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Pursuing Geopolitical Stability through Interregional Trade: the EU's Motives for Negotiating with the Gulf Cooperation Council

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Pursuing Geopolitical Stability through Interregional Trade: the EU's Motives for Negotiating with the Gulf Cooperation Council

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ABSTRACT The European Union's drawn-out trade negotiations with the Gulf Cooperation Council (GCC) could result in the first region-to-region free trade agreement. The EU's motives for advancing interregional negotiations with the GCC have not been focused primarily on creating trade, which is argued to be relatively limited for the EU. Instead, the EU's motives for continuing negotiations with the GCC are explained by the EU's geopolitical and ideational interests and to a lesser extent by interest group influences. We do not find, however, strong evidence of EU bureaucratic motives as a factor in GCC negotiations. Based on these findings, this paper suggests that the recent reawakening of EU–GCC negotiations can best be explained by the relative increase in the geopolitical importance of the Gulf.

KEY WORDS: GCC, EU, interregionalism, trade negotiations

Introduction

When Saudi Arabia, Qatar, Bahrain, United Arab Emirates, Kuwait and Oman formed the Gulf Cooperation Council (GCC) in 1981, the European Union (EU) recognized the importance of this emerging regional organization. Consequently, an EU–GCC framework agreement was signed in Luxembourg in 1988 and went into effect in 1990, when the first Joint Council met in Oman. Under the EU–GCC framework agreement, a Joint Cooperation

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Committee (JCC) was created to hold frequent and regular talks on this and other issues. The JCC, however, remained relatively dormant throughout the latter half of the 1980s. This changed when the 1991 Persian Gulf crisis briefly reinvigorated interest in the region (Nonneman 2006). At the time, the GCC tried to kick-start negotiations, setting up a mission in Brussels in 1994 (Furtig 2004, 31). However, the EU did not reciprocate with a mission to the GCC and did not show interest in furthering negotiations with the GCC. By 1995, trade negotiations between the EU and the GCC had slowed to a halt.

Since 9/11, the US invasion of Iraq and the GCC's establishment of its customs union (CU) in 2003, however, the EU has exhibited renewed interest in the negotiations and has accelerated talks. In fact, there have been numerous signals that a free trade agreement (FTA) will be signed in the near future.[1] During EU Trade Commissioner Peter Mandelson's visit to the GCC in 2007, he stated that 'we are now very close to an agreement that would not only be the first ever region-to-region FTA in the global trading system but which has the potential to open doors for new investment and new trade beyond what we can offer through the WTO' (quoted in EU Commission 2007a). Once the EU–GCC FTA is signed, this first group-to-group FTA will represent a unique form of 'pure interregionalism', or free trade between two CUs.

Questions remain, however, about the timing and impetus behind this recent turn of events. What accounts for EU preferences in the negotiation of an interregional trade agreement with the GCC? Why has the EU recently revived interest in negotiating with the GCC? We find the EU–GCC case very peculiar because, contrary to what Mandelson suggests, and as we show below, trade creation does not appear to be a driving force behind EU interests in FTA negotiations with the GCC. Instead, there appear to be other interests at stake. In this paper we consider several alternative explanations formulated by Aggarwal and Fogarty (2004, 7–16). Specifically, we assess the role played by bureaucratic interests, interest group pressure, ideational factors and geopolitical considerations in the EU's renewed interest in the EU–GCC FTA. We conclude that the EU's motives for negotiating with the GCC at this time are best explained first by geopolitical and ideational factors, secondly by interest group lobbying and, least of all, by bureaucratic reasons.

Limited Trade Creation for the EU in an FTA with the GCC

Usually, trade creation is seen as the core motive behind trade negotiations. However, this does not appear to be the case for the EU in its negotiations with the GCC: GCC exports to the EU account for a mere 2.7 per cent of total EU imports (based on 2006 figures; Eurostat 2007). These imports are composed mostly of fuels, machinery and transport equipment (i.e. power generation plants, railway locomotives and airplanes) and chemicals (see Table 1). On the export side of the equation, the GCC represents the EU's fifth largest export market (see Eurostat 2006, 3), with machinery, transport materials and manufactured goods making up the majority of these exported products (see Table 2). These EU exports to the GCC account for less than 5

Table 1. EU imports from the Gulf Cooperation Council, selected SITC categories, selected years

	Food and Live Animals (%)	Mineral fuels, lubricants and related materials (%)	Chemicals (%)	Manufactured goods (%)	Machinery and transport equipment (%)	TOTAL (€ billions) (%)
1995	1	76[a]	4	2	10	11.43
1997	1	74	3	2	7	14.50
2000	1	78	5	4	8	22.56
2003	1	67	6	6	13	20.10
2005	1	66	6	4	19	37.80
2006	1	72	8	6	8	36.02

[a]*Data for Qatar not available*
EU: EU-15
GCC: Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, United Arab Emirates
SITC = Standard International Trade Classification
Source: Authors' calculations based on Eurostat (2007).

per cent of EU total exports (Eurostat 2007). Overall, the EU has consistently enjoyed a trade surplus with the GCC. That said, the value of EU imports from the GCC has dropped over the past two years (see Figure 1). This reflects the fact that EU imports remain petroleum dominated, and will remain so. Significantly, petroleum imports are not included in the FTA negotiations. In fact, the European Parliament (EP) April 2008 Resolution reaffirmed that 'access to energy resources is a matter of multilateral rule-setting which must not be undermined by bilateral trade agreements that compete for the most favourable access conditions' (EP 2008, 2).

