will be all the more successful if they are designed and implemented on an international basis, and if they encourage socially and ecologically sustainable economic growth. Indeed, the transition to a green economy is also contained in the G20 communiqué of April 2009. Europe and the Arab Gulf states should therefore continue and intensify their cooperation on energy and the environment and expand and enhance their joint communication and cooperation forums on these issues.

#### Alternative energy and environmental projects

The EU and the GCC share complementary interests in this field. The EU is interested in diversifying its energy supply, and the GCC has an interest in diversifying its customer base. Of even greater importance are alternative energy, energy efficiency, and carbon capture and storage (CCS) projects. These are subjects of common concern. The GCC states have displayed a strong interest in alternative sources of energy, in particular in solar and wind power, and in CCS technologies. This has become apparent on account of strategic investments by GCC states in companies active in these fields, or projects such as Masdar City in Abu Dhabi. The EU, on the other hand, plays a leading international role in the development of these technologies and has a vested interest in finding investment partners. Cooperation on these issues should be given strong political support. The Mediterranean Solar Plan that was agreed upon in the context of the establishment of the Union for the Mediterranean could serve as example for a similar politically motivated project organized by the EU and the GCC. As discussed in EU-GCC expert meetings on the environment and climate change, ecologically relevant cooperation might also be established with regard to waste management and air quality. On these issues the economic and ecological interests of the GCC states and the EU coincide.



## Cooperating in education and research

The experience of the European integration project shows that cooperation in education, exchange programs for students, researchers, young professionals, etc. build social and cultural networks that help to confirm and enhance political and economic relations. Hence the EU and the GCC states might consider broadening their common agenda to include all kinds of education from the pre-school to the university level. In fact the areas of education and research may well become a central element in EU-GCC cooperation.

In order to put cooperation in this field on a sustainable footing, it is important to generate ownership at the decision-maker level, e.g. headmasters, university professors, heads of research units, divisional managers, etc. These are the key actors when it comes to the practical implementation of the political framework in the shape of specific cooperation projects. Such ownership can best develop against the background of cultural experience and the establishment of personal relations. Thus as a starting point the EU and the GCC states might discuss ways of increasing direct contacts and the exchange of personnel.

However, while this has to include the decision-maker level it should not be limited to these actors. Furthermore, the EU and the GCC should also support the establishment of links between students and researchers at different stages of their careers. The Erasmus mobility and Marie Curie programs have proved to be remarkably successful for the participating researchers and research students in the EU. The EU should also make these programs available to researchers from the GCC. Conversely, the GCC states might consider offering similar programs for European researchers and post-doctoral candidates. Moreover, the EU should encourage the GCC universities to apply for funding from the Jean Monnet program to increase research on European affairs in the Arab Gulf states. GCC states might think about similar initiatives designed to promote more effective research on the Gulf region at European universities. The Kuwait Fund for the Advancement of Sciences is already implementing programs to that effect. At the postgraduate level, the EU and the GCC should support additional joint MA programs. With regard to undergraduates it might be advisable to supplement Erasmus Mundus, which has not been very successful in the Gulf so far, with summer universities on selected topics (from international relations to nanotechnologies) that can be combined with language courses and intercultural training. Such short-term programs are an easy way of gaining first-hand experience abroad and preparing students to participate in later long-term programs.

Enhancing cultural relations

Creating ownership

Get people to move

#### European Research Area

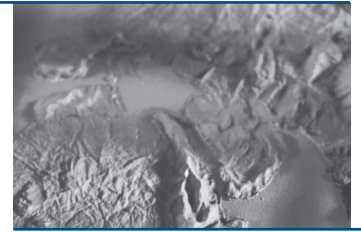
Many European universities and research institutes are engaged in cooperation projects with institutions from the Gulf region, and some of them have even established regional branches. Universities and foundations from the Gulf contribute financially to research projects in Europe. The EU has included the GCC states in its “Financing Instrument for Cooperation with Industrialized and other High Income Countries”. The EU and the GCC could enhance this cooperation by including the GCC states in the group of “International Cooperation and Partnership Countries” that are eligible to participate in the Framework Programs of the European Commission and in this way to link the GCC states more closely to the European Research Area.

