EUROPEAN PARLIAMENT

Directorate-General for Research

WORKING DOCUMENT

THE GULF COOPERATION COUNCIL (GCC) AND ITS RELATIONS WITH THE EUROPEAN UNION

External Economic Relations Series

W-9

11-1995

2772EN

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FOREWORD

The Gulf Cooperation Council (GCC) was established in 1981 with the aim of promoting cooperation and integration in economic, social and cultural affairs, as well as promoting cooperation on foreign and security policies among six states of the Arab Peninsula. The initiative to set up a regional grouping was taken within the context of the conflict between Iran and Iraq which, at the time, had turned into a full scale war. The regional insecurity engendered by the war and the general perception of their vulnerability, which was clearly demonstrated by the 1991 Kuwait crisis, were the two decisive factors in the creation of the GCC.

Progress towards achieving the goals set by the GCC has been slow. Differences in policy objectives and a number of dividing issues have been hindering integration efforts in both economic and security fields. The slow pace of regional integration is in sharp contrast with the potential of the grouping for formulating answers to the common problems. Faced with severe financial pressures, all countries are in the process of restructuring their economies making them less dependent on oil income. A common approach would seem to be an effective way of ensuring a smooth transition process, where at the same time it would contribute to maintaining internal as well as external stability.

For the European Union the GCC region is of strategic importance. Almost a quarter of the Union'/s oil imports are coming from the area and the GCC is the Union's first trading partner in the Arab world amounting to 40% of trade with Arab countries and 4% of total EU exports to third countries. The GCC countries are the Union's fifth largest export market and the only one of the five with which the European Union has always had a surplus trade balance. The economic interdependency is at the core of EU efforts to support the process of regional integration. At the same time the GCC may significantly contribute to stabilising the Gulf region and providing an institutional framework for an economic, energy and security partnership.

The European Union and the GCC concluded a cooperation agreement in 1988 and, in 1990, negotiations were opened with a view to concluding a free trade agreement. However, talks remained stalled since then. The meeting of Ministers in Granada in July 1995 gave a new impetus to strengthening cooperation and relaunching political dialogue.

In the light of the renewed attention given to EU-GCC relations, the Directorate General for Research thought it useful to provide an updated information on the region. The new Working Document presents a concise overview of recent data and developments allowing quick assessment of the economic situation in each of the member states as well as of the state of play of our relations with the organisation.

DIRECTORATE GENERAL FOR RESEARCH

CONTENTS

I. THE GULF COOPERATION COUNCIL (GCC)[1]

Definition

The Cooperation Council for the Arab States of the Gulf was created in May 1981 at the first summit meeting of the Heads of State of Saudi Arabia, Kuwait, Bahrain, Qatar, the United Arab Emirates and Oman. Its aim was to promote cooperation and integration in economic, social and cultural affairs, and to promote cooperation on foreign and security policies.

Background

Behind the creation of this regional grouping in 1981 there was the general perception of the vulnerability of all GCC countries arising from their oil wealth in contrast with their dispersed and small population (21 million inhabitants), their vast surface areas (2,6 million km2), their limited military capabilities and the belligerence of some of their neighbours (Iran-Iraq war from 1979). The main motivating force for the establishment of the GCC was the regional insecurity engendered by the Iran-Iraq war. Since the end of that conflict the GCC has been accused of losing its direction. The 1991 Kuwait crises not only demonstrated the reality of the danger which is threathening the security of the GCC countries from the outside, but also drew the attention to the narrow political basis of the regimes in power. In combination with the economic difficulties which the GCC countries are facing at the moment, the latter factor could prove to become a serious obstacle in maintaining internal stability.

Political and military threats to stability of these regimes imply potential disruptions to the oil supply from a region in which 46% of the total world's proven oil reserves is to be found. This highlights the strategic interest of the region.

Historically, threats to the stability of the GCC have usually come from:

- Arab nationalism (Nasser's Egypt, Iraq's Baathist regime);
- Islamic fundamentalism (Iran, Shiite minorities), and
- Social unrest, in particular, from the vast expatriate population resident in GCC countries (anti-government demonstrations or political dissidence have appeared in almost all GCC countries and especially in Bahrain, Oman, Saudi Arabia and Kuwait).

GCC States are conservative monarchies which share a common language, religion and comparable social structures. They are traditional allies of western countries.

Structure

GCC's highest authority is the supreme Council which is composed of the Heads of State of the six countries and which meets annually. The 15th and most recent meeting of the Supreme Council was held in Manama, the Capital of the current presidency, Bahrain, on 7 December 1994. The 16th GCC summit will be held in Muscat (Oman) on 4-5 December 1995.

Below the Supreme Council comes the Ministerial Council, which meets quarterly and comprises the foreign ministers of the six member states.

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1 **Sources used for this document: COM - DGI/H/4; EIU, OADB**

The administration of the GCC is the responsibility of the Secretariat General which has its headquarters in Riyadh. The Secretariat General does not have the right of initiative although it can draft legislation for implementation at GCC level.

Decisions at the GCC level are taken by unanimity.

Policy initiatives

Since its creation in 1981 the main achievement of the GCC has been the adoption of the Unified Economic Agreement which sets up a free trade area among GCC countries and the free movement of capital, people and the right to exercise economic activities by GCC citizens.

However, other objectives such as the creation of a customs union or the setting up of a common defence system have still not been met. The main areas where progress is necessary are:

In the security field, the GCC has failed to devise a formula that protects them from the jealousies and resentments its wealth breeds in their Arab neighbours. With the creation of the Gulf Cooperation Council in 1981, GCC countries, and especially Saudi Arabia hoped to build a regional security organisation, free of American intervention, but the lack of political determination, and eventually, the invasion of Kuwait, shattered all prospects for an independent GCC security system and brought about the first post cold-war crisis in which the two superpowers played on the same side. An integrated regional defence force, initially proposed by Sultan Qaboos of Oman, has been under discussion for some time, but progress has been limited, mainly because of Saudi Arabia's lack of enthusiasm.

An other divisive issue in the reinforcement of regional security and defence links has been the numerous and unresolved border disputes between GCC member counties. The fact that one of these disputes (between Bahrain and Qatar) has been brought to the International Court of Justice in The Hague, shows to what extent internal GCC institutions and structures have proved unable to settle internal GCC disputes.

In the field of economic integration, the lack of progress to create a customs union has revealed the different trade policy approaches of GCC member states. For example, the interests of becoming the trade hub of the Gulf region, contrast with those of Saudi Arabia which aims to create and indigenous industrial base by diversifying its manufacturing activities away from oil and energy intensive sectors. Moves towards tariff unification were agreed in 1993 but, as with many other GCC agreements, implementation has been slow and marred by disputes over compensation arrangements.

Regional economic and trade integration through the adoption of common policies and regulations (e.g., the setting up of a customs union, a common commercial policy or the creation of a monetary union) has to contend with the fact of the very limited integration of the GCC economies. Internal GCC trade is roughly 8% of the GCC's total external trade. Most GCC exports of crude oil are directed to third countries in Asia, Europe and America and steps towards further economic links between GCC counties would only affect a limited share of the total international economic and business activities of GCC countries.

Finally, the overwhelming importance of one GCC member state: Saudi Arabia (70% of GCC's total population and 56% of the GDP) with its leading position among GCC countries in international affairs (OPEC, Arab League) has raised some fears and resentments in the other

GCC countries which do not want to become mere satellites of their strong neighbour. The organisation is increasingly split over its attitude to Iraq and to the continuation of sanctions against Baghdad. Qatar and Oman often stand apart from the Saudi-led policy line of the other four members, as they did for example during the civil war in Yemen in 1994. This may further slow the process of regional integration and has triggered some proposals to move towards a two-speed GCC.

Economic policies in the Member States

The combination of sustained low oil prices, the enormous costs of the 1990-91 Gulf crisis, and the subsequent programmes of arms purchases has meant that the Arab states of the Gulf are facing financial pressures which in their terms are severe. The governments of Saudi Arabia, the United Arab Emirates and Oman have all announced budget cuts of as much as 20% in the current fiscal year, while Kuwait is considering the unprecedented step of introducing an income tax. All Member States are increasing their efforts to diversify their economies in order to become less oil depended. Continuing privatisation, more realistic price setting and the prudent introduction of a taxation system are all part of policies aimed at restructuring economies. Cost-cutting measures and price increases have coincided with an upsurge of domestic opposition activities. The dissidents tend to criticise the incumbent regimes not only for their financial mismanagement and corruption, but also for their dependence on the United States as the ultimate guarantor of their security.

II. THE ECONOMIC SITUATION IN THE MEMBER STATES

SAUDI ARABIA

Economic structure

Economic indicators	1990	1991	1992	1993	1994 (a)
GDP at current prices SR bn	392.0	442.0	455.1	464.3(a)	462.4
Real GDP growth %	10.7	9.7	2.9	1.0(a)	-1.0
Consumer price inflation %	2.1	4.9	-0.1	1.0	0.6(b)
Population(c) m	16.24	16.42	16.90	17.40	17.95
Exports fob $ bn	44.3	47.6	47.1	44.9	41.5
Imports fob $ bn	21.5	26.0	30.2	25.9	21.5
Current account $ bn	-4.1	-27.6	-21.0	-14.2	-14.0
Reserves excel gold $ bn	11.67	11.67	5.94	7.43	7.38(b)
Oil production (nd) m b/d	6.46	8.23	8.41	8.14	8.09(b)
Exchange rate (av) SR:$	3.745	3.745	3.745	3.745	3.745

Origins of gross domestic product 1992	% of total
Agriculture, forestry & fishing	6.4
Oil & gas	34.6
Manufacturing	8.9
Construction	8.7
Trade	6.9
Transport & communications	6.4
Other services	27.8
GDP incl others at market prices	100.0

Components of gross domestic product 1992	% of total
Private consumption	40.4
Government consumption	32.7
Gross fixed capital formation	21.8
Increase in stocks	1.9
Exports of goods & services	43.1
Imports of goods & services	-39.9
GDP at market prices	100.0

Principal exports 1992	$ m
Crude oil & refined petroleum	43,362
Petrochemicals & plastics	3,760
Total incl others	47,122

Principal imports cif 1992	$ m
Transport equipment	7,987
Machinery	7,019
Consumer goods	5,265
Building materials	4,147
Foodstuffs	3,531
Total incl others	33,254

Main destinations of exports 1993	% of total
Japan	17.1
USA	16.2
South Korea	8.2
Singapore	5.7
France	5.2
UK	3.7

Main origins of imports 1993	% of total
USA	20.6
Japan	12.7
UK	8.5
Germany	7.2
Italy	6.3
France	4.3

(a) EIU estimates. (b) Actual. (c) Based on SAUDI figures, which may be overstated. (d) Includes Neutral Zone production.

