HOUSE OF LORDS

Select Committee on International Relations

Corrected oral evidence: Transformation of power in the Middle East and the implications for UK foreign policy

Wednesday 8 February 2017

10 am

Watch the meeting

Members present: Lord Jopling (Chairman); Lord Grocott; Lord Hannay of Chiswick; Lord Inglewood; Lord Howell of Guildford; Lord Purvis of Tweed; Lord Reid of Cardowan.

Evidence Session No. 14 Heard in Public Questions 165 - 171

Witnesses

I: Peter Meyer, Chief Executive Officer, Middle East Association; Abdeslam El-Idrissi, Director of Trade Services, Arab-British Chamber of Commerce.

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Examination of witnesses

Peter Meyer and Abdeslam El-Idrissi.

Q165 **The Chairman:** Can I say to Mr El-Idrissi and Mr Meyer how grateful we are to you for coming? I am temporary Chairman of this Committee. Lord Howell will be with us later. Whether that will be during your visit I am not sure, but if we suddenly swap Chairs in the middle that is why. I have some formal statements to make at the beginning.

As you will realise, this is a public session. A webcast of the session goes out live as a video transmission and is accessible on the parliamentary website. We shall put a verbatim transcript of the evidence on the parliamentary website, and a few days after this session you will be sent a copy of the transcript to check it for accuracy. Should you feel you need to make changes to it, if you could do that as quickly as possible we would be most grateful. If, after this session, you wish to clarify or amplify any points made during your evidence, or to make additional points, we would certainly welcome that. We look forward to any supplementary evidence you may like to send us.

Let us start the discussion. First of all, can you provide an overview of the UK's economic relations with the Middle East, including the main sectors? What do you believe are the barriers to strengthening these relations? Are there any markets in the region that you believe have untapped potential, which UK businesses could take steps to develop? Feel free, whoever wants to come in, to give us your views.

***Abdeslam El-Idrissi*:** My Lords, thank you for the invite. It is the first time I have attended one of these sessions, so I am quite proud to be with you guys. It depends what you mean by the Middle East. Does it include North Africa or not?

The Chairman: Can you speak up?

***Abdeslam El-Idrissi*:** It depends what you mean by the Middle East and whether, in your interpretation, it contains North Africa or just the Gulf Cooperation Council countries.

The Chairman: We are interested in views on the whole Middle East.

***Peter Meyer*:** Including North Africa?

The Chairman: Yes, the whole MENA region.

***Abdeslam El-Idrissi*:** Excellent. When you talk about the economic relationship between the UK and the Arab world—as I will call it, because it is not just the Middle East—you are talking about a population of 390 million, 5% to 6% of the world's population. In 2015, the trade between the UK and the Arab world clocked in at £18.9 billion, and that is purely in goods and services. Breaking it down to the GCC countries, we are looking at about £16 billion, just for those six countries. You can see where the big business is happening, but that does not alter the fact that there is another big chunk of trading possibilities available across the whole Arab world. It is an amazing trading bloc, if you compare it to Europe or the States, and something we should take quite seriously.

To drill down on those figures, you have to compare them to other markets that we always celebrate, such as China, India and Brazil. UK plc exported more goods and services to the Arab world than it did to China in 2015; the difference was over £1 billion. We exported more to the Arab world than we did to India and Brazil combined in 2015.

When you put it in context, you see what the value of this economy is, and it varies. As I said, the GCC covers many sectors, from oil industries to small manufacturing. It is a region in flux, as it is looking forward to moving its economy from carbon reliance to zero carbon reliance. Dubai, for instance, has zero carbon reliance. Its whole economy is based purely on services, trade and manufacturing. I am happy to hand over to my colleague, if he wants to add anything.

***Peter Meyer*:** Your Lordships, would it be in order if I gave you two minutes' background on myself and the MEA?

The Chairman: Of course.

***Peter Meyer*:** The Middle East Association, or MEA, was formed by the Foreign Office about 60 years ago, just after Suez. After the debacle of Suez, it needed a new face to deal with the Arab world, so we were the institution that it formed at that stage. We have always been heavily orientated towards energy and Saudi Arabia. 60 years on, we cover a territory that is slightly different to that of my colleague here. We take in Iran and Turkey, which my colleague does not, because he deals with Arab countries, and those two are not Arab countries.

