

WORKING PAPER

International Trade

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

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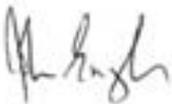
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Abstract

The European Union's (EU) 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 primarily focused 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 to negotiate with the GCC. Based on these findings, this paper suggests that the recent reawakening of EU-GCC negotiations can be explained by the relative increase in the geopolitical importance of the Gulf.

1. 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 Musqat, Oman. This first EU-GCC agreement framework was premised on the idea that economic cooperation would spill into political and social cooperation and that a free trade agreement would ultimately be signed (Saleh, 1999: 51).

Under the EU-GCC framework agreement, a Joint Cooperation Committee (JCC) was devised 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). The GCC also tried to kick-start negotiations by setting up a mission in Brussels in 1994 (Furtig, 2004: 31). The EU, however, did not respond with a mission to the GCC and did not show interest in furthering negotiations with the GCC, in part because of political turmoil in the EU's backyard, namely in the former Yugoslav republics. By 1995, trade negotiations had slowed to a halt.

Since 9/11, the United States' (US) invasion of Iraq, and the GCC's establishment of its customs union in 2003, EU-GCC talks have accelerated, and there have been numerous signals that a free trade agreement (FTA) would be signed in the near future. During EU Trade Commissioner Peter Mandelson's visit to the GCC in late February 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 free trade agreement would represent a unique form of “pure interregionalism,” or free trade between two customs unions.

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 trade creation does not appear to be a driving force behind EU interests in FTA negotiations with the GCC. Instead, we consider alternative explanations formulated by Aggarwal and Fogarty (2004: 7–16). Specifically, we assess the importance of bureaucratic interests, interest group pressure, ideational, and geopolitical considerations. We conclude that the EU’s motives for negotiating with the GCC are best explained first by geopolitical and ideational factors, secondly by interest group lobbying, and least of all by bureaucratic reasons.

2. 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, the GCC’s exports to the EU account for a mere 3.18 percent of total EU imports (based on 2005 figures; Eurostat, 2007). They are composed of mostly fuels, machinery, and transport equipment (power generation plants, railway locomotives, and airplanes), and chemicals (see Table 1). The GCC represents the EU’s fifth largest export market (see Eurostat, 2006: 3). Machinery, transport materials, and manufactured goods are the leading export products (see Table 2); however, EU exports to the GCC account for less than 5 percent 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 Gulf countries has been quite unstable over the past five years (see Chart 1). This reflects the fact that EU imports remain energy dominated, and this will remain so. Energy imports are not included in the FTA negotiations.

Table 1. EU Imports from GCC, selected SITC categories, selected years

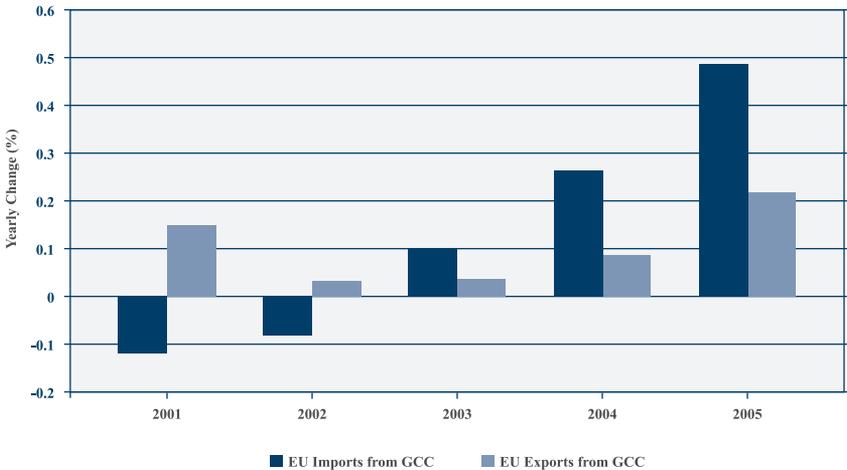
	Food and Live Animals	Mineral Fuels, Lubricants and Related Materials	Chemicals	Manufactured Goods	Machinery and Transport Equipment	TOTAL (€ billions)
1995	1%	76% ^a	4%	2%	10%	11.43
1997	1%	74%	3%	2%	7%	14.50
2000	1%	78%	5%	4%	8%	22.56
2003	1%	67%	6%	6%	13%	20.10
2005	1%	66%	6%	4%	19%	37.80
2006	1%	72%	8%	6%	8%	36.02

^aData for Qatar not available. EU: EU-15.