Table 2. EU exports to the Gulf Cooperation Council, selected SITC categories, selected years

	Food and Live Animals (%)	Mineral fuels, lubricants and related materials (%)	Chemicals (%)	Manufactured goods (%)	Machinery and transport equipment (%)	TOTAL (€ billions) (%)
1995	9	0.6	10	16	43	20.56
1997	7	0.4	10	14	48	27.48
2000	9	0.4	11	13	47	29.52
2003	6	0.4	10	13	54	36.55
2005	5	1.4	9	13	57	48.78
2006	5	0.9	9	15	55	52.03

EU: EU-15
GCC: Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, United Arab Emirates
SITC = Standard International Trade Classification
Source: Authors' calculations based on Eurostat (2007).

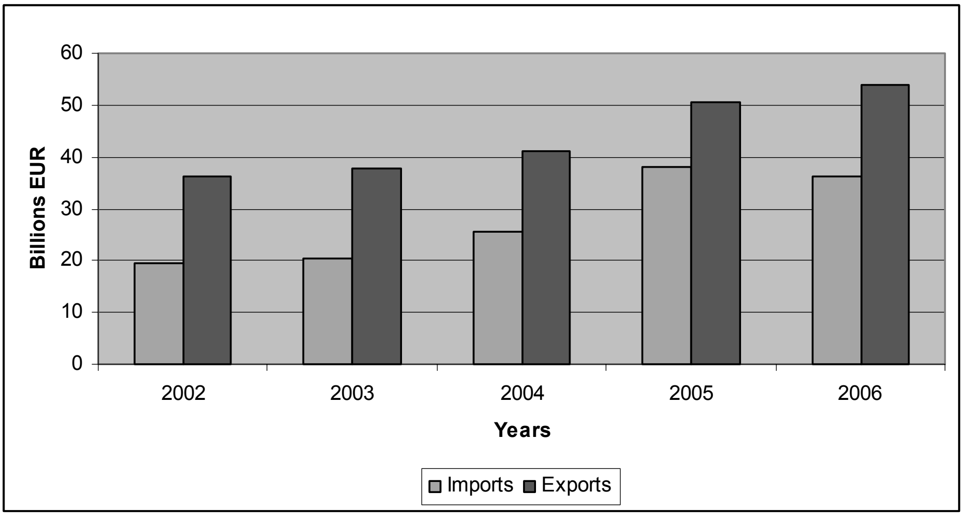

Figure 1. EU trade with the Gulf Cooperation Council, 2002–2006.
Source: Authors' calculations based on Eurostat (2007).

An EU–GCC FTA is not likely to change trade flows or the composition of mutual trade to a large extent. According to a comprehensive study of the issue by Price Waterhouse Coopers (PWC) (financed by the Commission), it is the GCC — not the EU — that stands to gain the most from a FTA (PWC 2004, 105). For instance, an FTA may noticeably improve economic welfare in the GCC, with aggregate welfare gains of 2.7–2.9 per cent; however, the FTA would not have nearly as major an impact on the EU's economy (PWC 2004). With respect to the EU, the study reports that trade diversion effects and the decline in tariff revenues may even result in a negative net trade creation and negative change in economic welfare ($US1,039.7 million and $US1,624 million, respectively). Given the size of the European economy, however, these effects would not have a noticeable impact on the overall economic performance of the EU (PWC 2004, 114–15, 291, 293).

The PWC study is slightly more optimistic about the EU's gains than an academic one conducted by Baier and Bergstrand (2004). The latter suggest that net trade creation for the EU under a new EU–GCC FTA would amount to approximately 2 per cent of EU international trade, whereas for the GCC it may be more than 10 per cent of its total foreign trade. Clearly, the GCC would derive more benefits from the proposed FTA than would the EU. Changes in EU imports from the GCC would be mostly a result of fluctuations in oil prices and not the applicable tariffs. European exports to the GCC are also unlikely to change substantially, since major export products (such as airplanes or capital goods) are already exempt from tariffs, and consumer goods (especially luxury goods such as automobiles and designer clothing) are not considered price-sensitive in the Gulf (Wilson 2005, 12–13). The EU may, however, gain greater access to markets in West Asia (through Dubai) and more opportunities for investment in services as a FTA with the GCC matures

(Wilson 2005). An interview with a Commission official suggests that trade gains in goods are, indeed, limited due to the already low tariffs, but gains in services and investment may present opportunities in the future. Investment and services are still being discussed.[2]

In sum, trade (or overall welfare) creation is not a convincing explanation for why the EU continues to negotiate a FTA with the GCC. Trade patterns, albeit complementary, have been stable and no significant changes in the composition of trade are expected to result from an EU–GCC FTA. If not for trade creation, why is the EU continuing to negotiate a FTA with the GCC?