In addition to energy, we now cover most sectors, including City financial services, renewable energy, defence and security, healthcare, infrastructure and skills training. It is quite a wide brief. As for me, I come from a merchant banking background, not an FCO background. I did 25 years in the City, read engineering at university and was involved in a family business in North Africa before I was asked to come and run the Middle East Association.

Up until four years ago, we were given a subsidy by the Foreign Office for what we do to develop trade with these countries, but as of four years ago it said, "I am sorry. We are a little short and you had better row your own boat". We now have to rely on membership subscription for our activity. That was just a short thumbnail sketch of where I come from.

If we talk about the economic relations, they have basically been founded on hydrocarbons and defence. Those are the two big ones, although there has always been a large demand for education, because of the place we hold internationally in that sector. In the MEA, we have BP, Shell, Rolls-Royce, British Aerospace and HSBC as core members, but our mission is much more to assist the small and medium-sized enterprises.

Hydrocarbons is dominated by the big players, which seem to be able to do quite well; BP and Shell certainly do. On defence, a lot of these arrangements are government to government, so we would probably come in mostly on cybersecurity, where there are smaller SMEs involved. I would say there is more we could do with the SMEs on cybersecurity.

For financial services out of the City, the lawyers and accountants are pretty well able to cope without too much extra help. There is possibly more to do in FinTech and in PPP arrangements. I may be straying into other questions, but, if we are talking about helping these countries, one of the things they all seem to want to do is to encourage the private sector, which is basically PPP work. We are very good with that, so those are certainly sectors to concentrate on.

As to the markets and countries, my colleague does not deal with this, but Turkey has been in the news recently. It is a big market, rather like Iran, with 80 million people. It is going through a slightly difficult time, but it is actually one with which we seem to have a very good relationship at this point, witnessed by a large defence contract. Iran we may treat as a separate subject later, so I will leave it to one side.

Today, the up and coming markets, from our point of view, are Libya, maybe followed by Syria and Yemen, when we get a degree of security for companies to operate there. Is that answer sufficient at this stage, before we move on, or are there questions on this?

The Chairman: Thank you. It is a good start.

Q166 **Lord Hannay of Chiswick:** I am sure you would recognise that, when you put the whole of the region together and give figures, you are not of course talking about a regional bloc. You are not talking about something like the European Union or ASEAN.[1]

***Peter Meyer*:** That is correct.

Lord Hannay of Chiswick: You are talking about a large number of independent countries that have their own trade policies. I wonder if you could both have a shot at identifying which of the Middle Eastern markets have the highest levels of protection—that is to say, those in which the Government's action could help British businessmen to get access—and which ones are rather open. It is perfectly obvious that Turkey is open. Why? It is because we are in the customs union with it; the Government seem to have forgotten about that. We shall of course leave that customs union when we leave the European Union, and we will have to do something about that. The fact is that, at the moment, we are in the customs union, which does not cover agricultural trade or services, but it covers everything else.

[1] The Association of Southeast Asian Nations

Can you graduate these countries in the Middle East, including Iran, in terms of how difficult Governments there make it for British businessmen to do business, and therefore where the Government could put the greatest emphasis on improving that situation?

***Abdeslam El-Idrissi*:** I agree when you are talking about the blocs, but there is a bloc called the Gulf Cooperation Council, which is a customs union. Once goods enter one country, they have free movement into the other countries in principle. As for ease of doing business, you read this stuff coming over from the IMF et cetera, but most GCC countries are quite easy to do business with. This is fundamentally why the Arab-British Chamber of Commerce was started in 1975. We were set up by the Arab League. Our role was to facilitate trade between the UK and the Arab world.

We deal on a day-to-day basis with small and medium-sized companies across the United Kingdom that are exporting small widgets, cups or whatever. We are there to help them and to guide them through the paperwork and legislative requirements for importation. Those safeguard the quality of goods that enter and ensure there is no fraud, et cetera, but, at the end of the day, they do not restrict business.