Source: EIU

General overview

Saudi Arabia is a major oil producer, with substantial reserves and relatively low extraction costs. Recent discoveries have increased estimated crude reserves to around 260bn barrels, which, on the basis of current oil output of some 8m barrels/day, is sufficient for well over 100 years' extraction. In recent years oil wealth has transformed the country's economy and it now has some of the trappings of a modern state while operating in many respects according to a particularly strict interpretation of Islam.

Oil and oil-related products have dominated the SAUDI economy since 1970, and, despite diversification efforts, the sector continues to account for around one-third of GDP and some 90% of export earnings. Based exclusively on this oil income, and guided by a series of five-year development plans, the kingdom's real GDP growth has fluctuated from a high of 10% in 1980 to a negative 10.7% in 1982. The first two plans witnessed the completion of the kingdom's infrastructure, heavy industry and light manufacturing. Agriculture was a priority in the third plan and benefited from heavy government subsidies. In 1985 SAUDI Arabia became a net exporter of wheat and self-sufficient in other items, such as eggs and milk. The agricultural sector comprised just under 10% of GDP, while industry contributed over 50% in 1992.

Policy issues

Since 1970 economic development in Saudi Arabia has been carried out according to five-year plans. The key issues for the government throughout the 1990s will be the creation of jobs for the growing number of young Saudis entering the labour market, the expansion of the vital oil industry, increased private-sector growth and the conservation of the environment, specifically water resources.

The 1994 budget gave the impression of being a first step in tackling the underlying deficits which have characterised Saudi finances for the last twelve years. The 20% cut in expenditure -- which still left a SR40 billion (10.7 billion dollar) deficit -- had come in response to concern about finance, together with the very low oil prices experienced in the fourth quarter of 1993. However, resolve for fiscal prudence weakened in the second and third quarters of 1994 as oil prices rose, mainly in response to commodity speculation. At the end of the year, estimates suggested that spending cuts had amounted to only 13%, and much of this by delaying payments on government contracts, the traditional Saudi solution to revenue problems. Yet more fears were raised about the kingdom's financial state. This led to problems over export credits, resulting in the postponement of the 6 billion dollar aircraft order for Saudia (the national carrier) and the Dutch export credit agency restricting short term export cover. These problems began to feed into the general economy, which had been experiencing something of a mini-boom since the liberation of Kuwait. While real GDP in 1994 dropped at an estimated -1.0%, the non-oil private sector (46% of GDP in 1992) grew at an estimated 4%.

The kingdom's sixth development plan (1995-2000) was announced on 1 January 1995:

- Revenue was projected to increase to SR135 billion from 120 billion in 1994, while spending was to be cut by 6% to SR150 billion. This left a SR15 billion deficit to be covered by borrowing.

- The main areas of cuts (based upon 1993, because the 1994 budget gave no spending breakdown) lay in infrastructure, industry and electricity (53%), state lending institutions (34%), subsidies (24%), education (20%), and municipalities and water (15%).

The plan is expected to strengthen the structure of the economy. Essential to its strategy will be reduction of the public- sector's dominance over the economy and encouraging much more reliance on the private sector. Key targets for improvement are: the expansion of non- oil revenue; greater private-sector investment; and, most importantly, employment for Saudi's workforce. These basic aims are expected to parallel the expansion of the vital oil industry, which is already under way, and are set to increase the kingdom's production capacity to 10m barrels a day by 1995. Fairly restrictive monetary policies will remain in operation, with a fixed exchange rate.

In addition to the formal budget, a number of price measures have since been announced. The budget could signal a fundamental decision to move to realistic prices for public services over a reasonable time period. A growing problem for the kingdom lies in a mushrooming demand for such services, which the utilities, facing low prices or not being paid at all, could not meet. The growing population has meant an increasing strain on government expenditure. The only realistic solution was higher prices to dampen demand and to provide a sufficient cash flow for investment by the utilities themselves. However, this faces the problem of breaking the unwritten contract that lack of political representation for most Saudis is compensated by a lavish provision of almost free goods.

KUWAIT

Economic structure

Economic indicators	1990	1991	1992	1993	1994 (a)
GDP at current market prices KD bn	5.31	3.13	5.52	6.77	7.05
Real GDP growth %	-35.0	-40.0	75.0	21.5	4.0
Consumer price inflation %	5.0(b)	24.5(a)	-3.0	0.6	1.0
Population m (mid-year)	2.13	2.10	1.40	1.48	1.62
Exports fob $ bn	6.99	0.87	6.55	10.41	10.8
Imports fob $ bn	3.41	4.05	6.29	6.04	6.0
Current account $ bn	4.16	-25.65	-0.32	6.34	5.40
Reserves excl gold $ bn	1.95	3.41	5.15	4.21	3.64(c)
Total external debt $ bn	11.03	6.88	15.55	21.00	17.24
Average oil production (d) m b/d	2.04	0.19(b)	1.05	1.89	2.03
Exchange rate (av) KD:$	0.293	0.284	0.293	0.299	0.300

Origins of gross domestic product 1993	% of total
Hydrocarbons sector	43.4
Manufacturing	8.6
Transport & communications	3.5
Wholesale & retail trade	4.8
Real estate, financial & business services	11.1
GDP at factor cost incl others	100.0

Components of gross domestic product 1993	% of total
Private consumption	48.2
Government consumption	29.6
Gross fixed investment	15.3
Exports of goods & services	49.0
Imports of goods & services	-42.1
GDP at market prices	100.0

Principal exports 1993	$ m
Crude oil & refined products	10,003
Total incl others	10,542

Principal imports cif 1993	$ m
Manufactured goods	5,371
Food & beverages	1,058
Industrial raw materials	613
Total	7,042

Main destinations of exports 1992(e)	% of total
Japan	36.4
South Korea	10.4
USA	9.4
Netherlands	9.3
Taiwan	6.8
UK	6.7
Pakistan	5.4
France	4.8

Main origins of imports 1993(e)	% of total
USA	14.8
Japan	12.6
France	11.0
Germany	7.9
UK	6.6
Italy	5.9
Saudi Arabia	4.9

(a) EIU estimates. (b) January-June. (c) End-November actual. (d) Including Neutral Zone output. (e) Based on partners' trade data.

Source: EIU

General overview

The oil industry will continue to dominate the economy, accounting for 95% of total export earnings. The restoration and expansion of the industry have made notable progress, with crude output rising from an average of 189,000 barrels/day (b/d) in 1991 to 1.87m b/d in 1993. Despite government efforts to encourage the role of the private sector, the public sector will continue to dominate the overall economic activity in the short to medium-term. Non-oil GDP, however, is expected to increase gradually, as the privatisation programme makes headway. So far, because of the fear of huge job losses, privatisation has made limited progress and the public sector remains an important and major source of employment for Kuwaitis.

Policy issues

Increasing the country's medium- to long-term growth rate through higher private-sector activity is the government's overall economic policy. The pressure for reform has been increasing, as weak oil prices, Gulf war costs, debt repayments and an arms spending spree have forced the government to revise its traditional role as the major engine of growth. A period of austerity measures is expected over the next period, as substantial spending cuts are introduced to close the budget deficit. However, defence spending will remain high, accounting for almost 30% of state expenditure in 1993. The government's privatisation programme is also expected to make headway. Based on the framework devised by the World Bank, the divestiture of public holdings is intended not only to generate an increase in state income, but also help to create a climate which induces the private sector to repatriate some of the dollars 60bn it holds abroad. Monetary policy will also remain fairly restrictive, with a close eye being kept on inflationary pressures.

Kuwait continues to struggle with its budget deficit, despite the government's pledge to eliminate this by the end of the decade. While parliament has already rejected the administration's budget for fiscal 1995/96 (beginning on 1 July) for failing to attack the deficit aggressively enough, the Kuwaiti government has just introduced a supplementary spending programme covering this financial year. The 1994/95 deficit is thus projected at KD1.7bn (dollars 5.8bn) rather than the originally budgeted KD1.5bn. Parliament is expected to approve the KD232m extra package for this year, half of it allocated for military spending including payments for the operation to deter Saddam Hussein last October. The remainder of the fresh allocation is for construction, maintenance and the increase in fuel costs for power generation.

Yet the parliamentary Finance and Economic Committee has voted down the government's proposed 1995/96 budget, which envisages a reduction in the deficit to KD1.2bn. The committee claims that the administration did not present a viable plan for the deficit's long-term reduction. Finance Minister Nasir al-Rhudan has subsequently promised to introduce such a five-year plan.

The fundamental problem with the government's present budget is that it relies solely on rising oil revenues rather than any spending cuts to achieve the foreseen dramatic reduction in the deficit. But, on the other hand, when the government proposes sensible fiscal measures, such as increases in utility tariffs, parliament rejects them. However, leading parliamentarians expect that the government will deliver only a partial document, with piecemeal proposals rather than a comprehensive agenda.

THE UNITED ARAB EMIRATES

Economic structure

Economic indicators	1990	1991	1992	1993	1994 (a)
GDP at current prices Dh bn	123.6	124.5	128.4	131.7	135.0
Real GDP growth %	14.0	-2.7	-0.2	-3.0	-0.5
Population m	1.84	1.91	2.01	2.08	2.15
Exports & re-exports fob(b) $ bn	21.25	22.15	23.94	23.56	24.24
Imports fob(b) $ bn	10.52	12.65	15.85	17.95	19.91
Current account(b) $ bn	4.82	1.53	3.04	0.21	0.96
Reserves excl gold $ bn	4.58	5.37	5.71	6.10	6.64(c)
Total external debt $ bn	11.05	10.16	10.80	11.07	11.55
Oil production m b/d	2.12	2.42	2.29	2.22	2.19(d)
Exchange rate (av) Dh:$	3.671	3.671	3.671	3.671	3.671(d)

Origins of gross domestic product 1993	% of total
Agriculture	2.2
Oil & gas	39.3
Manufacturing	8.3
Power & water	2.2
Construction	8.8
Trade & catering	10.2
Transport & communications	5.6
Finance, insurance & real estate	11.5
Government services	11.3
Other services (net)	2.8
GDP at factor cost	100.0

Components of gross domestic product 1993	% of total
Private consumption	47.9
Government consumption	17.8
Gross fixed investment	22.9
Change in stocks	1.4
Exports of goods & services	66.9
Imports of goods & services	-58.1
GDP at market prices (incl statistical adjustment)	100.0

Principal exports 1993	$ bn
Crude oil	12.12
Dubai re-exports	2.80
Total incl others	23.56

Principal imports cif 1992	$ bn
Consumer goods	8.98
Foodstuffs & tobacco	1.97
Capital goods	6.61
Intermediate goods	1.77
Total incl others	17.41

Main destinations of exports 1993	% of total
Japan	34.6
South Korea	4.7
Iran	4.5
Oman	4.2
Singapore	3.5

Main origins of imports 1993	% of total
Japan	12.5
UK	9.7
USA	8.9
Germany	6.6
South Korea	5.2

(a) EIU estimates. (b) Central Bank of the UAE figures. (c) End-November actual. (d) Actual.