Explaining EU Motives for Negotiating with the GCC

Interregionalism — connecting regions through political, social and, most importantly, economic ties — has been a growing phenomenon in recent years. Some argue that regionalism is a form of 'new multilateralism' (Cox 1997) that is an appealing way for states to deal with complex global governance by pooling state sovereignties (Hettne and Soderbaum 2000). Regionalism is not a phenomenon that will abate; instead, it will flourish because it is a means for states to ensure continued access to globalization in the context of multipolarity and the rise of transnational, non-state actors and global forces that are challenging the original functions of the state (Hettne and Soderbaum 2000). Moreover, since 9/11, interregionalism has offered a convenient forum for interregional dialogue on larger political issues, such as terrorism and financial laundering, leaving more time for 'targeted aims and focussed bargaining' (see Gilson 2005, 322). Regions, then, have emerged as important political actors in international relations, with unique preferences and motives that need to be better understood.

The EU is, by far, the most integrated and sophisticated regional actor in global governance. Since the 1990 Maastricht Treaty, the EU has accelerated its drive toward interregional agreements.[3] What has motivated the EU to forge interregional trade agreements? Aggarwal and Fogarty (2004) provided the most comprehensive empirical and theoretical study of the issues and have argued that the EU is motivated to negotiate interregional agreements for four reasons of varying importance: bureaucratic interests; pluralist domestic pressure; ideational interest; and geopolitical motives. In the following sections, we consider the importance of each of these four factors as a means of explaining the recent EU–GCC FTA negotiations.

Bureaucratic Interest

Aggarwal and Fogarty (2004, 59) suggested that the Commission, which has the ultimate authority to negotiate trade agreements, may use interregionalism to boost its bureaucratic power within the EU. Tensions between the Commission and the Council of Foreign Ministers can create a power struggle between the technocrats and the politicians. Because the EU is limited by its own 'capability–expectation gap' — that is, it produces more common statements on foreign policy matters than it could conceivably implement or pursue effectively — the Commission overcompensates to enhance its bureaucratic control by advancing international trade. Put another way, the lack of a clear designated leader to represent the EU in international affairs, juxtaposed with the clear authority of the Commission over trade policy, invariably results in an emboldened Commission (see Reiter 2005, 148). Tensions between the Commission and the Council over competencies and positions to be taken in trade negotiations have been frequent. We will demonstrate, however, that such an explanation is less than convincing because member states have not contested the EU–GCC FTA.

There is, indeed, strong evidence of Council and Commission agreement on many issues related to the GCC, and these shared positions can be found in their official statements. In 1995, for instance, the Commission issued a communiqué suggesting a number of measures to strengthen EU–GCC relations, including the establishment of regular political dialogue and strengthened economic cooperation. Semi-annual meetings of senior officials were recommended to discuss 'shared political and security interest' (EU Commission 1995, 2). The document stressed the need to 'open new areas of cooperation and promote increased reciprocal knowledge and understanding' (3). The Commission also recommended that the Council 'reaffirm the strategic importance of a strong GCC regional group and its commitment to the development of a strong EU–GCC relationship' (3). Shortly after the release of this document, the Council of EU Foreign Ministers followed up by asking the Commission to open a permanent delegation in Riyadh (Saleh 1999, 60).

Similar statements of support for the EU–GCC FTA have been issued by the Council. In 2003, the Council requested that the presidency and the secretariat (High Representative), in coordination with the Commission, present recommendations on a strategy for the Middle East (ME) to 'further contribute to promote peace, prosperity and stability in the region' (EU Commission 2003, 1). Shortly after, the Commission's interim report suggested a need for a broader agenda that would reflect 'the strategic significance of the countries involved' (EU Commission 2004, 8). The suggestions were subsequently included in the president's official statement regarding EU relations with the ME and further recommended to the Council for endorsement.

Members of the EP have also shown strong support for the proposed FTA, calling also for an increase in the range of issues to be addressed. For example, a parliamentarian in June 2001 actually stressed the increasing importance of the GCC to the EU, arguing that the member states 'have a considerable interest in ensuring that … the planned EU/GCC free trade area can be carried into effect' (EP 2001). The EP Resolution of 24 April 2008 again stressed the importance of concluding the agreement with the GCC: '[EP] calls on both parties to make substantial advances in negotiations on the topics still outstanding before the EU–GCC Ministerial summit of 26 May 2008' (EP 2008, 2). The EP also suggests broadening the FTA agenda to include better access for European businesses, more emphasis on political and social dialogue, and more cooperation on environmental and social standards; it also points to scientific and technological cooperation as 'essential elements' of the agreement (EP 2008, 2). Significantly, in addition to exhibiting a generally positive view of the proposed FTA, the EP has also sought to broaden the Commission's current negotiation mandate to include also non-economic elements that address social and political rights. For example, the EP has raised questions regarding GCC human rights, political liberalization and fighting terrorism. However, in an interview with a Commission official, it was noted that the Parliament and the Council agreed to tackle these non-economic issues through enhanced dialogue with the GCC rather than through 'finger pointing'.[4]

Given the evidence, it is very unlikely that negotiation of the EU–GCC agreement was motivated by the Commission's interest to further its own bureaucratic power. Statements from the Commission, the Parliament and the Council point toward a common interest in greater cooperation with the GCC. The Council, Commission and various national parliaments are in general agreement on the purpose and value of such an agreement. Unlike many of the neighbourhood trade agreements, including those with the Arab Mediterranean and Turkey, there is no evidence of tension within the EU regarding the GCC agreement. In fact, our numerous interviews with Commission officials indicate that Council and Parliament are 'very much interested' in concluding talks with the GCC. One official even pointed out that the support of the Council and Parliament 'is growing stronger' as time passes because they want to conclude the agreement.[5] We found no evidence of internal EU squabbling or a battle over the FTA with the GCC. Moreover, Commission officials noted that they feel that they have the full support of the Council.[6] Similarly, an EU official noted that the Council has 'no major problems' with the Commission on this agreement.[7]