A lot of countries, especially the GCC countries, because of their high youth population, are trying to find jobs for the future. They are under pressure, hence why we had the Arab spring: because of young people not knowing what to do, with no jobs, no prospects and no hope. They depend on their Governments to do something.

All the GCC countries have a 2025 or 2030 vision. That vision is about creating jobs for the young people, come 2030. It is so important that they are pumping tonnes of money into it. If you take Saudi alone, it is hiving off a piece of one of its biggest assets, Saudi Aramco, and floating 5% of it on the stock market, so it can take the money and invest it in the country. The rest, it will put into a major fund of shares, which will be the biggest sovereign fund in the world. It will dwarf any sovereign fund that exists to date. That is being done purely for one reason: to create a future for its populations and its businesses.

The opportunity for British companies is to help in achieving those aspirations. Many state companies are being pushed to go private. We have a great opportunity to go into partnership with these companies that are going private. They want know-how; they want added value. They want to make their economies zero carbon reliant by 2050 at least. That is where that bloc is interesting, because the money it is putting into these investments is phenomenal.

Of course, in North Africa—also called the Maghreb—there are other countries that do not have an agreement. They have tried to have an agreement for many years, but it has not happened. They are growing economies. If you look at Morocco, for instance, it is a zero carbon country; it does not have any oil, but its economy has done terribly well.

It is a manufacturing and trading country, and it has become the doorway to Africa.

Algeria is another country with a lot of potential, and it has carbon fuel income. The problem we have is the language. The French have dominated Algeria for hundreds of years, so it tends to go towards the French, although most north African countries are dying to work with Britain more. Of course, we have this problem with the language, and Algeria finds it terribly difficult to communicate with the UK.

Tunisians are doing terribly well. Algerians are doing terribly well. Libya, as my friend said, has phenomenal opportunities coming. It is only about when it is going to come, when there will be peace in the region and when there will be a stable Government. Again, for major oil-producing countries—the opportunities for the UK are phenomenal.

I will take you back to the GCC. You must remember that the GCC relies on Britain and has relied on Britain for centuries and decades. We have a close relationship. The brand "UK" sells. The GCC loves our ideologies and our tech industry. It is ready to invest in this country as well. In March, I am making an inward trade visit to the north-east, to see what is available up there. Visitors from the Gulf states are coming with us to see many little companies around the region. They have a lot of offer us in terms of business. We have a lot of offer them in advice, support and direction. That is what they need.

***Peter Meyer*:** I speak reasonable French, having lived in France for quite a long time. I do not see the French language being a real barrier, although my colleague is right that a lot of English people are nervous. There is great potential in Algeria, but we know that the political situation is rather frozen, with the President being in an advanced state of ill health. That has frozen any major decisions being made there. It is in a very difficult adjustment period between the relative serenity of high oil prices and the current oil prices. It is difficult to make immediate progress there today.

Tunisia is a small market, as is Morocco. Your bigger markets in North Africa are going to be Libya and Egypt, which each have their own challenges. We are particularly well ensconced investment-wise in Egypt. We have the Suez Canal, of course, which it increased in size at a time of complete economic stagnation worldwide, so it has not had the added traffic coming through that it would have hoped for.

In many of these countries, it has been very difficult to be paid. Although the opportunities are good, a lot of my SMEs feel that they do not get the financial support here to assist with, in many cases, very late payment. It is certainly the case for Libyans, who feel fairly confident that they will pay, but is it this year, next year or the year after? Unless you are getting really sympathetic support from your banking system, you will not be able to take those risks.

The opportunities are in PPP[2] and helping in education and skills training. When we talk about the transformation of an economy, although they have a lot of universities, certainly in Saudi Arabia, they are not producing people ready for the workforce. Another problem that we have with Saudi Arabia, if I take it as an example, is that, when the men come up through university and start looking for jobs, their first wish is to join the civil service. That is where they have their uncles and their cousins, and, to a degree, that will get them a position on the ladder in the civil service. They regard that as a far superior role to going into the ups and downs of industry.