Source: EIU

General overview

The UAE is one of the world's major oil producers. Its proven reserves represent some 125 years of production at current extraction rates and some observers think that this is based on conservative figures for the country's total reserves. The Gulf crisis of 1990-91 enabled the federation to increase its crude output substantially although the oil sector's contribution to total export earnings has been falling in recent years as non-oil exports have soared. These consist of refined petroleum products, some manufactured goods and a significant level of re-exports, mainly to other countries in the Gulf. Within the federation, Abu Dhabi, Dubai and Sharjah account for about 85% of total trade. The Abu Dhabi economy is overwhelmingly based on oil, while Dubai acts as a regional entrepot and business centre. Trade and, to a lesser extent, gas production are the mainstays of the economy in Sharjah. The smaller northern Emirates are economically dependent on their bigger neighbours

Recent sectoral developments include:

Oil and gas: Oil production has been above OPEC's ceiling, affecting prices. Approval has finally been given for the expansion of the Ruwais refinery. DUGAS has begun production from a new MTBE plant. A number of Abu Dhabi oil companies are planning to build new headquarters.

Industry, commerce and energy: DUGAS has begun work on the expansion of its smelter expansion. Abu Dhabi has begun feasibility studies for privatising its water and electricity utilities and has awarded contracts for new control centres. The emirate is planning to build six new desalination plants. The strong yen is causing problems for Dubai retailers, but demand for gold has remained strong.

Construction, communications and transport: The Dubai Ports Authority has maintained its world ranking and Sharjah is planning the future of its ports. The extension to Dubai airport has received approval and the GCC is looking to unify its air cargo tariffs. Dubai is planning a new cultural centre and contracts have been awarded for the Chicago Beach hotel, the Al-Ghargoud interchange and work at the World Trade Centre in Dubai.

Banking, foreign trade and tourism: New lending rules have been issued in an attempt to curb bad debts. Dubai's total non-oil trade has increased but the figures hide a fall in re-exports. EBI has won a prestigious new mandate and reported increased profits. Both National Bank of Dubai and Commercial Bank of Dubai have reported increased profits but the ARAB Bank for Investment and Foreign Trade has seen profits fall sharply.

Policy issues

The development of the UAE economy has been guided by a series of development plans since 1979. Consumer subsidies and other social expenditures were maintained in the period of austerity following the oil price collapse of 1986. The current five-year development plan, covering 1991-94, has set expenditure at around dollars 7bn, with some dollars 4.3bn to be spent on non-oil development. However, the federal government still gives priority to the oil sector. Current expansion plans are expected to increase production capacity to more than 2.6m b/d by 1995 and to more than 3m b/d by 2000. Abu Dhabi's dominance of the federation's oil sector is increasing as Dubai's production falls and the emirate concentrates on its attempts to become a regional business hub. The federal government keeps monetary policy fairly tight and the currency, the UAE dirham, has been tied to the dollar at Dh3.673:dollars 1 since 1980.

The future of the United Arab Emirates (UAE) would seem secure given its oil and gas wealth, and its success as a trading centre and as the location most favoured by multinational businesses establishing offices in the Middle East. It is also affluent and enjoys high per capita income. However, with demographic and economic imbalances, the UAE will face some serious problems in the years ahead. They can be summed up as:

- The rapid increase in the number of expatriates has pushed the population growth rate to 7% a year, placing great pressure on infrastructure and public services. Hitherto, the government has been loath to abandon its long-standing policies of paternal benevolence and has started to introduce a more realistic pricing of services. Although it has so far rejected the idea of introducing income tax, the government is believe to be considering other forms of taxation.

- The slow pace of economic diversification. An Emirates Industrial Bank (EIB) study released in May urged the UAE authorities to adopt policies that would lead to greater diversification of the economy. Activity is currently heavily oriented towards construction and trade rather than production. EIB statistics for 1990-93 show growth of 27% in the transport and communication sector, 26% in construction, 25% in trade, 24% in finance, but only 10% in manufacturing.

Since the return on goods and services is recorded at more than double the return on industrial activity, the sectoral imbalance will only be redressed by government intervention and long-term planning. Current policies encourage foreign companies to use the UAE as a base for regional trade, but manufacturing is largely limited to Dubai's Jebel Ali free zone.

The EIB and other officials in government believe the UAE's hydrocarbon wealth, cheap energy and excellent infrastructure provide strong advantages for the development of more export oriented industries like the Dubai aluminium plant. If the government follows the EIB report and takes a strong lead on industrial development and diversification, the future could see a new range of opportunities opening up for foreign companies.

However, in the meantime, the UAE's attractions remain as a booming marketplace for consumer goods such as food, cars, toys, entertainment and household appliances and as an entrepot for trade with Asia and Africa as well as other parts of the Middle East. Shoppers converge on the UAE from all over the Middle East, from the Indian subcontinent and, in growing numbers, from the former Soviet Union. Sales to visitors to Dubai and re-exports to countries like Iran account for a high proportion of the Emirates' huge import bill -- 19.6 billion dollars in 1994 for Abu Dhabi and Dubai, the two main emirates. Many western companies do extremely well out of this market place but their profits are coming under extreme pressure as competitors from East Asia, particularly from China, push prices down.

OMAN

Economic structure

Economic indicators	1990	1991	1992	1993	1994(a)
GDP at current prices OR m	4,051	3,917	4,417	4,493	4,596
Real GDP growth %	7.1	8.2	6.8	0.8	-3.0
Consumer price inflation (b) %	10.8	4.1	1.4	0.9	1.2
Population m (mid-year)	1.81	1.88	1.95	2.02	2.09
Exports fob $ bn	5.51	4.87	5.56	5.37	4.79
Imports fob $ bn	2.62	3.11	3.63	4.03	3.69
Current account $ bn	1.11	-0.24	-0.50	-1.07	-0.94
Oil production m b/d	0.68	0.71	0.75	0.79	0.82
Reserves excl gold $ bn	1,672	1,663	1,983	908(c)	894(c)
Total external debt $ bn	2,734	2,899	2,854	3,050	3,013
Exchange rate (av) OR:$	0.385	0.385	0.385	0.385	0.385

Origins of gross domestic product 1993	% of total
Oil & gas	37.9
Agriculture & fishing	3.3
Manufacturing	4.3
Construction	4.3
Transport & communications	4.0
Wholesale & retail trade	14.3
Real estate	5.2
Government services	19.0
Financial & other services	5.9
Imputed bank charges	-2.2
GDP at factor cost incl others	100.0

Components of gross domestic product 1993	% of total
Private consumption (d)	39.4
Government consumption	36.7
Gross fixed investment	18.0
Net exports of goods & services	5.8
GDP at market prices	100.0

Principal exports 1991	$ m
Oil	4,237
Total incl others	4,871

Principal imports cif 1992	$ m
Machinery & transport equipment	1,650
Manufactured goods	960
Food & live animals	474
Chemicals	179
Total incl others	3,764

Main destinations of exports 1993	% of total
UAE	33.4
Japan	19.5
South Korea	14.0
China	7.0
Iran	2.7

Main origins of imports 1991	% of total
UAE(e)	23.7
Japan	20.8
UK	11.9
USA	6.6
France	6.1

(a) EIU estimates. (b) Muscat general consumer price index. (c) End-July. (d) Including change in stocks. (e) Largely re-exports.

Source: EIU

General overview

The Omani economy is dominated by oil revenue, although the contribution of oil to GDP has remained below 50% since 1983. All oil revenue accrues directly to the government, and the economy remains centrally managed. The private sector is, however, actively encouraged in certain areas. In 1980 the state used its oil revenue to establish the State General Reserve Fund, which is used to act as a guarantor for loans raised by the sultanate, and as a reserve fund for a post-oil economy.

The increase in the 1993 current account deficit was largely due to a 10% fall in oil revenues. Since 1992 (6.8%), real GDP growth has dropped considerably (1993: 0.8%; 1994: -3.0%) as a result of the weak oil prices. The non-oil sector expanded by more than 9% in 1993, with the wholesale and retail sectors growing at 19.9%.

Policy issues

Omani plans have laid emphasis on developing basic infrastructure, defence and the hydrocarbons sector. A key policy now is to increase the proportion of Omani nationals in the workforce. An estimated 50% of the population is under 18 years of age and waiting to join the job market. In addition the government plans to involve the private sector and private finance in a range of development projects.

Oman faces serious economic problems, and its Islamist-based opposition is increasingly active. However, unlike most of its GCC neighbours, Oman does not have a seemingly indefinite supply of oil to 'buy off' domestic opposition. Reserves could start declining in 15-20 years. As in the case of the other economies of the GCC, the most urgent problem for the government is to tackle the continuing rise of the budget deficit.

In the World Bank survey of November 1994 the weaknesses of the government's policy are summed up as follows:

- The government continues to run a budget deficit in order to finance current consumption.

- The government has failed to counteract continuing oil price depressions -- oil accounts for 85% of government revenue -- through the diversification of the economy and the introduction of an appropriate tax structure.

- Long-term investment requirements have been neglected. The present rate of national savings, which in 1991 was about 18% of GNP, is well below the optimum rate, reckoned to be about 40%.

- The government has been running down reserves of the State General Reserve Fund.

- Oman's exchange rate is overvalued, contributing to a current account deficit and -- as relative prices of domestic traded goods have fallen -- the growth of investment in the service industry to the detriment of local production.

The budget statement, unveiled on the first of January, expects the 1995 budget deficit to rise to 312 million rials (810.3 million dollars). This represents 17% of total revenue, and represents an increase 3.7% from 301 million rials (781.8 million dollars) in 1994.