Despite agreement on the EU side, a lack of internal coordination within the GCC itself presents some practical considerations that need to be ironed out. As one Commission official noted, these are monarchies with domestic social contracts that are antithetical to the concept of giving supranational authority to the GCC Secretariat[8] (also see Legrenzi 2008). This makes it, as another has put it, 'structurally difficult to come to an agreement'.[9] It is these practical considerations — rather than an attempt to aggrandize its own power — that have been the concern of the Commission in its trade negotiations with the GCC.

Interest Groups

Interest groups can create winning coalitions that shape EU trading preferences. Whereas non-threatened, internationally competitive economic sectors tend to support interregionalism, however, threatened, non-exporting sectors tend to be apprehensive of interregionalism (Aggarwal and Fogarty 2004, 7–9). Busch and Milner (1994) suggested that globalized firms that push for liberalization, and arguably for interregionalization, will include firms that need reciprocal access to liberalized markets in other regions, export firms that have access to domestic policy makers, and transnational firms that need improved access to subsidiaries. In contrast, those opposing liberalization, and invariably also interregionalization, include domestic producers who are unable to compete with imported products, trade unions, those tied to the military–industrial complex, and intellectuals and national activists (Solingen 1997). Moreover, civil-society groups, such as environmentalists and human rights activists, can be influential in opposing interregionalism or may push for adequate safeguards in an agreement (Aggarwal and Fogarty 2004, 22). This domestic pluralist approach suggests that interest groups in the EU play an important role in determining EU trading preferences, particularly, as Meunier (2005, 47) argued, 'in the absence of fundamental structural asymmetries between two partners, it may be the evolution of their domestic and international institutional contexts that determines their respective bargaining power, and ultimately their level of success, in international trade negotiations'. The interest group explanation of what might be motivating the EU towards an EU–GCC agreement would suggest that societal actors are attempting to shape European trade preferences by lobbying the Commission or the EU member states (see Dur 2008). In our view, however, such an explanation may be less convincing in this case.

Based on the sectoral breakdown of existing EU–GCC trade patterns and expected trade flows (Tables 1 and 2), we identify a number of issue areas where EU interest groups may have held strong preferences and exerted influence on the EU in the negotiations with the GCC: aluminium; banking, finance and investment; and petrochemicals. A Commission official confirmed in an interview that interest groups from these three sectors are in continuous contact and discussions with the Commission on the negotiations with the GCC.[10]

One of the core issues in the talks was the question of aluminium imports to the EU. The EU had resisted removing duties on GCC aluminium products for a number of years. The GCC, particularly Bahrain, has become a significant producer of world aluminium; currently it is responsible for 5 per cent of total world production, and this is expected to increase to 10 per cent by 2010 (AMEInfo 2006). Domestic demand for aluminium products in the EU exceeds its production capacity. Therefore, the GCC's high production capacity, coupled with its low domestic consumption, means that it enjoys a high trade surplus with the EU in aluminium products. Price Waterhouse (2004, 190) estimated that GCC aluminium exports to the EU could potentially increase by 7.5 and 11.5 per cent. Given the GCC production capacity and the current trade flows with the EU, there appears to be potential for increased exports to the EU, especially if the existing tariffs are abolished. The GCC has complained that the 6 per cent EU duty on aluminium products has been a major constraint on GCC's exports.

EU consumers of aluminium have therefore lobbied the Commission to remove its duty on aluminium imports. The Federation of Aluminium Consumers in Europe (FACE), with support in the Czech Republic, Austria, Belgium, Greece, Ireland, Italy, Sweden and Poland, argued in September 2005 that the duties on aluminium burdened their downstream aluminium industries (Kassakovich 2005). The Commission, however, resisted FACE pressures for a number of years. An EU official was quoted as saying, ‘There are no negotiations with FACE. [The] Commission advised member states that it would be unwise to change the duty. Of course, we have an open eye and see the problem, but the balance is on keeping the duty’ (quoted in Kassakovich 2005). Mandelson further supported the EU position by stating that ‘from a trade policy perspective, this duty has to be assessed in the wider context of ongoing bilateral and multilateral trade negotiations. The Commission is paying due attention to this question and is doing its utmost to find a balanced outcome’ (EP 2006). Recent reports suggest that the EU has agreed to cut its tariffs on both non-alloyed and alloyed aluminium products and to introduce a transition period of upheld tariffs for four years on selected products (Platts 2007). Although the EU maintains that it did not succumb to FACE’s pressure, it does appear to have made a concession on this issue.