There is quite a problem, in that sense, with convincing the young people to be entrepreneurial. I may be making a slight generalisation, but it is a fact. I have always said to them, "What you have to do is to bring your women into the workforce, because they do not have the same attitude. They want to get into a job and do it". We will have to see women advance more in Saudi Arabia, if it is going to turn this corner.

Lord Hannay, you made the point at the beginning that this is not a bloc. That is one of the problems that we have faced in our relationships with FCO and DIT.[3] Whereas China and India are more or less homogenous markets that they can get hold of, here you have to have 24 experts, and what is important in the region is to have very strong relationships. It is not only knowing what the economy is, but knowing the people in country.

We find that we have a problem with government on this. DIT has been turned around so many times that there is not much continuity there. The embassies suffer from a lack of resources to play the role that we, at the MEA, would like to see them play.

The Chairman: I am watching the clock. We have a lot of questions, but there are two more on this first issue.

Lord Grocott: You described the enormous importance of trade with this region as far as the UK is concerned. Most of the time, trade trundles along at various levels of activity without too much excitement as far as Governments and politicians are concerned, with one exception, which is arms sales and related matters. You have described how important that is as part of the trade. Can you flesh that out a little and explain to us how significant it is? I suppose I am talking particularly in relation to Saudi Arabia, the Gulf states and that part of the region. Of course, the salience is partly the argument about what the arms are used for, but there is also the issue of the jobs it provides in the United Kingdom. Could you comment on that?

***Peter Meyer*:** There is a very large arms trade with Saudi Arabia, which has been stepped up because of the war in Yemen. That puts us in an awkward position, because we would all prefer to see peace back in

[2] A public–private partnership
[3] Department for International Trade

Yemen, which would result in a fall-off in arms sales to Saudi Arabia. Whatever happens, there is a degree of public opinion that feels we should not be supplying these sorts of weapons to Saudi while it is carrying on the war. As to whether that public opinion will have any effect—maybe yes, maybe no; I am not an arbiter on that.

We seem to have a much easier and more balanced relationship with the UAE, where there is more training. That is a first-class relationship today. It is also one of the GCC countries that has been very happy to keep expats in place, as opposed to Saudi, which, perhaps because of the employment problem, has made a lot of expats leave. The economy has suffered. It may gain a little in jobs, but the economy suffers. If we look at the UAE and the way it runs Abu Dhabi and Dubai, these are being run well. It is a very successful country.

I do not want to take up too much of your time, but Kuwait is interesting today. It has started investing a little more in country. For a long time after the invasion of Kuwait, it wanted all its money outside the country, but it has now started investing back in and opening up relationships with Iran. That may be an interesting thing to follow. Sorry, I do not want to take up too much of your time. If I have answered your question, I will stop there; if you want me to go on, I will go on.

***Abdeslam El-Idrissi*:** I would just add that the arms business is a big part of the UK economy. We sell arms not just to Saudi and the GCC countries, but worldwide. Yes, Saudi is one of the biggest arms purchasers from the UK, second to America. At the end of the day, it is a business. It is something that happens on a day-to-day basis. With BAE Systems up in the north of the UK, in Preston, a lot of families and other groups of people depend on arms deals, not specifically because they are sold to Saudi Arabia, Qatar or wherever, but because they are arms that we sell worldwide. We sell arms to America; it sells us arms, and so forth. It is a bit wrong to pin that just to what is happening in the region.

If you speak to Ministers in the region, they always tell you that there is one thing they wish for: complete peace in the region. Unfortunately, what has happened in the last five to seven years, since the Arab spring, has changed the dynamics. It has changed the dynamics around the area. There are always pockets of trouble coming up, wherever you go.

If you look at what is happening in Yemen, that is a UN-mandated action against the Houthis. It is not an illegal war, as has happened in other parts of the world. It is a war to try to get a country back into shape, as we tried to do in Iraq and in Syria, and we saw the consequences. The reality of the problem is that there is nothing more that these Governments want than peace in the region, to move on and to provide jobs and opportunities for their countries.