In 1995 the government plans to borrow OR79.6m (dollars 206.8m), raise OR111.1m (dollars 228.6m) from issuing bonds in the local market, and withdraw OR111m (dollars 288m) from THE State General Reserve Fund. Although this fund was originally established in 1980 as a means of guaranteeing loans and generating income for Oman as a future post-oil economy, there are fears that, at this rate, the fund may be depleted within the next five to six years. When THE current, fourth, five-year development plan was introduced in 1991, it envisaged a total deficit over the plan period of OR879m. However, the deficit had reached OR862m by the end of 1993 and, if the budgetary outturn in 1994 and 1995 conforms to budgeted levels, the actual deficit for the whole period of the plan is likely to be approximately OR1.99bn.

The Omani government has recently demonstrated some willingness to address the issues outlined by the World Bank and progress has been evident. Oman has been the most progressive of the Gulf Cooperation Council (GCC) states with regard to privatisation and build-own-operate-transfer (BOOT) schemes. The sultanate is keen to stimulate and diversify its rather sluggish economy, and attracting foreign investment to and consolidating the Muscat Securities Market (MSM) are central to this ambition.

Nevertheless, progress has been faltering and half-hearted. Whilst the 1994 budget reduced total government expenditure, only 2% was cut from current spending, and almost 13% from capital expenditure. This has brought new manufacturing and infrastructural projects to a halt. Furthermore, despite the removal of the Soviet threat to the Gulf, defence and internal security are still considered to be immune to austerity measures. An estimated 30-40% of the government budget is spent on internal security and defence, making it the largest recipient of government expenditure.

QATAR

Economic structure

Economic indicators	1990	1991	1992	1993	1994(a)
GDP at current prices QR m	26.8	25.0	27.2	25.6	26.4
Real GDP growth %	2.7	-0.8	5.6	-2.9	-4.0
Consumer price inflation (b) %	3.0	3.0	4.4	3.0(a)	3.5
Population m (mid-year)	0.49	0.50	0.52	0.56	0.56
Exports fob $ bn	3.89	3.21	3.84	3.25	2.75
Imports fob $ bn	1.51	1.54	1.80	1.69	2.04
Current account $ bn	307	-100	-9	-497	-1,238
Reserves excl gold $ bn	631.1	667.7	683.3	693.7	678.0
Total external debt $ bn	1,366	1,826	1,620	1,780	2,550
Oil production '000 b/d	396	390	400	420	390
Exchange rate (av) OR:$	3.64	3.64	3.64	3.64	3.64

Origins of gross domestic product 1992	% of total
Agriculture & fishing	1.0
Oil sector	25.4
Manufacturing	14.3
Construction	4.7
Electricity & water	1.7
Transport & communications	3.0
Trade & catering	6.1
Finance, insurance & real estate	10.2
Other services	33.6
GDP at factor cost	100.0

Components of gross domestic product 1987	% of total
Government consumption	45.2
Private consumption	31.2
Gross fixed capital formation	21.0
Increase in stocks	-0.1
Exports of goods & services	39.8
Imports of goods & services	-37.1
GDP at market prices	100.0

Principal exports 1993	$ m
Petroleum	2,110(a)
Total incl others	3,245

Principal imports cif 1993	$m
Machinery & transport equipment	801
Manufactured goods	363
Foodstuffs & live animals	243
Total incl others	1,891

Main destinations of exports 1993	% of total
Japan	62.4
UAE	4.3
Pakistan	4.3
India	3.7
Singapore	3.5

Main origins of imports 1993	% of total
Japan	13.4
UK	13.1
France	11.1
USA	10.1
Italy	4.8

(a) EIU estimates.

Source: EIU

General overview

Qatar's dependence on hydrocarbons revenue has been reflected in erratic growth rates, but income from overseas investments has cushioned the fall in oil earnings. Qatar hopes that the development of its huge gas reserves will ensure its long-term economic stability. Although its oil production is low by OPEC standards, it does have the world's largest reservoir of non-associated natural gas (the North Field contains 300-600 trillion cubic metres of natural gas). Development of this resource is the key challenge over the next decade. Qatar began to diversify its economy as early as 1973.

Imports are expected to rise as a result of gas development plans, while a modest recovery in oil prices in 1995 will generate increased exports. The current-account deficit will widen nonetheless, while real GDP is expected to contract (the third successive year) by 2.1% in 1995 and to rise by 1.2% in 1996.

The Qatari import market expanded rapidly as the country underwent economic development after 1974. Spending on imports contracted between 1993 and 1986 but then slowly rose again, so that by 1992 it had returned to the level of QR7.1bn reached ten years earlier. In 1990, boosted by the implementation of the first phase of the North Field gas project and a surge in demand for capital goods, imports rose by 27.8% to QR6.2bn. The increase continued in 1991 and estimates (Economist Intelligence Unit) indicate further substantial increases since then.

In the late 1980s and in the 1990s the figures reported by the Central Statistical Office have shown wide fluctuations for both oil and non-oil exports. Exports reached about QR14bn in 1992, despite a 4% fall in oil prices, as QATAR raised production from 390,000 barrels/day (b/d) to 400,000 b/d. Non-oil exports have been strongly affected by movements in steel and petrochemicals prices.

Japan is Qatar's principal market for crude oil, absorbing over half of the emirate's exports, while the remainder are sold largely to other Far East consumers. New gas developments will serve to reinforce this trend, with South-east Asia also becoming more prominent. With import demand largely for manufactures and machinery, QATAR is heavily dependent on OECD suppliers, headed by Japan, the UK and the USA.

Sectoral developments include the following:

Oil and gas: The 1995/96 budget foresees a 7.7% increase in spending, although official policy aims eventually to achieve a budget surplus. One branch of the development of the North Field is the Gulf-South Asia Gas Project, designed to transport natural gas via a pipeline from Qatar. Bids have been invited for the Rashaffan project and Rasgas can start work on a dollars 9bn LNG plant. Work on a fuel additives plant is also moving ahead and estimates of Qatari gas reserves have increased. Qatar is upset by European oil taxes. Mobil has made way for Enron to market Qatari gas.

Banking and finance: Qatargas has secured loans of dollars 2bn and dollars 680m.

Policy issues

As in other Gulf states, the decline in world oil prices has led to budget deficits. The 1994-95 deficit of 3.47 billion riyals (953 million dollars) is set to increase to 3.5 billion this year, with revenue forecast to increase by 800 million riyals to 9.2 billion this year, while spending rises by 900 million to 12.7 billion riyals.

At the same time the leadership has already taken steps to tackle the effects of increase of the budget. Belt tightening measures have included a reduction in the perquisites enjoyed by members of the ruling family and high level government officials. However, the new emir remains determined to continue diversifying the country's economy. Sheikh Hamad took over power in a bloodless coup early July 1995. This will hardly have any effect on the governments policy. Hamad was already the de facto ruler of the emirate since the late 1980's.

The government will concentrate on a number of key policies:

- reducing government expenditure by improving efficiency and maintaining' fiscal discipline';
- reducing subsidies on petrol and other goods;
- encouraging domestic and foreign private investment flows;
- diversification into industries using gas as a raw material and a source of energy;
- privatising large state enterprises and establishing a stock exchange;
- placing more emphasis on using local labour;
- maintaining free movement of capital and goods; and increasing economic cooperation with other Gulf Cooperation Council (GCC) states.

Sheikh Hamad views privatisation as the key to modernising the Qatari economy and raising government revenue. A law published in July 1995 set up the emirate's first stock exchange, paving the way for large-scale privatisation. Hamad is also keen to tap new sources of financing for large-scale industrial and development projects. These include numerous projects in the North Field development which will require financing arrangements. The Qatari leadership is likely to show more flexibility in this regard than it has in the past.

Complaints that consumer countries are reducing demand for oil by high tax takes are increasingly frequent from OPEC member states. At a seminar held in London end of May 1995, Sheikh Hamad pointed out that, whereas Qatari Marine crude sells for around dollars 17-18/barrel, composite sales of products in the European and US markets raise about dollars 120/barrel. Sheikh Hamad criticised European Union proposals for new environmental taxes on oil and said instead that EU countries should stop producing subsidised coal, singling out Germany as an example. He said that the proposed new taxes are not environmental measures, but are intended to cover European budget deficits. Sheikh Hamad said that producers such as QATAR were worried that new taxes would lower the demand for oil, reducing producers' revenue and meaning that there will be no funds for expanding production capacity. Not only would this mean a shortfall of supplies, and higher prices, but it would reduce business opportunities for European and US firms in oil producing countries.

BAHRAIN

Economic structure

Economic indicators	1990	1991	1992	1993	1994(a)
GDP at current prices BD m	1.47	1.80	1.80	1.70	1.70
Real GDP growth %	1.2	1.3(a)	1.3(a)	3.1	-1.8
Consumer price inflation %	0.9	0.8	-0.2	3.9	0.9
Population m (mid-year)	0.50	0.51	0.52	0.54	0.56
Exports fob $ bn	3.76	3.51	3.46	3.70	3.45
Imports fob $ bn	3.34	3.71	3.84	3.85	3.73
Current account $ m	246	-735	-993	-225	-217
Reserves excl gold $ bn	1.23	1.51	1.40	1.30	1.17
Total external debt $ bn	11,667	2,218	2,549	2,603	2,673(a)
Exchange rate (av) BD:$	60.376	0.376	0.376	0.376	0.376

Origins of gross domestic product 1988	% of total
Agriculture & fishing	1.1
Mining	13.6
Manufacturing	16.4
Construction	6.3
Public utilities	1.6
Transport & communications	10.2
Trade & catering	9.4
Banking & insurance	11.8
Property & rents	4.8
Other services	24.8
GDP at market prices	100.0

Components of gross domestic product 1990	% of total
Private consumption	32.8
Public consumption	23.6
Gross fixed capital formation	25.0
Increase in stocks	3.7
Exports of goods & services	108.5
Imports of goods & services	-93.4
GDP at market prices	100.0

Principal exports 1993	$ m
Petroleum products	2,439
Manufactures	1,078
Total incl others	3,700

Principal imports cif 1993	$ m
Mineral fuels	1,553
Machinery & transport equipment	1,077
Manufactures	787
Chemicals	289
Total incl others	4,145

Main destinations of exports 1993	% of total
India	6.6
Japan	5.4
Pakistan	2.2
Saudi Arabia	2.1
Singapore	1.8

Main origins of imports 1993	% of total
Saudi Arabia	42.4
USA	15.1
Japan	5.3
UK	5.2
Germany	3.4

(a) EIU estimate

Source: EIU

General overview

Bahrain was one of the richest areas in the northern Gulf prior to the discovery of oil. Its pearls were the best in the region, and pearling employed nearly half the male working population. It was also an important agricultural and trading centre. With the discovery of oil in 1932, Bahrain became the first state on the Arab side of the Gulf to exploit its hydrocarbons resources. However, because it has very limited oil reserves, Bahrain was forced at an earlier stage than the other Gulf sheikhdoms to diversify its economic base. Its economy is therefore more developed and more complex than those of its wealthier neighbours. Although the oil sector contributes only about one-eighth of GDP, oil sales provide over 60% of government revenue and they remain highly significant in an economy where public expenditure is a powerful force.