The EU’s investment, financing and banking industries have a great interest in penetrating the GCC market. Along with the USA and Japan, EU member states are among the top three foreign investors in the Gulf (see Table 3 for FDI stocks). The EU states are also the GCC’s second destination for outward investment both in the industrial sectors (refining and automotive fuels) and

Table 3. EU foreign direct investment stocks 2001–2006, selected partners (€million)

	EU FDI outward stocks					
	2001	2002	2003	2004	2005	2006
GCC	8,207	8,816	8,651	12,002	14,187	14,806
OECD	4,104,615	4,096,806	4,445,535	4,981,275	5,400,849	5,900,720
NAFTA	1,028,824	870,827	858,604	936,592	992,075	1,097,032
ASEAN	67,745	61,394	72,206	75,261	82,838	89,763
World	4,763,230	4,754,959	5,150,330	5,804,092	6,342,298	7,020,768
GCC Share in EU Total (%)	0.17	0.19	0.17	0.21	0.22	0.21
	EU FDI inward stocks					
	2001	2002	2003	2004	2005	2006
GCC	10,035	9,456	14,583	10,009	11,031	22,956
OECD	3,602,351	3,734,837	4,041,345	4,625,622	5,122,022	5,700,229
NAFTA	789,611	736,625	760,299	919,882	958,852	1,042,074
ASEAN	16,782	17,592	21,034	22,204	29,380	41,123
World	3,862,428	4,000,899	4,454,940	5,046,028	5,592,252	6,280,858
GCC Share in EU Total (%)	0.26	0.24	0.33	0.20	0.20	0.37

EU: EU 25
GGC8: GCC +Yemen and Iraq
Source: Eurostat, http://epp.eurostat.ec.europa.eu.

in portfolio investments (deposits, bonds and equities) (Furtig 2004, 30). The EU's key needs in investment negotiations with the GCC involve easing the GCC's strong restrictions on foreign ownership faced by international investors in many sectors, reducing heavy government involvement in the GCC economies, and getting the GCC to embrace investment protection and guarantees criteria. There have been some developments, however, in allowing complete foreign ownership in select free zones, particularly in the United Arab Emirates' fifteen zones (for example, Dubai International Financial Centre, Jebel Ali Free Zone, Hamriyah Free Zone, Ajman Free Zone, and Ras Al Khaima, to name a few). Under World Trade Organization (WTO) recommendations, the United Arab Emirates (UAE) has also pledged to revise its Companies Law by the end of 2008 to allow foreign ownership of Emirati companies, but only in the services sector, healthcare and education. Nevertheless, preferential policies for government procurement still permeate the Gulf — most notably in Saudi Arabia — and many countries still require that a portion of public tenders be subcontracted to local companies (*Khaleej Times* 2005). For example, foreign ownership in import and distribution businesses remains prohibited in most of the GCC. Similarly, GCC governments have firm control over the search for, and the recovery and production of, crude oil and natural gas — the region's greatest source of revenue (Siddiqi 2007). Moreover, despite some movement in the UAE, other GCC countries still impose equity caps on foreign investment (in some cases up to 49 per cent on locally operated enterprises) outside of designated free trade zones, and most require a local partner. Others limit foreign ownership to minority stakes only. Despite some progress, there is a distance to go before European businesses enjoy unfettered investment access in the Gulf.

A number of EU industries joined forces through Business Europe (formerly UNICE) to reassert EU business priorities in developing the multilateral regulating framework on FDI, services, intellectual property rights and competition. Business Europe has argued that 'as a minimum, future EU FTAs should insist that partner countries sign up to the disciplines of the WTO government procurement agreement' (UNICE 2006, 1, 7). Business Europe stated its preferences to liberalize investment through multilateral agreements at the WTO. While all GCC countries have acceded to the WTO, none of them is party to the WTO-based plurilateral Agreement on Government Procurement (GPA). We suggest that Business Europe has not effectively swayed EU negotiations away from the GCC despite the fact that none of the GCC states is a party to the GPA. Furthermore, based on an interview with a Commission official, Business Europe has in fact been 'supportive' of the trade agreement with GCC, but wants improved 'state of play'.[11]

In the petrochemical sector, the GCC has a strong interest in gaining access to the EU market. The GCC countries have tried to move away from relying on basic petroleum exports and move into the production of processed, high value-added petrochemical products. The EU, however, has enjoyed a considerable technical advantage in processing petroleum into petrochemicals. Subsequently, the GCC would like to expand its petrochemical exports to the EU through a FTA in hopes of scale-expansion effects on the petrochemical industry within GCC countries (PWC 2004, 164). This would require a substantial decrease of trade barriers faced by GCC exports to the EU; trade barriers in the EU are currently higher than those in the USA or Japan. For a number of years, a controversial issue in the EU–GCC FTA negotiations has been the 'double-pricing' of raw materials by some GCC governments (especially Saudi Arabia). Double-pricing allowed domestic producers to enjoy petroleum prices that were up to 30 per cent lower than the export price and that, in effect, subsidized GCC industrialization.

The EU petrochemical lobby, in the form of the European Council of Chemical Manufacturers' Federation (ECCMF), wanted to protect its industry from GCC-refined products. Specifically, European petrochemical producers wanted to charge the Saudi government with anti-dumping measures. The ECCMF were backed by influential EU labour unions, who demanded protection against competitive imports from the oil-rich countries (Saleh 1999). As early as 1990, the ECCMF met with the Commission to present its views on the FTA. The meeting ended with some 'divergences of opinion', but the EU stood firm that the Commission would have the ultimate say in the matter (see Agence Europe 1990). The influence of the EU's petrochemical lobby continued to diminish throughout the 1990s and the EU was able to make some compromises on the issue (Nonneman 2006, 17). Moreover, Escribano (2005, 11) argued that, in 2005, Saudi Arabia was set to agree to remove its differential pricing in exchange for the removal of EU duties on GCC aluminium and petrochemicals. Saudi Arabia, however, gained some leeway when it was granted accession to the WTO despite its double-pricing. Saudi Arabia convinced WTO members that domestic prices were lower because of added costs to exports: pipeline transportation, refrigeration, storage and terminal facilities (see Milmo 2006). The WTO ruling dealt a further blow to the ECCMF lobby. The ECCMF lobby group could not effectively dominate the EU agenda on petrochemicals, nor did it ultimately get its preferences.