GCC: Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, United Arab Emirates.

Source: Authors' calculations based on Eurostat (2007)

Chart 1. Annual Change of EU Trade with GCC, 2001-2005



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 (financed by the EU Commission), the GCC will gain most from a FTA (PWC, 2004: 105). An FTA may noticeably improve economic welfare in the GCC with aggregate welfare gains of 2.7-2.9 percent; however, the FTA would not have a major impact on the EU's economy (PWC, 2004). With respect to the EU, trade diversion effects and the decline in tariff revenues may even result in a negative net trade creation and negative change in economic welfare (\$1,039.7 million and \$1,624 million respectively). However, given the size of the European economy, these effects would not have a noticeable impact on the overall economic performance of the EU (PWC, 2004: 114–15, 291, 293).

The aforementioned 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 will amount to approximately 2 percent of EU international trade, whereas for the GCC it may be more than 10 percent of total foreign trade. Clearly, the GCC would derive more

Table 2. EU Exports to GCC, 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.

Source: Authors' calculations based on Eurostat (2007)

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, as 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 gain greater access to markets in West Asia (through Dubai) and more opportunities for investment in services as an FTA with the GCC matures (Wilson, 2005).

In sum, trade (or overall welfare) creation is not a convincing explanation for why the EU continues to negotiate an FTA with the GCC. Trade patterns, albeit complimentary, 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 an FTA with the GCC?

3. 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; Schulz, Soderbaum, and Ojendal, 2001). 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 have then become important political actors in international relations and have 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. Like other regions, it has shown a growing interest in enhancing region-to-region ties. Since the 1990 Maastricht Treaty, the EU has accelerated its drive toward interregional agreements (Santander, 2005: 285; See Hangii, 2005:35 for a complete list of EU’s interregional agreements). What has motivated the EU to forge interregional trade agreements? Aggarwal and Fogarty (2004) provide 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 that are of varying importance: bureaucratic interests; pluralist domestic pressure; ideational interest; and geopolitical motives. In the following sections we consider the importance of these four factors to explain the under-examined EU-GCC FTA negotiations.

Bureaucratic Interest

Aggarwal and Fogarty (2004: 59) suggest that the European Commission, which has the ultimate authority to negotiate trade agreements, may use interregionalism to boost its bureaucratic power in the EU. Tensions between the EU Commission and the council can create a power struggle between the technocrats and the politicians. Because the EU is limited by its own “capability-expectation gap” – in which it produces numerous common statements on foreign policy matters that it cannot conceivably implement or pursue effectively – the EU Commission overcompensates

to enhance its bureaucratic control by advancing international trade. Put in another way, the lack of a clear designated leader to represent the EU in international affairs juxtaposed against the clear authority of the EU Commission over trade policy invariably results in an emboldened EU Commission (see Reiter, 2005: 148). Tensions between the EU 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 convincing because member states have not contested the EU-GCC FTA.

There is indeed strong evidence of shared positions by the council and the commission on the GCC, and these are found in their official statements. In 1995, 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 suggested 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 asked the commission to open a permanent delegation in Riyadh (Saleh, 1999: 60).

Similar statements of support for the EU-GCC FTA were issued by the council. In December 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 to “further contribute to promote peace, prosperity and stability in the region” (EU Commission,

2003: 1). The commission's interim report suggested a need for a broader agenda that would reflect "the strategic significance of the countries involved" (EU Commission, 2004a: 8). The suggestions were then included in the president's official statement regarding EU relations with the Middle East and further recommended to the council for endorsement.

Members of the European Parliament (EP) have also shown support for the proposed FTA. 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). It is noteworthy to highlight the EP members' views of the proposed FTA because the parliament arguably has measured influence when it comes to interregional trade negotiations.

Given the evidence, it is very unlikely that negotiating 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 for greater cooperation with the GCC. We found no evidence of internal EU squabbling or a battle over the FTA with the GCC. On the contrary, the EU 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 was no evidence of tension within the EU regarding the GCC agreement.