In addition, Bahrain is acutely sensitive to regional instability. With the widening of the Iran-Iraq conflict in the mid-1980s, the non-oil sectors of the economy entered a period of uncertainty. Traditionally Bahrain was an entrepot and, although its importance in this sphere declined with the development of mainland ports, particularly in Saudi Arabia, it used its central geographical location to become an important service centre for the region as a whole. The end of the Iran-Iraq war in 1988 brought a revival in confidence, enabling Bahrain to reassert this role despite increasing competition from other Gulf states. However, Iraq's invasion of Kuwait in August 1990 shattered this process and forced the authorities to adopt an assertive approach to economic development and diversification.

The offshore banking business was hit hard by the invasion and had just begun to recover when internal unrest again unsettled the sector. As a service centre, competition from the lower Gulf, in particular Dubai, has intensified. In response, foreign investment rules have been liberalised radically, opening Bahrain to fully foreign-owned companies for the first time. In addition, greater emphasis is being placed on the development of small- to medium-sized industrial ventures. The Bahrain Development Bank and the Bahrain Marketing and Promotion Office were set up in 1991 and in 1992 respectively, when the government introduced a range of incentives to encourage private-sector enterprises.

One project which has had a profound impact on the economic and political life of Bahrain is the causeway to Saudi Arabia. Local industries have benefited substantially from export opportunities in Saudi Arabia and the other GCC states and from cheaper transport for imported raw materials. The influx of Saudi visitors, especially at weekends, has given a fillip to restaurant and hotel trade and has encouraged increased investment in the tourism sector.

Current Bahraini economy has been less affected than previously thought by the recession in the Saudi economy, and in particular that in Saudi Arabia's Eastern Province. Bahrain is now expected to see its real GDP contract by 0.9% in 1995, compared with a fall of 1.8% in 1994. The government still aims to reduce its dependence on the oil sector and the budget for 1995-96 projects a sharp drop in oil revenue, down from BD380m in 1994 to only BD283m in 1995 and BD285m in 1996. With spending also set to fall by nearly 5% between 1994 and 1995 (1st quarter 1995), and no significant increase foreseen for 1996, growth in 1996 will only just be positive, at 0.4%.

However, Bahrain is hoping to increase its revenue by any means it can and the government will continue to seek greater access to revenue from the Abu Safaa oilfields. Diversification away from oil will concentrate on various manufacturing concerns, in particular Aluminium

Bahrain (ALBA), and on tourism. Tourism is an area where the government feels that it can diversify from oil and at the same time boost the private sector and provide employment opportunities for Bahraini nationals.

Bahrain's traditional role as an entrepot re-exporting chiefly to Saudi Arabia has diminished with the development of Saudi and other Gulf ports. Bahrain's major import is crude oil, which is bought from Saudi Arabia for the Sitra refinery. It also imports alumina from Australia and there is a sizeable trade in gold. The USA is traditionally Bahrain's leading non-oil supplier. Bahrain's major exports are petroleum products from the Sitra refinery, which accounted for 66.1% of total exports in 1993 and are sold predominantly in Far Eastern markets. Non-oil exports, particularly aluminium, have become more important with the development of domestic industry. Japan and the USA are major customers for non-oil exports, although Saudi Arabia has been the most important market since 1987. South Korea is also a major market for non-oil exports.

Bahrain is expected to manage only limited growth in its merchandise export until the end of 1996. Overall, the value of merchandise exports is expected to increase from an estimated dollars 3.5bn in 1994 to dollars 3.6bn in 1995, before falling back to dollars 3.5bn in 1996 (EIU). According to recent data from the Bahrain Monetary Agency, imports have been running at lower levels than previously thought. Merchandise imports are not expected to exceed dollars 3.6bn, but a small trade deficit will persist. Net transfers to Bahrain are expected to increase as the country's main allies within the GCC increase their support for the ruling family, although moves to 'Bahrainise' the workforce (replacing expatriate labour with Bahraini nationals) should mean stagnant net private transfers in 1995, followed by a fall in 1996. The current account deficit is forecast to shrink from an estimated dollars 217m in 1994 to dollars 128m in 1995, before more than doubling to dollars 324m in 1996.

Policy issues

The situation in Bahrain is very similar to the one of the other Gulf States. Governments have cut spending, borrowed on both the domestic and foreign markets to cover their deficits, and are beginning to consider seriously the privatisation of many state-owned enterprises. Payment schedules on big-ticket weapons purchases have been spread out, and local contractors are frequently having to wait months to receive payment for their services.

Generating employment opportunities for its citizens is the Bahraini government's main goal and the development of small and medium-sized private-sector ventures is currently being emphasised. Bahrain has liberalised its foreign investment rules and opened up to fully foreign-owned companies.

In late November 1994, a new two-year budget forecast spending cuts from previous levels and a growing budget gap. State spending was forecast to fall by 5% in 1995, at a time when unofficial estimates put the unemployment rate among young Bahrainis at around 25%.

III. RELATIONS BETWEEN THE GCC AND THE EU

Economic and trade relations

Economic significance

Since 1985, the trade balance is positive in favour of the Community reaching 7.9 billion ECU for the year 1994. For every ECU the EU imported from the GCC (predominately crude oil) the EU exported 1.7 ECU of manufactured goods to the GCC region. The GCC is a vital zone for the Community:

- Over 22% of EC oil imports come from the GCC.
- 46% of world proven oil reserves lie in the GCC.

Despite its low population the GCC is a significant trading partner for the Union:

- The GCC is the EU's first trading partner in the Arab world totalling almost 40% of our trade with Arab counties.
- The GCC is EU's 5th purchaser with 4% of our total exports to third counties.
- Our trade surplus with the GCC in 1994 reached 7.9 billion ECU. We import from them crude oil, natural gas, refined petroleum products and petrochemicals.
- The Union is the first supplier of the GCC market with a share of 35% of GCC's imports, well ahead of our competitors (Asia 27% and US 12%).

The GCC the first trading partner in the Arab world

Two-way trade between the EU and the GCC amounted to 30.7 billion ECU in 1994. With a population of only 21.6 Million people, the GCC is the EC's first trading partner in the Arab wold totalling almost 40% of our trade with Arab counties and 4% of EC's external trade. Two of its member counties (Saudi Arabia and UAE) are the two largest Arab trading partners of the Union. The quantitative significance of our trade relations is coupled with a considerable trade surplus which was of 7.9 billion ECU in 1994. For every ECU we imported from the GCC (predominately crude oil) we exported 1.6 ECU of manufactured goods to the GCC region. The traditional surplus in favour of the EU since the stagnation of oil prices has increased further in recent years

The dominant position of Saudi Arabia and the role of the UAE as a trading centre

Saudi Arabia is the largest country of the GCC in terms of population (15.9 million people), area and oil reserves represents almost 59% of our trade with the GCC. However, the United Arab Emirates are taking an increasing share in the EU-GCC trade relations. Their open trade policy with duty rates between 0% and 4%, and the creation of free tax zones, notably that of Jebel Ali with manufacturing and transhipment facilities, have made the UAE a trading centre for the GCC and the Gulf regions. The UAE alone registered a trade deficit with the Community of 5.1 billion ECU in 1994, though a significant part of their imports are re-directed to other countries.

The interdependence of EU-GCC economic relations

It has always been stressed that the main feature of EU-GCC trade relations is its interdependence. The EU is GCC'S main supplier of manufactured goods, and even if the GCC represents only 4% of our external trade, it accounts for 22% of our imports of energy products covering approximately 10% of EU energy consumption. However, the Gulf countries (including Iraq and Iran) have lost ground as crude oil suppliers of the Union, following the exploitation of the North Sea oil fields and the growing importance of non-Opec producers. On the other hand, the share of the Union in the Gulf market has remained stable over the last 25 years

Against this background one would conclude that while the EU has been able to keep the lion's share of the profitable Gulf markets, it has succeeded, at the same time, in diversifying its energy sources away from a geographical area where oil supply may still be subject to serious disruptions. However, this conclusion can be challenged in two respects:

- Iran and GCC account for 1/4 of our energy imports. The GCC's share in EU energy consumption is forecast to increase further because of expected declining energy production in the Union. The GCC holds 46% of the world's proven oil reserves. For the time being there does not seem to be any possible substitute of this source of crude oil for the Union.

- Asia and the Gulf are getting closer together. Asia is already the first market for GCC's petrochemicals and aluminium and Asia is the destination of more than 42% of energy exports form the Gulf region. The economic partnership with Asia is reinforced by the projects concerning natural gas.

The table shows the percentages of trade from and to the Gulf region, i.e. including the GCC, Iran and (Iraq):

% Destination of Energy Exports from the Gulf Region in 1992		% Share of Imports into the Gulf Region in 1993 (all products)	
EU	25.7%	EU	37.4%
US	11.3%	US	11.9%
Japan	23.7%	Japan	12.9%
Arab countries	9.0%	Arab countries	9.5%
Asia exc. J & China	19.1%	Asia exc. J & China	14.1%

The institutional framework

Support to regional integration

The EU has always strongly supported the process of regional integration in the GCC. This support is not only due to the general EU policy of helping the development of regional groupings among developing counties, but to strategic reasons as well. The GCC may significantly contribute to stabilising the Gulf region and providing and institutional framework for an economic, energy and security partnership with the EU.

EU's support for GCC's regional integration has so far been provided by:

- The conclusion of a region-to-region Cooperation Agreement in 1988 (in force since 1990);
- The negotiation since 1990 of a free trade agreement between both regions; and
- The launching of some cooperation activities specifically aimed to promote GCC's regional integration (e.g., customs training for the development of a customs union, study of a Regional integration model for the GCC carried out by the Netherlands Economic Institute, or a cooperation project for a GCC network of marine environment protection centres).