In sum, we find mixed evidence for interest group influence on EU negotiating positions during the FTA talks. This is probably not surprising, since, as we have observed above, the commercial importance of a FTA for the EU is quite limited. It also coincides with Zimmermann's (2008) findings, which suggest that in the absence of strong positive or negative impacts on EU groups as a result of trade talks, broader geopolitical or normative concerns will shape EU preferences.

EU's Ideational Motives

In general, the EU's negotiating strategy has been motivated strongly by its desire to export its regional model to other parts of the world. In working towards interregional agreements, the EU achieves two purposes: it helps to foster an EU identity and strengthen internal cohesion, while at the same time also projecting a European model of regional integration that others will want to emulate and adopt (Grugel 2004). The EU acts as an 'intra-regional mobilizing agent' by helping other regions create a heightened sense of regional consciousness (Higgott 1994, 368). The EU has argued that intraregional cooperation produces internal peace dividends, and it therefore supports exporting the concept of regionalism to other areas as a way of promoting political stability (Smith 2002, 26). Accordingly, the EU placed deeper GCC intraregional integration as a condition to signing a FTA (Escribano 2005, 10).

Insisting on deeper GCC intraregional integration as a signing condition served the EU's pragmatic and ideational interests. According to a Commission official, the Commission is 'trying to promote GCC integration' for practical and political reasons. On the practical point, their insistence on GCC intraregional integration and harmonization were put in place to make EU negotiations with the GCC less cumbersome, enabling it to talk with just one entity as opposed to six. Specifically, and as early as 1991, the EU placed GCC CU integration as a condition of furthering talks. The GCC faced a number of challenges in this area, however. To achieve a CU, the GCC had to remove customs borders and allow goods to be moved uninterrupted within the region. This, however, required improving regional coordination at the point of entry into the GCC and delegating authority to national authorities to maintain GCC agreements. The UAE, a trade-dependent economy with port services that catered to many other GCC members, favoured a reduction in tariffs to stimulate its economy, but Saudi Arabia, with its stronger and protected industrial sector, favoured higher common tariffs (Momani 2007b). In its 1999 meeting, the GCC announced its intention to create a CU by 2001, but the CU was delayed until 2003 (in force in 2005). Ultimately, the GCC agreed to a common external tariff (5 per cent on most imported merchandise) and to 'rules of origin' (40 per cent GCC value added and 51 per cent GCC ownership). Thus, the EU pursued intraregional integration to avoid an internal GCC trade diversion that would lead to a hub and spoke situation in the region (Escribano 2005, 10).

On the political point, the EU's rationale for promoting intraregional integration in the GCC is that it would also 'promote peace and stability'.[12] In other words, the EU had an ideational motive for the EU–GCC talks: the EU hoped that integration in the GCC would help cement a peace dividend among the members and spill over to other regional actors. This would help to reassert the EU's image as a 'civilian power', one that could export the hope that conflict-ridden regions can reap the benefits of a peace dividend through cooperation and integration — something the EU has experienced first hand. As one Commission official pointed out, the GCC lacks the 'historical experience' in internal coordination and therefore, as another EU official put it, is 'very eager to learn from the EU experience'.[13] After all, the EU has experience in improving and modernizing institutions and structures in Eastern Europe. The EU offered to use this experience to teach the GCC.[14] Specifically, the GCC has requested EU technical assistance on subsidies, competition policies, anti-dumping policies and monetary integration.[15] The GCC is interested in copying certain aspects of EU integration, but, as an EU official noted, 'the GCC does not have the ambition to be very integrated …

after all, the elite will not give up easily'.[16] In other words, the Gulf sheikdoms are reluctant to transfer power to a supranational authority (Legrenzi 2008).

Lore Genand, the Commission representative on the GCC, noted that

> concluding a FTA with the Gulf countries will certainly be a significant step in fostering and deepening the relationship between the two regions. … It will be the first 'region to region' FTA and as such, a positive sign in light of the GCC's efforts to push forward in regional integration which, *by virtue of its own experience, the EU considers as an important instrument for peace, stability and prosperity* (Genand 2005, 11, emphasis added).

Similarly, in an interview with a Commission official, it was stated that 'exporting stability to the GCC' is an official EU position.