#### Evaluation and standards

In the recent past the GCC states have begun to open up their education sectors to private service providers from abroad and have invested large sums of money in international cooperation projects. At the moment there are many different kinds of accreditation and evaluation for these providers and projects, sometimes even within the country. Standardization of these procedures, at least on the national level, would increase transparency and thus the quality of the educational system. Moreover, it would allow parents and students to make informed educational choices. The EU and the GCC states could talk about the lessons that were learned in Europe regarding the establishment of adequate evaluation and rating procedures for educational institutions. This might provide the GCC states with some worthwhile ideas relating to standards and evaluation for their education sectors.

#### Reform of the education system

Moreover, most GCC states are pursuing an ambitious reform of their general education systems. In particular this refers to changes in the curriculums designed to increase the proportion of mathematics, sciences, and foreign languages; the employment of teaching methods that encourage creativity, critical thinking, and the ability to engage in abstract thought instead of merely memorizing; the training of teachers to enable them to apply the new curriculums and teaching methods; and the readjustment of administrative structures to empower schools to actually implement their education agendas while at the same time ensuring central control of the quality standards. Curriculums, teaching methods, teacher training, and administrative issues are also the subject of reforms in Europe. Many lessons have been learned in Europe, and some of them might be of interest to the GCC states. Moreover, the international cooperation agencies of some EU member states possess a great deal of experience in supporting educational reform in other countries and could provide the GCC states with technical help and personnel if this is needed and requested.



In order to increase the diversification of their economies and to reduce their dependence on foreign specialists, the GCC states are attempting to build up a skilled national work force and trying to increase the employability of graduates. Corresponding programs are in place in many GCC states. The EU member states possess a great deal of experience of vocational training at home and abroad. They should make their knowledge available to the GCC states and offer personnel and technical support if this is requested. Given that private enterprises play a crucial role as providers of vocational training throughout Europe, it might be advisable for the EU and the GCC states to include the private sector in their discussions, which could also include the implementation of specific projects.

#### Vocational training

## VI. Conclusions

### Common concerns

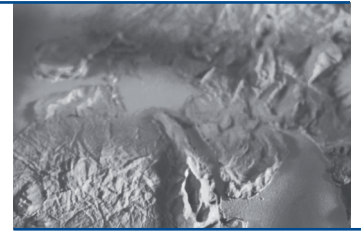
The importance of the Gulf region as a political actor, a supplier of energy, an international investor, and a market for Europe is obvious. Securing energy resources is high on the political agenda of the EU and its member states. Moreover, Europe and the Arab Gulf states play important roles in the global economy, and their responsibility and influence within the institutional frameworks of the international economy is growing. With Iran, Iraq, the Israeli-Arab conflict and other issues alluded to above they share important security concerns. Furthermore, the EU acknowledges the role that the GCC states play as regional diplomatic actors. Conversely, the EU is faced with great expectations from within the region. With its member states it offers the Arab Gulf states an excellent opportunity to diversify their external relations. The changes that have been agreed to in the Treaty of Lisbon will hone the EU's foreign policy profile. In addition to these strategic considerations, the European integration project may also be of interest in the context of the regional integration activities within the GCC. Thus the EU will become an increasingly attractive strategic partner for the GCC states.

### Strategic Partnership

In the past both regions acknowledged their international importance, though inter-regional relations were to a large extent devoted to the negotiations on the Free Trade Agreement. Although the FTA is of crucial importance, the relationship between the EU and the GCC states has the potential to go far beyond trade issues in order to become a strategic partnership. The economic and financial turmoil, and the shared security challenges, may serve as additional incentives for the EU and the GCC states to pursue the development of their relationship. This might include the establishment of a Strategic Dialogue and the strengthening of their common framework for political consultation through instruments such as the Economic Dialogue or specialists' meetings on energy, the environment, and education. These forums will facilitate an exchange of views on the various international issues and can be used as platforms for the development of a shared agenda and for the coordination of international activities.