The Cooperation Agreement

A Cooperation Agreement was signed on 15 June 1988 in Luxembourg. It came into force on 1 January 1990. Since then, the Union is linked with the 6 countries of the GCC (Saudi Arabia, Kuwait, Bahrain, United Arab Emirates, Qatar, Oman) in a non-preferential agreement. It establishes cooperation in a wide range of fields: economics and trade, agriculture and fisheries, industry, energy, science and technology, investment and environment. No other potential area of cooperation was ruled out, however.

Since the signature of this Agreement in June 1988 five Ministerial Meetings EC-GCC Joint Council Meetings have taken place: 1990 in Muscat, 1991 in Luxembourg, 1992 in Kuwait, 1993 in Brussels and 1994 in Riyadh. Exceptionally both parties met at ministerial level in Troika formation on 20 July 1995 in Granada (Spain). The recommendations of this meeting were endorsed by the informal EU-GCC Ministerial Meeting on 28 September 1995 in New York (in the margin of the UN General Assembly). End of April 1996 the Joint Cooperation Council will again hold its formal annual session in Luxembourg. it will then have to decide how these recommendations are to be implemented. The meetings reaffirmed the importance of cooperation between the EC and the GCC and underlined the common views held on most subjects of international affairs.

The main concern of the GCC, as expressed in the meetings of 1993 and 1994, was the possibility of an carbon/energy tax proposed by the Commission. During the Ministerial Meeting in May 1994 (Riyadh) the two sides examined the report of an Joint Ad Hoc Group on the relationship between environmental questions and the use of energy. The report of the GCC Ad Hoc Group contributed to placing the carbon-energy tax issue in its proper perspective and recognised the overriding importance of the energy interdependence between the EC and the GCC.

The recent ministerial meeting in Troika formation on 20 July 1995 recognised the need, in the light of rapidly changing circumstances in the international situation, to provide new impetus and qualitative improvement to relations (Annex II). Ministers recommended that:

- the political dialogue between the EU and the GCC should be stepped up;
- there should be clear economic cooperation and proposals should be put forward to unblock the negotiations on the free trade agreement;
- cooperation instruments should be drawn up, particularly for culture and science, to help both parties achieve greater knowledge and understanding of each other.

Three important areas in which cooperation between the two regions could be strengthened, were identified : economic and trade relations, cultural and scientific cooperation, political and security matters. Concrete measures such as establishing an experts group to identify obstacles and recommend solutions for the conclusion of a free trade agreement; participation in EC horizontal programmes and their cofinancing by GCC States; establishing regular meetings at senior official level to reinforce existing political dialogue, were endorsed by the New York meeting in September. As a result the experts group met in Riyadh in November 1995.

In the light of the conclusions of the Granada Ministerial, the Commission adopted in November 1995 a communication to the Council on relations between the EU and the GCC countries.

The Free Trade Agreement Negotiations

On the trade front, the cooperation agreement concentrates on encouraging the diversification and development of trade on the basis of MFN treatment. However, the agreement is only the first stage in institutionalising the special relationship between the Union and the GCC States. When they signed the Agreement, both parties undertook (Article 11) to start talks as soon as possible on a trade agreement, ultimately intended to create free trade between the two regions.

The first negotiating directives were adopted by the EC Council of Ministers in December 1989 and a first negotiation session took place in October 1990. During this session the two parties had the opportunity of clarifying their positions. In response to GCC criticisms, the Community adopted new negotiating directives in September 1991, which were presented to the GCC in January 1992. Another negotiating session took place in April 1993 during which the GCC countries presented their views on Energy in the future free trade agreement. At the 1994 Ministerial Meeting, Ministers reiterated their determination to conclude the ongoing free trade negotiations. However, the GCC countries have not yet finalised arrangements for a common external tariff which would be the basis for negotiating mutual concessions. It is hoped that the GCC summit which will be held in Muscat (Oman) on 4-5 December 1995, will set the course for finalising negotiations.

The current basis for trade relations between the two parties is the Most Favoured Nations Clause set out in Article 11, Para. 3 of the Cooperation Agreement. On tariffs, a standstill agreement has been concluded in order to prevent the creation of new tariff obstacles to trade pending the conclusion of the free trade agreement.

Generalised system of preferences

The Community has introduced a new GSP scheme from 1.1.95. The impact of GSP in GCC exports to the Community is relatively limited since 83% of GCC exports to the EU are duty free on Most Favoured Nation basis (crude oil). However, in accordance with the "development" basis of the new GSP scheme, there are certain consequences for GCC countries:

- Tariff Graduation of Saudi Arabia: Saudi Arabia, is "graduated" in the new scheme from 1.4.95 in CN chapter 25 (Salt, sulphur, earths and stone, plastering materials, cement) and in CN Chapter 27 (mainly refined petroleum products like gasoline). Graduation is applied in accordance with objective criteria involving each country's level of industrial development and its relative sectorial specialisation. In the case of Saudi Arabia, graduation implies that the preferential margin for these two sectors will be reduced by 50% on 1.4.95 and abolished from 1.1.96.

- Possible future graduation of GCC counties from the list of beneficiary counties: Article 6 of the new Regulation reads that *"the most advanced beneficiary counties shall be excluded from entitlement under this Regulation as from 1.1.98 on the basis of objective, clearly defined criteria for which the Commission shall submit appropriate proposals before 1.1.97"*. This implies that most probably all GCC counties will be excluded from 1.1.98, since all of them already appear (in Annex VII of the new GSP Regulation) among the richest beneficiary countries (more than 6,000 US$ of per capita income in 1991).

Economic Cooperation

The main aim of economic cooperation under the 1988 Agreement is to facilitate transfers of technology through joint ventures and to promote cooperation on standards. In the energy field, inter-business cooperation will be made easier as will training and joint analysis of the trade in oil, gas and petroleum products. Attempts will also be made to promote adequate protection and better conditions for investment by both sides.

The main achievements of our economic cooperation have been the following:

- The EC-GCC Industrial Conferences (Granada 1990, Doha 1992 and Muscat 16/18 October 1995). The EU side has the intention to organise a Partenariat-type of conference emphasising matching of business cooperation requests from companies. The Industrial conference will maintain its general and broad theme embracing trade, industrial cooperation promotion of investments and transfer of technology. Without prejudice to the general theme of the conference two sectors will be emphasised: financial services and environment.

- Technical assistance in the field of customs and from this year in the field standards. Standards cooperation is the most important cooperation programme in the pipeline. It is a 3 year programme mutually beneficial for the GCC and the EU that should contribute to setting up technical legislation in the GCC broadly compatible with European legislation thus permitting to overcome barriers for our exports.

- Cooperation on energy, with a number of EC-GCC working party meetings, the Muscat EU-GCC symposium in April 1994 and a report by the special EU-GCC group on energy and the environment

- Environment cooperation with the setting up of a wildlife sanctuary in Jubail (Saudi Arabia).

Diplomatic representation

The Commission accepted a proposal made by the Ministerial Council of the GCC in July 1992 to set up a diplomatic mission in Brussels. This representation of the GCC is accredited to the European Commission and is the first external GCC representation. Ambassador Mustak Al-Saleh, a high-level Omani diplomat, is the head of this representation.

The Commission will probably open its delegation in Riyadh in 1996 or 1997.

ANNEX I

TRADE DATA

Trade of the EU with the countries of the Gulf Cooperation Council and Yemen, 1984-1994

EU-imports (cif) MIO ECU

	Bahrain	Kuwait	Oman	Qatar	Saudi A.	U.A.E.	G.C.C.	Yemen
1984	57	4,091	223	1,717	10,887	3,793	20,769	18
1985	129	4,829	194	762	8,604	1,971	16,488	28
1986	95	2,319	156	399	8,647	762	12,377	11
1987	97	2,537	232	239	5,622	1,391	10,119	11
1988	110	2,099	316	68	5,470	649	8,713	197
1989	98	2,718	144	121	6,666	1,553	11,301	479
1990	90	1,851	153	74	8,224	1,509	11,900	640
1991	93	224	127	140	11,163	1,744	13,492	463
1992	115	817	128	200	9,649	1,440	12,349	408
1993	116	1,805	129	188	9,207	873	12,318	212
1994	111	1,517	159	112	8,600	878	11,377	162

EU-exports (fob)

	Bahrain	Kuwait	Oman	Qatar	Saudi A.	U.A.E.	G.C.C.	Yemen
1984	844	3,374	1,307	630	14,481	3,131	23,767	639
1985	718	2,582	1,571	708	11,013	3,260	19,852	776
1986	516	1,916	1,099	463	8,257	2,524	14,777	453
1987	516	1,406	714	402	7,716	2,505	13,258	336
1988	437	1,394	826	386	7,571	2,288	12,902	411
1989	669	1,671	741	444	8,805	3,110	15,441	414
1990	456	1,021	693	455	7,730	3,565	13,919	363
1991	661	720	774	676	9,953	4,052	16,835	416
1992	694	1,679	905	588	10,047	4,463	18,377	465
1993	602	2,367	1,011	741	9,473	5,468	19,662	528
1994	584	1,837	1,354	776	8,744	6,007	19,301	497

Balance

	Bahrain	Kuwait	Oman	Qatar	Saudi A.	U.A.E.	G.C.C.	Yemen
1984	787	-717	1,084	-1,088	3,593	-662	2,998	621
1985	589	-2,246	1,377	-54	2,409	1,289	3,364	749
1986	421	-403	944	65	-390	1,763	2,399	441
1987	419	-1,131	481	163	2,093	1,113	3,139	324
1988	327	-705	510	317	2,101	1,639	4,189	214
1989	571	-1,047	597	323	2,139	1,557	4,140	-66
1990	366	-831	540	381	-493	2,056	2,019	-278
1991	567	495	647	536	-1,211	2,308	3,344	-47
1992	580	862	777	388	398	3,023	6,028	57
1993	485	562	882	554	266	4,595	7,344	316
1994	473	320	1,194	664	144	5,129	7,925	336

Source: COMEXT, EUROSTAT
Production: European Parliament/Statistical Service

Trade of the EU with the countries of the Golf Corporation Council and Yemen by Member States in 1994

1000 ECU

EU-imports (cif)

	Bahrain	Kuwait	Oman	Qatar	Saudi A.	U.A.E.	G.C.C.	Yemen
Total	111045	1516891	159351	111592	8599912	877751	11376542	161531
of which:								
F	9231	183871	15581	75553	2464774	230069	2978279	74686
B/L	17107	89447	9376	689	122847	48620	288086	4161
NL	18139	804468	5696	9844	1680506	171035	2689688	1659
D	22546	125983	7624	5291	751560	110694	1023698	33373
I	12357	12137	2825	10587	1242550	53431	1333887	39231
UK	28034	293457	100130	8716	990284	246604	1668125	3003
IRL	198	1024	3453	22	3321	4576	12594	91
DK	601	104	159	18	1348	2400	4610	1
GR	440	6003	613	5	160900	1656	169617	5018
P	10	18	13	0	262570	1179	263790	0
E	1582	1099	13881	867	919252	7487	944168	308