The EU argued that its trade negotiations with the GCC (and the ME) would be one that follows its south–south–north approach, where regional integration in the south is first encouraged to bring in deep integration, and then a bilateral FTA is negotiated between the region and the EU (EU Commission 2002, 14). The EU argues that efficiency, enhanced competition, improved economies of scale and improved access of foreign direct investment are potential benefits of enhancing south–south regional integration. Moreover, the benefits of north–south integration include 'locking-in of reforms, access to large markets, improved governance, facilitation of FDI flows and technology transfer' (EU Commission 2002, 13). The EU further argues that the south–south–north approach can work in concert with multilateral frameworks and help prevent a hub-and-spoke trading relationship (13). The EU has taken this approach in its dealings with the GCC. Specifically, the EU has tried to promote the inclusion of Yemen into the GCC. So far, the effort is showing signs of success: the GCC signed a cooperation agreement with Yemen in 1984, reaffirming and expanding it in 1997. The EU has looked favourably on the idea of Yemen joining the GCC (Yemen's application has not been accepted by the GCC), particularly because Yemen is isolated from other regional groupings (see EU Commission 2007b).

Geopolitical Motives

The EU also uses interregional trade agreements to further its geopolitical interests, using trade policy to achieve foreign policy outcomes in geographical regions of perceived importance. Because the EU is a 'civilian power' that is limited by its lack of a coherent foreign and security instrument, it uses trade to achieve foreign policy objectives (see Messerlin 2001, 4). Moreover, the EU has historically used its 'single voice' in trade negotiations to reflect an image of international political prowess (Meunier 2005, 12). Trade policy and interregionalism are, then, the contemporary means used by the EU to build foreign alliances with geopolitically important states (Aggarwal and Fogarty 2004, 13). As Gilson (2005, 32) argued, since 9/11, interregionalism has offered a convenient forum for dialogue on larger, political issues, such as terrorism and money laundering. The EU's interest in the negotiations with the GCC could very well be to influence the GCC's foreign and domestic policies so that oil security is achieved.

A geopolitical explanation might also suggest that the EU's motive for negotiating a FTA is, arguably, to counterbalance systemic threats and power discrepancies, particularly where US hegemony is present (see Van Den Hoven 2004, 222). Proponents of the geopolitical model argue that EU trade preferences can be explained by 'international systemic constraint and opportunities' and that the Commission pursues trade when there are threats to Europe's economic and political security and when Europe wants to augment its power as an international actor (Aggarwal and Fogarty 2004, 12). In the case of the EU's negotiations with the GCC, we find — corroborated by the timing of the talks and the evidence — that the EU used its trading power to achieve geopolitically favourable ends in the region. This realist take on interpreting EU motives for negotiating trade agreements is supported by similar empirical evidence in the cases of EU negotiations with China and Russia (Zimmermann 2008).

EU–GCC trade negotiations had been dormant until 9/11. Shortly afterwards, talks continued. Both the EU and the GCC both realized that 'they lived in a small world and needed better relations'.[17] The EU recognized that, as a civilian power, it needed soft security policies with respect to its relationship with many parts of the world. When asked why the trade talks with the GCC accelerated post-9/11, an EU official noted that 'we cannot send a military force to protect the Gulf, but we can have, on a day-to-day basis, a way to communicate with them'.[18]

Consequently, the EU's response to the instability in the Gulf after 2003 (caused by the regional consequences of war and instability in Iraq, the reignited Israeli–Palestinian conflict and the diplomatic standoff with Iran over its nuclear programme[19]) was a stepped-up involvement and seriousness in its negotiations with the GCC.[20] As Youngs (2006, 175) commented, 'Within official European circles, diplomats reacted to the changed security environment by acknowledging that the EU had seriously neglected the Gulf and must rectify this area of weakness in external relations'. Similarly, to strengthen EU negotiations with the GCC, the EU re-linked the GCC to political concerns in the Arab Mediterranean and the ME as part of its 'Wider Europe' strategy. In an interview with a Commission official, it became clear that the EU hoped that the GCC would use its strong relations with Northern Africa to help address migration issues. Specifically, the EU strategy *vis-à-vis* North Africa is to stem economic migration into Europe by promoting economic development and intra-regional cooperation (Agadir Agreement) in North Africa (Momani 2007a).[21]

The EU's 2004 strategy paper underscored the link between security and economic cooperation:

> There are shared security concerns which we should tackle in a spirit of partnership. … the primary objective of an EU Policy Agenda is to

> promote the development, through partnership, of a common zone of peace, prosperity and progress in the Mediterranean and the Middle East. The goal is to enjoy close and co-operative relations responding as far as possible to demands from within the Mediterranean and Middle East (EU Commission 2004, 6, 8).

Fearful of instability in Iraq and, potentially, in Iran, French officials sought to strengthen relations with the GCC as both a counterweight to US pressure in Iraq and as a means of supporting EU talks with Iran. As French defence minister Michel Alliot-Marie noted, there needs to be a broadening of EU–GCC dialogue to include 'a strategic aspect' (quoted in Koch 2006, 6). Increasing EU–GCC trade and political relations was perceived as a means to counter US hegemony in the Gulf. According to French senator Daniel Goulet,

> The US is pursuing a policy that is imposing its view on others or, in the case of the crisis in Lebanon for example, one that does not take a proactive role in solving conflicts. … We would like the GCC countries, as a group, to step in and put its weight behind the EU's. Although we realise that each country in the GCC has its own characteristics, we believe that they complement each other and can form a strong voice together … If the GCC can endorse the EU's stance, it can add significant weight to its initiatives (quoted in Khonji 2006).

In short, an enhanced relationship with the GCC was seen as a means of counterbalancing US supremacy in the region and taking a more proactive role in the region's political future.