### Interacting with the US

Whereas the EU, the EU member states and the GCC states see each other as important partners for security policy issues, they are well aware that the US will remain a key player whose cooperation is essential in order to achieve sustainable solutions for many of the regional security problems. It might therefore be of value for EU-GCC relations if the partners were to integrate the US into their deliberations and if they coordinated their activities with Washington.



### Decentralizing cooperation

In addition to the political sphere, the EU and the GCC states should also encourage the decentralization of their cooperation in order to improve their whole relationship. This could best be achieved through the establishment of specific cooperation projects that address issues of common concern on topics such as health care, renewable energy, energy efficiency, environmental protection, regional infrastructure, as well as the social sciences and the humanities. Cooperation networks of this kind can contribute to the establishment of a societal fabric that will also enhance political and economic relations between the Arab Gulf states and the EU.

*The authors wish to thank their partners at the King Faisal Center for Research and Islamic Studies and at the Institute of Diplomatic Studies, their colleagues at the Center for Applied Policy Research (C·A·P) and at the Bertelsmann Stiftung, members of the Kronberg network “Europe and the Middle East” as well as the participants of the 12th Kronberg Talks in Riyadh, whose ideas and feedback greatly contributed to this paper. The paper was delivered as a themes and ideas paper to the 12th Kronberg Talks in May 2009 in Riyadh and subsequently revised in the light of the discussions at the conference.*



## Epilogue: The EU and the Gulf states – Resolving crises together

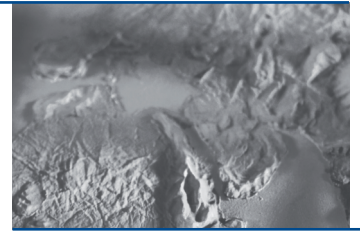
Joachim Fritz-Vannahme, Director of the programme 'Europe's Future' at the Bertelsmann Stiftung, reports on the 12th Kronberg Talks.

Choose your traveling companion carefully before you set out. Those were the words – a proverb well-known to Arabs – that German Economics Minister Karl-Theodor zu Guttenberg used to conclude his opening remarks at the Bertelsmann Stiftung's 12th Kronberg Talks, held in Riyadh, Saudi Arabia, an event co-organized with the King Faisal Center for Research and Islamic Studies and Saudi Arabia's Institute of Diplomatic Studies. As would become apparent over the course of the two-day meeting, the attendees had indeed taken the saying to heart. The first segment of the gathering was open to the public, a fact that was in and of itself worthy of note in the Saudi capital. Above all, however, the talks were marked by an openness that was much appreciated by the some 50 policymakers, diplomats, business leaders and academic specialists from Germany and Europe. In Riyadh, Europeans and Arabs set off together as willing companions on their common journey.

The first stop: the armed conflict between the Israelis and Palestinians. Were Israel to adopt the Arab Peace Initiative, Europe's assistance would be needed during the joint process. "Support the Arab Peace Initiative in Europe," said Prince Turki Al-Faisal, chairman of the Board of Directors of the King Faisal Center. Prince Turki reminded his listeners of Saudi Arabia's proposal for a Middle East devoid of weapons of mass destruction, an area stretching from Israel to Pakistan, something he said could be achieved through negotiations as opposed to the carrot-and-stick method.

The event's second issue was the pending free-trade agreement between the Gulf states and the European Union. As Saudi Finance Minister Ibrahim Abdul Aziz Al-Assaf noted with regret, even though Europe is the region's largest trading partner, negotiations have become bogged down. His remark was not an accusation, merely a polite request directed toward the Europeans to finally set things in motion. (During the two days of the talks the negotiations in fact resumed, the atmosphere became less charged and, at least in terms of both sides' feelings toward the issue, progress was made.)