EU-exports (fob)

	Bahrain	Kuwait	Oman	Qatar	Saudi A.	U.A.E.	G.C.C.	Yemen
Total	583928	1837057	1353601	775783	8744079	6006707	19301245	497224
of which:								
F	97907	389337	527950	204274	1258928	896322	3374718	117938
B/L	28389	59061	23259	17581	589782	245441	958513	43847
NL	56194	152070	82088	66196	555743	355449	1267750	60976
D	116960	423120	160046	211718	2156507	1380662	4449013	67442
I	60745	279219	63803	83765	1309488	1227739	3024759	64631
UK	187530	388747	460627	158913	1909819	1549727	4655371	74331
IRL	9331	25314	6500	6025	156975	55054	259199	9022
DK	14431	42527	18986	10509	223219	101006	410678	27468
GR	2376	16435	1469	1827	119120	42244	183471	5884
P	2008	7986	468	513	31231	14171	56377	296
E	13049	53241	8485	14462	433267	138892	661396	25389

Source: COMEXT, EUROSTAT
Production: European Parliament/Statistical Service

Trade of the EU with the countries of the Gulf Cooperation Council and Yemen by Member States in 1994

EU-imports (cif) - % -

	Bahrain	Kuwait	Oman	Qatar	Saudi A.	U.A.E.	G.C.C.	Yemen
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
of which:								
F	8.3	12.1	9.8	67.7	28.7	26.2	26.2	46.2
B/L	15.4	5.9	5.9	0.6	1.4	5.5	2.5	2.6
NL	16.3	53.0	3.6	8.8	19.5	19.5	23.6	1.0
D	20.3	8.3	4.8	4.7	8.7	12.6	9.0	20.7
I	11.1	0.8	1.8	9.5	14.4	6.1	11.7	24.3
UK	26.1	19.3	62.8	7.8	11.5	28.1	14.7	1.9
IRL	0.2	0.1	2.2	0.0	0.0	0.5	0.1	0.1
DK	0.5	0.0	0.1	0.0	0.0	0.3	0.0	0.0
GR	0.4	0.4	0.4	0.0	1.9	0.2	1.5	3.1
P	0.0	0.0	0.0	0.0	3.1	0.1	2.3	0.0
E	1.4	0.1	8.7	0.8	10.7	0.9	8.3	0.2

EU-exports (fob)

	Bahrain	Kuwait	Oman	Qatar	Saudi A.	U.A.E.	G.C.C.	Yemen
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
of which:								
F	16.8	21.2	39.0	26.3	14.4	14.9	17.5	23.7
B/L	4.0	3.2	1.7	2.3	6.7	4.1	5.0	8.8
NL	9.6	8.3	6.1	8.5	6.4	5.9	6.6	12.3
D	20.0	23.0	11.8	27.3	24.7	23.0	23.1	13.6
I	10.4	15.2	4.7	10.8	15.0	20.4	15.7	13.0
UK	32.1	21.2	34.0	20.5	21.8	25.8	24.1	14.9
IRL	1.6	1.4	0.5	0.8	1.8	0.9	1.3	1.8
DK	2.5	2.3	1.4	1.4	2.6	1.7	2.1	5.5
GR	0.4	0.9	0.1	0.2	1.4	0.7	1.0	1.2
P	0.3	0.4	0.0	0.1	0.4	0.2	0.3	0.1
E	2.2	2.9	0.6	1.9	5.0	2.3	3.4	5.1

Source: Statistical Service, on the basis of official figures
Production: European Parliament/Statistical Service

Trade of the EU with the countries of the Gulf Cooperation Council and Yemen by commodity classes in 1994

EU-imports (cif) 1000 ECU

	Bahrain	Kuwait	Oman	Qatar	Saudi A.	U.A.E.	G.C.C.	Yemen
Total	111045	1516891	159351	111592	8599912	877751	11376542	161531
of which:								
SITC 0+1	1157	398	11584	464	26494	13038	53135	2769
SITC 2+4	699	3468	1845	252	31474	8050	45788	4847
SITC 3	13270	1347654	16542	1	7366297	182572	8926336	149368
SITC 5	9147	278	745	2953	357777	14033	384933	414
SITC 7	12154	137814	86846	81530	528399	242685	1089428	2803
SITC 6+8	70744	22258	25282	4150	181321	381005	684760	1028

EU-exports (fob)

	Bahrain	Kuwait	Oman	Qatar	Saudi A.	U.A.E.	G.C.C.	Yemen
Total	583928	1837057	1353691	775783	8744079	6006707	19301245	497224
of which:								
SITC 0+1	63482	194258	87755	44152	1265945	472710	2128302	183165
SITC 2+4	3188	21905	3258	2392	82509	41247	154499	7528
SITC 3	993	3860	1233	1542	42274	59284	109186	968
SITC 5	60524	186418	80086	45245	1211690	493881	2077844	46027
SITC 7	229216	811651	919127	429824	3253256	2611173	8254247	150344
SITC 6+8	201444	562627	172657	212577	2579608	1977959	5706872	69622

Trade of the EU with the countries of the Gulf Corporation Council and Yemen by commodity classes in 1994

EU-imports (cif) - % -

	Bahrain	Kuwait	Oman	Qatar	Saudi A.	U.A.E.	G.C.C.	Yemen
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
of which:								
SITC 0+1	1.0	0.0	7.3	0.4	0.3	1.5	0.5	1.7
SITC 2+4	0.6	0.2	1.2	0.2	0.4	0.9	0.4	3.0
SITC 3	12.0	88.8	10.4	0.0	85.7	20.8	78.5	92.5
SITC 5	8.2	0.0	0.5	2.6	4.2	1.6	3.4	0.3
SITC 7	10.9	9.1	54.5	73.1	6.1	27.6	9.6	1.7
SITC 6+8	63.7	1.5	15.9	3.7	2.1	43.4	6.0	0.6

EU-exports (fob)

	Bahrain	Kuwait	Oman	Qatar	Saudi A.	U.A.E.	G.C.C.	Yemen
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
of which:								
SITC 0+1	10.9	10.6	6.5	5.7	14.5	7.9	11.0	36.8
SITC 2+4	0.5	1.2	0.2	0.3	0.9	0.7	0.8	1.5
SITC 3	0.2	0.2	0.1	0.2	0.5	1.0	0.6	0.2
SITC 5	10.4	10.1	5.9	5.8	13.9	8.2	10.8	9.3
SITC 7	39.3	44.2	67.9	55.4	37.2	43.5	42.8	30.2
SITC 6+8	34.5	30.6	12.8	27.4	29.5	32.9	29.6	14.0

Source: COMEXT, EUROSTAT
Production: European Parliament/Statistical Service
Note: SITC 0+1: Food, beverages and tobacco
SITC 3: Energy
SITC 2+4: Raw material
SITC 5 : Chemicals
SITC 7: Machinery and transport eq.
SITC 6+8: Other manufactured products

ANNEX II

ORAL CONCLUSIONS OF THE PRESIDENCY, GRANADA, 20 JULY 1995

TALKING POINTS

ORAL CONCLUSIONS OF THE PRESIDENCY
Granada, 20 July 1995

The European Union and the countries parties to the Charter of the Cooperation Council for the Arab States of the Gulf have met at ministerial level in Troika formation on 20 July 1995 in Granada (Spain).

The European Union was represented by Mr Javier Solana, Foreign Minister of Spain, Ms Susanna Agnelli, Foreign Minister of Italy, Mr Michel Barnier, Minister in charge of European Affairs for France, and Mr Manuel Marin, Vice-President of the European Commission.

The GCC was represented by Sheikh Mohamed Bin Mubarak Al Khalifa, Bahrain Foreign Minister, Mr Yousuf Bin Alawi Bin Abdulla, Minister of State for Foreign Affairs for the Sultonate of Oman, Mr Mamoun Kurdi, Under Secretary in the Saudi Foreign Ministry, and Mr Jeque Fahem Bin Sultan Al-Kasimi, Secretary General of the Gulf Cooperation Council.

The main objective of the meeting was to assess the current state of relations between the European Union and the GCC and to consider prospects for the future of their political and economic relations and cooperation. The strategical character of the latter should not be forgotten. In fact, 22% of oil imports of the Union come from these regions in which lies 47% of oil world reserves. From the commercial point of view, interdependence between our two regions is also very large : the trade of the European Union with the GCC countries amounts to 40% of the all-trade existing with the Arab countries; furthermore, the GCC is the sixth client of the European Union who, at its turn, is the first supplier of those countries.

Ministers underlined the continuing fundamental importance of political and economic relations between the two regions, stressing in particular the convergence of views on the most important political issues.

Ministers acknowledged the positive results already achieved since the conclusion of the EU/GCC Cooperation Agreement in June 1988. They recognized, however, the need, in the light of rapidly changing circumstances in the international situation, to provide new impetus and qualitative improvement to their relations.

In this spirit, Ministers considered that the cooperation between the two regions could be strengthened in three important areas : economic and trade relations, cultural and scientific cooperation, political and security matters.

Concerning economic and trade relations, Ministers considered that it would be appropriate to enhance cooperation in all areas and to continue the ongoing negotiations towards the conclusion of an agreement, taking into account their respective interests. To realize these objectives they proposed that a group of experts from the European Commission and the GCC should identify obstacles and possibilities and recommend concrete solutions.

In the field of cultural and scientific cooperation the aim should be to open new areas of cooperation, promote reciprocal knowledge and understanding and develop instruments of decentralized cooperation. To this end, they proposed that the European Commission and the GCC Secretariat should consider possible participation of the GCC States to some EC horizontal programmes of the kind of MEDINVEST and appropriate modalities and methods of co-financing actions of mutual interest in this regard.

With regard to political and security matters, they agreed that the objective should be to reinforce and widen the existing political dialogue on issues of common interest, by means of establishing regular meetings at senior official level which would supplement the already existing ministerial level political dialogue.

The European Commission announced its intention to open a delegation in Riyadh in the near future.

Ministers considered that these recommendations would lead to concrete and positive results at the next formal session of the Joint Cooperation Council which will take place under the Italian Presidency in Luxembourg on 22-23 April 1996 and enable realization of the desired qualitative improvement in their relations.