Interest Groups

Interest groups can create winning coalitions that shape EU trading preferences. Non-threatened, internationally competitive

economic sectors tend to support interregionalism; threatened, non-exporting sectors tend to be apprehensive of interregionalism (Aggarwal and Fogarty, 2004: 7–9). Busch and Milner (1994) suggest 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. Those who oppose liberalization, and invariably 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 pluralist approach suggests that interest groups in the EU play an important role in determining EU trading preferences, particularly as Meunier (2005) argues “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” (47). The interest group explanation argues that societal actors would attempt to shape European trade preferences by lobbying the commission or the EU member states (see Dur, 2008). In the view of the authors, 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 (See 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 energy and petrochemicals.

One of the core issues in the talks was the question of aluminum imports to the EU. The EU had resisted removing duties on GCC aluminum products for a number of years. The GCC, particularly Bahrain, has become a significant producer of world aluminum; currently it is responsible for 5 percent of total world production and this is expected to increase to 10 percent by 2010 (AMEInfo, 15 April 2006). Domestic demand for aluminum 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 aluminum products. Price Waterhouse (2004: 190) estimates that GCC aluminum exports to the EU could potentially increase by 7.5 and 11.5 percent. Given the GCC production capacity and the current trade flows with the EU, there appears to be a potential for increased exports to the EU, especially if the existing tariffs are abolished. The GCC has complained that the 6 percent EU duty on aluminum products has been a major constraint on GCC's exports.

EU consumers of aluminum therefore lobbied the EU commission to remove its duty on aluminum 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 aluminum burdened their downstream aluminum industries (Kassakovich, 2005). The EU 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). Latest reports suggest that the EU has agreed to cut its tariffs on both non-alloyed and alloyed aluminum products and to introduce a transition period of upheld tariffs for four years on selected products (Platts, 15 March 2007). Although the EU maintains that it did not succumb to FACE’s pressure, the EU appears 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. EU member states are among the top three foreign investors in the Gulf, along with the US and Japan (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 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. Preferential policies for government procurement permeate the Gulf countries, and some require that a portion of public tenders be subcontracted to local companies (Khaleej Times, 16 December 2005). For example, foreign ownership in import and distribution businesses remains prohibited in most of the GCC. Similarly, the energy sector falls under government control (PWC, 2004: 83). Moreover, all GCC countries impose equity caps on foreign investment (up to 49 percent on locally operated enterprises) and require a local partner, while some limit foreign ownership to minority stakes only.

A number of EU industries joined forces through Business Europe (formerly UNICE) to reassert EU business priorities

Table 3. EU FDI Stocks 2000–2004, selected partners (million EUR)

EU FDI inward stocks					
	2000	2001	2002	2003	2004
GCC	7,194	10,035	9,456	14,583	8,871
NAFTA	655,568	789,611	736,625	760,299	764,497
Euro area	1,858,692	2,132,684	2,257,034	2,499,086	2,668,667
OECD	3,063,749	3,602,351	3,734,837	4,041,345	4,342,678
World	3,272,587	3,862,428	4,000,899	4,454,940	4,801,894
GCC share in EU total	0.22%	0.26%	0.24%	0.33%	0.18%
EU FDI outward stocks					
	2000	2001	2002	2003	2004
GCC	6,749	8,207	8,816	8,651	10,374
NAFTA	864,109	1,028,824	870,827	858,604	852,998
Euro area	2,268,957	2,698,806	2,581,120	2,763,111	2,924,401
OECD	3,653,126	4,104,615	4,096,806	4,445,535	4,669,398
World	4,182,888	4,763,230	4,754,959	5,150,330	5,428,052
GCC share in EU total	0.16%	0.17%	0.19%	0.17%	0.19%

EU: EU-15. GCC: Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, United Arab Emirates. Source: Eurostat, <http://epp.eurostat.ec.europa.eu>

in developing the multilateral regulating framework on FDI, services, intellectual property rights, and competition. Business Europe has argued that “as a minimum, future EU free trade agreements 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 are 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 are a party to the GPA.

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 into processed, high value-added petrochemical products. The EU, however, has enjoyed a considerable technical advantage in processing petroleum into petrochemicals. The GCC correspondingly would like to expand its petrochemical exports to the EU through an FTA in hopes of scale expansion effects on the petrochemical industry within the 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 US 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 percent lower than the export price and that in effect subsidized GCC industrialization (Chirullo and Guerrieri, 2002: 6).