Finally, the third topic was the all-encompassing global financial and economic crisis. "The problem is not the financial sector, but how it is monitored and regulated," Al-Assaf said. "No one listened when we called for oversight of hedge funds." His remarks in Riyadh were virtually identical to those given by German Chancellor Angela Merkel at the G8 summit in Heiligendamm in 2007, and at least the Germans present must have felt at one with the Saudis on this point.



At the same time, Al-Assaf made clear that outsiders do not always have an easy go of it when they try and find common ground with the EU. "In Europe, you have one currency, but you have a variety of policies," he said. With that, the gathering shifted from public to private mode. Initially, participants discussed the challenges posed by the current financial and economic crisis, asking how Europe and the Gulf region should respond to them, a situation made more complex by the different background conditions found on both sides. Germany, for example, the EU's economic engine, is currently experiencing negative growth rates of some six percent, while Egypt is growing at a rate of four percent, with the overall economy in the Gulf region just as robust, excepting Dubai. According to a business leader from the region, Middle East-based banks had participated to a very limited extent in the subprime loans issued in the United States in light of the religious constraints on financial transactions they are subject to. Investors in the region were just as hesitant to get involved with complex financial products, he also noted, and the entire region is thus emerging from the crisis in a more favorable position, even if profits are somewhat reduced and a number of exceptions are serving to prove the rule. One participant active in the Gulf's investment sector reported that a considerable accumulation of capital has occurred over the past five or six years, estimating that the region's sovereign wealth funds now top 2 trillion euros. "Investors are interested in stable, long-term financial instruments and not in achieving fast returns," he said. "In addition, they are subject to strict oversight, which helps when dealing with our European partners."

Yet how long will the "window to Europe" remain open? As one participant from the Middle East remarked, Asia has become the market of the future. Europe remains, from the vantage point of the Gulf states, both a partner of choice and a complex entity with 27 members that is, for the Arab world, hardly easier to understand than it is for many Europeans. At the same time, it remains a peripheral factor, more visible as a financial and economic player than a political one – all of which impacts its opportunities in the Gulf region.

Political issues were of course some of the most pressing addressed at the Kronberg Talks, as both sides agreed, even if the vantage points remained distinctly different. First and foremost, there were the three I's: Israel, Iraq and Iran. In all three cases, the Middle East's actors and analysts sense that Europe takes an interest in the crisis-ridden region, or, more precisely, several European nations do, "but not the EU as a whole," to quote a critical observation made by one participant well versed in the views of both sides, whose remark was meant to highlight the EU's lack of joint resolve.

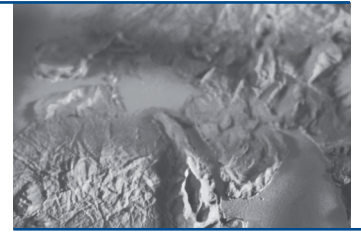
When the discussion turned to Iraq, emotions were considerably calmer than at last year's Kronberg Talks. As one attendee noted, the situation in Iraq is improving, despite the horrific

images of suicide bombings seen in the media. Yet what about the other two I's, with their nuclear capabilities? If Iran acquires nuclear weapons, said one Middle Eastern participant, then "we will have three options: first, we can capitulate; two, we can seek refuge under someone else's nuclear umbrella; or, three, we can acquire such weapons ourselves." That, in turn, explains the growing interest among Iran's Arab neighbors in establishing a nuclear-free zone.