The latest flurry of EU interest in accelerating negotiations with the GCC can also be explained by positional competition (see Zimmermann 2008). Within the GCC, there is the political belief that engaging more closely with Europe as the world's soft power would be beneficial to countering the perceived negative effect of US foreign policy toward the region.[22] In addition to US political follies in the region, the USA has been pursuing bilateral trade agreements with many countries of the ME (most prominently members of the GCC). It has selected smaller, Western-friendly regimes, while attempting to link them together in its Middle East Free Trade Area (MEFTA) plan (see Momani 2007b). The USA has secured bilateral FTAs with Bahrain and Oman (while negotiations with the UAE have stalled). The American interest in bilateral FTAs with members of the GCC, and not with the region as a whole, has been viewed as an attempt to divide and conquer the region. Saudi Arabia, in particular, as longstanding regional hegemon of the GCC, has viewed the US efforts to sign bilateral FTAs with its neighbours as a threatening gesture to undermine the GCC integration efforts (see Momani 2008). EU Trade commissioner Peter Mandelson laid out the EU's annoyance with the US bilateral FTAs with Bahrain and Oman: 'these agreements risk undermining the proper functioning of the GCC CU and hence the EU–GCC free trade agreement negotiations' (quoted in Ghafour 2005).[23]

Unlike the Americans, the EU did not want to negotiate bilaterally with the GCC states, preferring instead to push first for regional integration among the GCC. In 2005, the EU noted in its joint communiqué with the GCC that 'the EU considers regional economic integration processes as important instruments for peace, stability and prosperity' (EU Commission 2005). The EU position is appreciated in the GCC, although the GCC would prefer even more EU engagement in the region.[24]

Conclusion

While many studies have attempted to disprove the notion that the EU uses trade policy as an instrument to achieve political ends, these have tended to focus on EU capabilities for concerted action as their starting point. This 'capabilities–expectation gap' thesis is a valid one, but the litmus test for whether the EU uses trade policy to achieve geopolitical ends is in finding out whether agreements are actually creating trade. Failing to pass the test of trade creation as an explanation for EU interests, trade negotiations with the GCC and potentially with other partners must be viewed with some scepticism.

We also found little evidence of a bureaucratic motive in the EU for negotiating a FTA with the GCC. While the GCC is of relatively modest importance compared to the European Mediterranean Partners, ASEAN and Mercosur, we nevertheless found relative agreement in the Council, Commission and even the Parliament in urging an EU–GCC FTA. This muted conversation could be explained by the relative limited trade creation gains to be made by the EU in an agreement with the GCC. Moreover, interest groups were not very active on the issue either, and with exception of aluminium consumer groups, there is little evidence of either strong support or resistance to an EU–GCC FTA.

What then explains EU motives for negotiating an FTA with the GCC? While the GCC not only sits on the largest proven oil reserves in the world, it is also the site of continued geopolitical value to the EU. Since 9/11 and, more importantly, since the failing US-led invasion and occupation of Iraq, the EU has taken a greater interest in the Gulf. It is these authors' opinion that the EU has increasingly realized that it needs strong relations with the Western-friendly regimes of the Gulf and, more importantly, that such a relationship needs to be independent and different from that of the USA.

The EU's decision to negotiate an interregional agreement has helped motivate the GCC to regionalize as well, proving the EU to be an 'intra-regional mobilizing agent'. As Javier Solana has stated, the GCC was 'over-armed and under-institutionalized' (quoted in Youngs 2006, 182). As the theory of regionalization argues, pooling its state sovereignties would help the GCC to better manage the pressures of global governance. The EU has viewed both GCC intraregional integration and an interregional agreement with the GCC as measures toward improving geopolitical security.

Notes

1. Telephone interview with Commission official on 14 April 2008.
2. Telephone interview with Commission official on 3 April 2008.
3. See Hängii (2005, 35) for a complete list of the EU's interregional agreements.
4. Telephone interview with Commission official on 14 April 2008.
5. *Ibid*.
6. Telephone interviews with two Commission officials on 3 and 14 April 2008.
7. Telephone interview with EU official on 13 May 2008.
8. Telephone interview with Commission official on 14 April 2008.
9. *Ibid*.
10. Telephone interview with Commission official on 3 April 2008.
11. *Ibid*.
12. *Ibid*.
13. Telephone interviews with two Commission officials on 3 and 14 April 2008.
14. Telephone interview with EU official on 13 May 2008.
15. Telephone interview with Commission official on 14 April 2008.
16. Telephone interview with EU official on 13 May 2008.
17. *Ibid*.
18. *Ibid*.
19. Based on a telephone interview with EU official on 13 May 2008. The EU hopes that successful completion of the FTA talks with the GCC would provide an incentive for Iran to come into the European fold. Furthermore, it was pointed out that Iran and the EU had started trade cooperation negotiations, but the international communities' concerns with the Iranian nuclear programme had resulted in suspension of the EU–Iran trade talks.
20. Telephone interview with Commission official on 14 April 2008.
21. In a telephone interview with an EU official on 13 May 2008, it was pointed out that there had been some EU interest in having the GCC finance North African development but the GCC does not seem interested in this idea.
22. Telephone interview with Commission official on 14 April 2008.
23. Also echoed in a telephone interview with EU official on 13 May 2008.
24. Telephone interview with Commission official on 14 April 2008.

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