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 antidumping measures. The ECCMF were backed by influential EU labour unions that demanded protection against competitive imports from the oil rich countries (Saleh, 1999). As early as 1990, the ECCMF met with the EU Commission to present its views on the FTA. The meeting ended with some “divergences of opinion,” but the EU stood firm that the EU Commission would have the ultimate say in the matter (see Agence Europe, 1 February 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)

argues that in 2005, Saudi Arabia was set to agree to remove its differential pricing in exchange for the removal of EU duties on GCC aluminum 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, 8 May 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 an FTA for the EU is quite limited. It also coincides with Zimmermann's findings (2008), 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

The EU's negotiating strategy was motivated by its desire to export its regional model to other parts of the world. This has a dual purpose of helping to foster an EU identity and strengthen internal cohesion, while also projecting a European model of regional integration that others will want to emulate and adopt (Grugel, 2004). The EU acts as an "intraregional mobilizing agent" by helping other regions create a heightened sense of regional consciousness (Higgott, 1994: 368). Others have similarly termed this two-way process as "regionalism through inter-regionalism" (see Hanggi et al., 2005). 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 an FTA (Escribano, 2005: 10).

Insisting on deeper GCC intraregional integration as a signing condition served the EU's pragmatic and ideational interests. Pragmatically, their insistence on GCC intraregional integration and harmonization were put in place to make EU negotiations with the GCC less cumbersome and to facilitate its talks with one entity as opposed to six. Specifically, the EU placed GCC customs union integration as a condition of furthering talks with the GCC. As early as 1991, the EU pressed the GCC to establish a customs union as a prerequisite for an FTA. The GCC faced a number of challenges in this area. To achieve a customs union, 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 United Arab Emirates (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 a stronger and protected industrial sector favoured higher common tariffs (Momani, 2007a). In its 1999 meeting, the GCC announced its intention to create a customs union by 2001, but the customs union was delayed until 2003 (in force in 2005). Ultimately, the GCC agreed to a common external tariff (5 percent on most imported merchandise) and to "rules of origin" (40 percent GCC value added and 51 percent 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).

The EU argued that its trade negotiations with the GCC (and the Middle East) 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 free trade agreement 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 includes “locking-in of reforms, access to large markets, improved governance, facilitation of FDI flows and technology transfer” (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 South-South-North approach in its dealings with the GCC. Specifically, the EU has tried to promote the inclusion of Yemen into the GCC. They signed a cooperation agreement with Yemen in 1984 and reaffirmed and expanded 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).

The EU’s rationale for promoting intraregional integration in the GCC, moreover, also had an ideational motive: 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 helped 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 the EU Commission representative on the GCC Lore Genand noted: “Concluding a Free Trade Agreement 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). Part of the EU's ideational interests in exporting peace to the GCC, was the EU's focus on GCC human rights issues. These political issues included questions of GCC human rights, political liberalization, and fighting terrorism (John, 2007).

Geopolitical Motives

The EU also uses interregional trade agreements to further its geopolitical interests: using trade policy to achieve a foreign policy outcome in a geographic region of perceived importance. Since the EU is a "civilian power" that is limited by its lack of a coherent foreign and security instrument, it therefore 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 is then arguably the EU's contemporary means of building foreign alliances with geopolitically important states (Aggarwal and Fogarty, 2004: 13). As Gilson (2005: 32) argues, 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 then could 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 an FTA is arguably to counterbalance

systemic threats and power discrepancies, particularly where US hegemony is present (see Van Den Hoven, 2004: 222). The geopolitical model argues that EU trade preferences would be explained by “international systemic constraint and opportunities,” and that the EU Commission would pursue 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 Africa (Farrell, 2005), China, and Russia (Zimmermann, 2008), to name a few.

The EU’s response to the instability in the Persian Gulf region 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 program) was a stepped-up involvement and seriousness in its negotiations with the GCC. As Youngs (2006) has found: “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” (175). Similarly, to strengthen EU negotiations with the GCC, the EU re-linked the GCC to political concerns in the Arab Mediterranean and the Middle East as part of its “Wider Europe” strategy. Specifically, the EU’s 2004 strategy paper reiterated the link between security and economic cooperation, stating that:

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, 2004a: 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, 2006a: 6). Increasing EU-GCC trade and political relations was perceived as a means to counter US hegemony in the Gulf. As French senator Daniel Goulet stated:

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 compliment 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, 14 September 2006)

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). The United States has been pursuing

bilateral trade agreements with many countries of the Middle East (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, 2007a). The United States 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 American efforts to sign bilateral FTAs with its neighbours as a threatening gesture to undermine the GCC (See Momani, 2007b). The EU, unlike the Americans, however, did not want to negotiate bilaterally with the GCC states and instead preferred to first push 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). 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 customs union and hence the EU-GCC free trade agreement negotiations” (quoted in Ghafour, 6 April 2005).