Ministers agreed to submit rapidly these recommendations to their respective sides in order to obtain agreement on them, to be endorsed on the occasion of the full EU/GCC ministerial meeting in New York on 28 September 1995.

Finally, the meeting also provided the opportunity to address political international issues of mutual interest and in particular the Middle East Peace Process and the conflict in ex-Yugoslavia, including the situation in Bosnia.

a) Middle East Peace Process. We have reviewed recent developments in the Peace Process and reaffirmed our continued commitment to it. In this context, we have also expressed our hope that Israeli-Palestinian elections, including elections to the Palestinian Council, would be successfully concluded on 25 July. Along with this political commitment, we should take into account the need for contributing financially to the consolidation of the process.

b) The conflict in former Yugoslavia, including Bosnia. We have highlighted our shared concern about the deterioration of the situation. We have expressed our complete support to efforts displayed by the international community to reach a negotiated agreement acceptable to all parties, and we have strongly condemned the atrocities and sufferings imposed on the displaced population.

Ministers also had an exchange of views on regional security in the Gulf, the Amman Economic Conference and the Euro-Mediterranean Conference of Barcelona.

ANNEX III

(1) Resolution of 13 July 1990 on the significance of the free trade agreement to be concluded between the EEC and the Gulf Cooperation Council (GCC), OJ C 231, 17.9.1990.

(2) Resolution of 8 July 1992 on the free trade agreement to be concluded between the Community and the Gulf Cooperation Council, OJ C 241, 21.9.1992.

1. **EEC-GCC free trade agreement**

— **Doc. A3-152/90**

RESOLUTION

on the significance of the free trade agreement to be concluded between the EEC and the Gulf Cooperation Council (GCC)

The European Parliament,

— having regard to the report by the Committee on External Economic Relations (Doc. A3-152/90),

— having regard to the Council's decision, at its meeting on 19 December 1989, authorizing the Commission to open negotiations with a view to concluding an agreement supplementing the Cooperation Agreement between the European Economic Community, of the one part, and the countries parties to the Charter of the Cooperation Council for the Arab States of the Gulf (the United Arab Emirates, the State of Bahrain, the Kingdom of Saudi Arabia, the Sultanate of Oman, the State of Qatar and the State of Kuwait), of the other part, and concerning trade relations between the European Economic Community and the customs union to be set up by those countries,

— recalling that, in its resolution of 14 December 1988 [1], it demanded 'to be consulted in accordance with Article 238 on the terms of any subsequent trade agreement' with the GCC,

A. whereas, pursuant to Article 11(2) of the Cooperation Agreement signed in Luxembourg on 15 June 1988, and the joint declaration on that article, the parties to the agreement (the GCC countries and the Community) should open discussions on the negotiation of an agreement on the expansion of trade,

B. whereas the GCC countries are asking for the conclusion of a free-trade agreement which would lead, after certain transitional periods and with certain exceptions, to the dismantling of customs duties, quantitative restrictions, and other barriers to trade between the GCC and the EC,

C. whereas the existence of global cooperation with the GCC countries is a contribution to the political stabilization of an important area for the world economy,

D. taking into account the information supplied by the Commission and the Council,

E. whereas in January 1986 the Commission produced a report on the likely industrial consequences of such a trade agreement, which showed that it could have a serious adverse effect on the EC petrochemical and refining sector,

F. whereas since 1986 there has been both major current investment and major planned investment for the future which has led to, and will continue to lead to, increased capacity in the Gulf States and in particular in Saudi Arabia,

1. Considers that the Commission, in negotiating an agreement, should take fully into account its possible effects on Community production, with regard to the impact of imports from the GCC on the level of activities and employment in the EC;

2. Indicates that the chemical sector (in particular the petrochemical and fertilizer industries), the non-ferrous metal industry and the refining industry of the Community will be subjected to considerable strain by the conclusion of a free trade agreement, notwithstanding the provision of transitional periods for certain sensitive products;

[1] OJ No C 12, 16.1.1989, p. 80.

3. Asks the Commission to limit the tariff reductions to those agreed also by the USA and Japan, to avoid putting the EC in a more disadvantageous position compared to those two countries;

4. Calls upon the Commission to update its report of 1986 in the light of increased capacity for the petrochemical products within the Gulf States resulting from investment since that date and from currently planned investment;

5. Further calls upon the Commission to publish such a report before signing the agreement with the GCC and before Parliament gives its opinion; expects the Commission to ask for permission to be given to the Community petroleum industries for hydrocarbon exploration and production on the territory of the member countries of the GCC;

6. Reaffirms its commitment to multilateral trade liberalization, in the context of GATT rules and the present Uruguay Round negotiations, and points out that any free-trade agreement concluded by the EC should comply with the rules set out in Article XXIV of GATT, in particular paragraphs 7(a) and (b) (on notification of the contracting parties and implementation of recommendations by the contracting parties), as well as paragraph 8(b) on definition of a free-trade area;

7. Expresses its concern with regard to the possible distortions in competition caused in several GCC states by public subsidies or any other advantages connected with access to plentiful raw materials at lower costs than the world prices paid by EC operators (including for chemical raw materials and power generation) and considers that the proposed agreement should closely define subsidies and procedures for applying countervailing duties;

8. Calls for the inclusion of a mechanism stipulating that the Gulf petrochemical producers incorporate their raw materials at international prices; their current access to raw materials at low prices should be considered as subsidies distorting normal competition and should be considered as dumping in the context of GATT;

9. Stresses the need for rules of origin to be clearly defined, in order to avoid situations where non-GCC product can be minimally processed within the GCC and re-exported towards the EC;

10. Considers that production in GCC countries should not be limited to petrochemicals; therefore hopes that it will be diversified by means of joint ventures and the use of Community investments which should not be subject to the restrictions on foreign property currently in force in many GCC countries; considers that the proposed agreement should tackle this problem;

11. Considers that the problems of safeguarding the environment, associated with the production of the petrochemical industry, should be dealt with during the negotiations between the parties and be included in the final agreement;

12. Calls on the Commission to ensure, during the negotiations, that the possibility of drawing up invoices in ECU in future trade between the Member States of the EC and the GCC is promoted;

13. Considers furthermore that the Community should aim at effective market access to the GCC market, and avoid the possibility, under the agreement, of import duties or quantitative restrictions being reintroduced on Community exports under the 'infant industry' provisions;

14. Therefore asks the Commission to inform the European Parliament of the possible impact on production and employment in the EC of the agreement under negotiation;

15. Recalls its decision of 19 November 1989 to ask Council to be consulted on the mandate to the Commission for the negotiation of an agreement between the Community and the Gulf States Cooperation Council and the Council's answer, on 21 December 1989, stating that no such consultation will take place;

16. Strongly criticizes the Council's decision, at its meeting of 19 December 1989, to adopt the negotiating mandate for the Commission without consulting Parliament;

17. Expects that representatives from its competent committee will be able to follow the negotiating process, in the context of the 'code of good conduct' set out by the President of the Commission in his declaration to the European Parliament on 13 February 1990;

18. Takes the view that the agreement in question is significant as defined by the Stuttgart Declaration on European Union of 19 June 1983 and Rule 34(1) of its Rules of Procedure;

19. Instructs its President to forward this resolution to the Commission, the Council, the governments of the Member States and the governments of the countries parties to the GCC.

2. European petrochemical industry

RESOLUTION B3-0929 and B3-0939/92

Resolution on the free trade agreement to be concluded between the Community and the Gulf Cooperation Council

The European Parliament,

— having regard to the Council's decision, at its meeting of 19 December 1989, authorizing the Commission to open negotiations with a view to concluding an Agreement supplementing the Cooperation Agreement between the European Economic Community, of the one part, and the countries party to the Charter of the Cooperation Council for the Arab States of the Gulf (the United Arab Emirates, the State of Bahrain, the Kingdom of Saudi Arabia, the Sultanate of Oman, the State of Qatar and the State of Kuwait), of the other part, and concerning trade relations between the European Economic Community and the customs union to be set up by those countries,

— having regard to the Council's decision of 1 October 1991 to issue amended Directives to the Commission,

A. whereas Parliament decided on 19 November 1989 to ask the Council to be consulted on the mandate to the Commission for the negotiation of an agreement between the Community and the Gulf Cooperation Council,

B. whereas the Council in its answer of 21 December 1989 stated that no such consultation would take place,

C. whereas the Council on 19 December 1989 adopted the negotiating mandate for the Commission without consulting Parliament and further adopted the amended negotiating mandate on 1 October 1991 without consulting Parliament,

D. whereas Parliament, in its resolution of 13 July 1990 on the significance of the free trade agreement to be concluded between the EEC and the Gulf Cooperation Council (GCC) (1), expressed its concern as to the likely consequences of such a trade agreement,

E. whereas in January 1986 the Commission produced a report on the likely industrial consequences of such a trade agreement which showed that it could have a serious adverse effect on the EC petrochemical sector,

F. whereas, in its above-mentioned resolution, Parliament called on the Commission to update and publish its report in the light of subsequent events,

1. Reiterates its strong criticism of the Council for not consulting Parliament on the negotiating mandate;

2. Condemns the Commission for its failure to produce the report on the likely industrial consequences of the free trade agreement which has been demanded by Parliament;

3. Demands that the report be produced as soon as possible;

4. Reaffirms it commitment to multilateral trade liberalization in the context of GATT rules and the present Uruguay Round negotiations; further emphasizes that the free trade agreement must comply with the provisions of the GATT agreement;

5. Insists that respect for human rights and democracy is a prerequisite for the implementation of the agreement; in addition, calls for ILO standards to be observed;

(1) OJ No C 231, 17.9.1990, p. 216.

6. Expresses its concern over estimates by the European Chemical Manufacturers Federation (C.E.F.I.C.) that the free trade agreement could cost up to 75 000 jobs in the European petrochemical industry;

7. Is aware that similar concerns have been expressed by the non-ferrous metal and fertilizer industries;

8. Questions therefore the wisdom of proceeding with the agreement but believes that if negotiations should continue, the strongest possible safeguards should be maintained to protect European industry from unfair competition; further underlines that any infant industry clause should be applicable for a limited period only;

9. Considers that the problems of safeguarding the environment should be dealt with during the negotiations between the parties and be included in the final agreement;

10. Calls on the Commission to keep Parliament regularly informed during the course of the negotiations;

11. Instructs its President to forward this resolution to the Commission, the Council, the governments of the Member States and the governments of the member states of the Gulf Cooperation Council.