If the countenances clouded when considering conditions in the east, they cleared when gazing toward the far west. As many noted in Riyadh, America's new president will help improve the situation in the region. In addition, they felt that security in the Gulf states is a matter for the entire Arab world, since the chain of crises stretches from the Indian Ocean to the Horn of Africa and from Pakistan to Somalia. At this point, however, opinions diverged – even more so when the question arose of whether the Gulf's security is an internal or a global affair. Various attendees noted that the war to free Kuwait and in particular the invasion of Iraq by American (and European) troops had made clear to the entire region that its local conflicts would inevitably become externalized, with a variety of outcomes, including the emergence of nonstate actors such as Hezbollah. Others disagreed, particularly those cognizant of a growing focus, at least by the region's elites, on the interrelatedness of the region's conflicts to the global situation.

While the Middle East's predisposition to Obama improves the United States' image in the region, the growing distrust of Iran is clouding feelings about that major player. The Kronberg Talks took place shortly prior to Iran's presidential election, and one notable aspect of the discussion was how little participants were interested in which candidate would win, and how few illusions they harbored that the situation in Tehran might change for the better.

For many at the event, the issue of security when discussing Iran includes more than just the weighty question of nuclear weapons, since demographic trends are transforming the country (and Iraq as well) into a very young nation. Young people there want an education, jobs and a future. Yet as one participant explained, until now they have experienced underemployment, if not unemployment, while water, arable land and food are becoming more scarce, a situation that environmental degradation is making all the more critical. Iran, the speaker noted, is even less prepared to face the post-oil era than the Gulf states – yet another potential source of conflict. In addition, tensions between Shiites and Sunni and between Arabs, Persians and Kurds also play a considerable role in Middle Eastern relations. According to one participant, the current economic crisis has also made differences clear between countries such as Iran that are willing to disburse financial resources, and others like Saudi Arabia that are less forthcoming – another indicator of the different levels of readiness to respond to the current global crisis.



The free-trade agreement between the Gulf region and the European Union is, as noted, still being negotiated. Some participants argued that it might be better to ignore the bothersome issue of exports for a year or two and come to terms on everything else in order to make some clear progress and build trust on both sides. It would be possible, another attendee said, to reach an accord on important topics such as fishing, environmental protection and maritime free-trade zones, since that would also give rise to greater trust.

A number of participants were predisposed to using similar tactics to make some progress on the eternal issue of promoting a so-called peace process – "such an appealing term," as one attendee from the Middle East soberly noted – between Israelis and Palestinians. The method for doing so was also the subject of debate, with some arguing that the problems at hand should be addressed in parallel and no longer step by step. Some felt that the whole process should be set down in writing from the start and that the flowery phrases should be dispensed with; others felt a timetable is necessary, as are exact benchmarks – a point that quickly met with general agreement.

Always expecting the United States alone to deliver a solution, which has been the case since Jimmy Carter was president in the 1970s, is insufficient, participants said. Yet Europe has been as indecisive and scattered in its dealings with Israel's governments, especially the recently elected one, as the Gulf states and Arab world have. Is the as-yet untried alternative – round-table negotiations that bring all of the region's actors together to discuss the full roster of inter-related issues – the better approach? As Gunter Thielen, chairman and CEO of the Bertelsmann Stiftung, noted in his opening remarks, perhaps it is time to stop trying to resolve each crisis in succession and put all conflicts on the table, clearly and openly.

Thielen's observation met with both doubt and appreciation. On the one hand, a number of participants felt that the Middle East is not ready for a cooperative security organization à la the OSCE, since mistrust in the region is still too prevalent. Yet when the OSCE was first established, Europe, which was then in the throes of the Cold War, organized a conference on security issues and was able to address the mistrust that then pervaded international relations. "Talk, talk, talk," was the recommendation made by one European to attendees from all regions, since "as Dr. Sigmund Freud's method has shown, that is the best method to overcoming trauma."

The extent to which "talk, talk, talk" can in fact prove helpful was demonstrated by the two days of lively discussions in Riyadh. "Kronberg on the Gulf" was a world premiere that took place in the Saudi capital's desert sands, far from the real Kronberg in central Germany. Could there be a more appealing symbol for strategic dialogue in a key global region keenly aware of the opportunities available to it and willing to resolve its crises with the help of its partners?





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