The US, however, is not the only challenger to the EU with respect to the Gulf. Since 2004, China and India have made strong inroads into promoting economic cooperation with the GCC and the Gulf more generally (Antkiewicz and Whalley, 2006). In fact, China has been negotiating an FTA with the GCC and talks have been progressing. Koch (2006b) argues that Chinese-GCC free trade negotiations may be realized before EU-GCC negotiations, because the former negotiations are not bogged down by distracting human rights issues. China’s insatia-

ble appetite for energy explains its keen interest on negotiating with the GCC. After all, 70 percent of Chinese demand for energy comes from the GCC (17 percent from Saudi Arabia alone) and China is expected to consume 20 percent of world energy by 2030 (15). Analysts have warned that the EU may lose some of the ground it has gained with respect to the GCC, if the EU does not finalize its FTA with the GCC before China does (15).

4. Conclusion

What might be the role of interregionalism and the EU in international trade negotiations? On the one hand, the world of bilateral FTAs has created the famous “spaghetti,” “noodle bowl” or “great maze” of an increasingly complex system. Rules of origin and dispute settlement mechanisms are complicated such that it is difficult for countries and companies to navigate. On the other hand, multilateral negotiations at the WTO are not progressing, as all member states are required to agree to subsequent changes. Interregionalism presents a useful middle-ground approach: a “new form of multilateralism” that limits the number of trading partners in discussions. But as Mahrukh Doctor (2007) has aptly noted: “Theorizing inter-regionalism is still in its infancy” (287). Arguably, the same could be said for understanding the EU’s use of interregionalism in international trade negotiations. We hope that the case of EU-GCC negotiations can help build stronger theoretical arguments in these wider literatures. The case reveals a number of arguments meriting further theoretical and empirical exploration.

The question of whether the EU uses trade to achieve foreign policy objectives is a long-standing one (see Smith, 1998). With failures in Iraq and increased acts of terrorism, there has been a hunger for an alternative to failing US hegemony in the world. Consequently, there has been an academic renaissance in inves-

tigating the “civilian power Europe” idea (see Sjørusen, 2006). 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 skepticism.

We also found little evidence of a bureaucratic motive in the EU for negotiating an FTA with the GCC. While the GCC is of relatively modest importance, compared to the European Mediterranean Partners, ASEAN (The Association of the South East Asian Nations), and Mercosur (The Southern Common Market), we found relative agreement in the EU Council, Commission, and even the EU Parliament on the urging of 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, and with exception of aluminum consumer groups there is little evidence of strong support or resistance to an EU-GCC FTA.

What then has explained 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. The EU since 9/11, and more importantly since the failing US-led invasion and occupation of Iraq, has taken a greater interest in the Gulf region. 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 that

more importantly perhaps, such a relationship needs to be independent and different than that of the United States. The US has lost credibility in the region as an honest broker and has increasingly faced official and popular opposition to its policies and actions in the region. The EU has turned to reinvigorating its longstanding trade negotiations with the GCC to help build, in a more productive way, a relationship with the GCC.

The EU's decision to negotiate an interregional agreement 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 the GCC's state sovereignties would help the GCC members better manage the pressures of global governance. A post 9/11 world order identifies rogue states, sub-national political movements, and radical transnational networks in the wider Middle East as threats to global stability; it stands to reason, then, that the EU viewed both GCC intraregional integration and an interregional agreement with the GCC as measures toward improving geopolitical security. Moreover, the GCC governments hold strong sway in shifting debates in Islamist movements throughout the Arab Mediterranean. Saudi Arabia, in particular, not only held strong ideational leverage with non-militant Islamist movements but also holds an important symbolic role in the entire Islamic world as guardian of Islam's holy cities of Mecca and Medina. Moreover, the symbolic value of having closer ties to the GCC also helped the EU to stem Turkish criticism that the EU is anti-Muslim. The EU accelerated its FTA negotiations with the GCC in hopes of realizing these geopolitical benefits of an enhanced relationship.

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