I will go back to another question, to show you what the UK is able to do. The day before yesterday, we had a meeting with the governor of Saudi Arabia’s small to medium-sized businesses authority. They came to the UK, met some parliamentarians and went around to see a few companies.

They want to grow their small and medium-sized businesses. They are coming to us to find out how we do it in the UK, because they want our know-how. It just shows you: they are coming to learn from us, as with PPP. In this case, they want to know how they can help their economies flourish.

One thing they have in Saudi Arabia is King Abdullah Economic City. It is the biggest, most phenomenal project in the world. It is a complete city built from scratch. They are trying to create partnerships with British companies to set up in this new city, with subsidised rents and subsidised support, to help them do joint ventures. They see themselves as doing business not just with Saudi or the UAE, but with the rest of Asia: the old Silk Road, as they call it. They are going back to history to see how they can be pivotal in facilitating trade for the UK across the region.

Q167 **Lord Inglewood:** I would like to ask each of you, if I may, what impact you think Brexit will have on this country's general relations with Gulf states. Then I will turn specifically to possible free trade agreements, which we have heard a lot of talk about on the political scene. Your comments seem to imply to me that there is much trade going on now and a free trade agreement would not add very much. There is the whole question of human rights, which we touched on. You have slightly skirted the central point. Do you think there comes a point when human rights records get so bad that we should not do business with them?

***Abdeslam El-Idrissi*:** On Brexit, we did an event last July called the GCC-British Economic Forum, where we had the Minister of Trade for Saudi and the Minister of Trade for Bahrain. We had Secretary-General Al Zayani of the Gulf Cooperation Council, which is a council of Ministers. From the British side, we had the Duke of York and we were very proud and pleased to have the right honourable Liam Fox as one of our keynote speakers. He had taken office just two days before that, and there was a complete reshuffle. One of our sessions was about Brexit.

It was early days. We had just had the vote. We were talking about Brexit and everybody was in a solemn mood: "What is it going to mean?" Once the panel started talking, they started raising issues: "What a wonderful thing this could be for Britain. We can have FTAs.[4] We can trade individually with countries. We will have no restrictions, no quotas, no tariffs, and we will agree what we want to work on. Now it is done all by Europe, and we have to buy into and use what Europe sets for us, whereas, if we sit down with the GCC, that will give us the opportunity to trade with each other, without the restrictions that Europe has placed upon us".

Lord Inglewood: Is Europe getting in the way now?

***Abdeslam El-Idrissi*:** It is getting in the way now, but Theresa May made an amazing visit to Bahrain on 9 December, when the Gulf Cooperation Council meeting of Ministers was held. That is the first time

[4] Free trade agreements

that a foreign leader has met and sat with this group. It was a phenomenal move, and it was agreed that a strategic partnership group would start from that point. They are going to meet again in March to talk further about how to build up a GCC-UK FTA. Remember, Europe in 1988 tried to do a GCC FTA, but by the end of 2008 the GCC had said, "Forget about it". It was too complex. 20 years later, they could not do it anymore. The bureaucracy just put them off.

The Europeans, in April last year, started talks again to do an FTA with the GCC, but we have caught up now. We have such momentum to have a superb FTA with the GCC and other Arab countries. I will tell you something. When we meet Ministers from these regions, as we met them before and I meet them all the time, they cannot wait to be sitting at the table and discussing one-to-one about an FTA with the UK. They can see great potential in it.

Lord Inglewood: I am interested in what businessmen feel. Are they smacking their lips at the prospect of all this trade that is going to come, or do they think it will make little or no difference? I do not know the answer.

***Peter Meyer*:** From my experience, I would say that they are not looking for it to make a big difference. On the negative side, a lot of the civil service, if I can use that as a very global term to cover everyone in government, will be so concentrated on the Brexit arrangements and all the difficulties that they entail that we will get less support from government in this region than we would have liked. I see it as a negative effect, in that sense.

We have talked about the insecurity in the region. Of course, that plays into the hands of the security and arms sales, and that will happen anyway. It is the SMEs I look after that are wondering whether they will get an increased market share. They will only get that increased market share in the countries that are emerging, which are Iran and Libya at this stage. The low oil price is keeping a lot of the other work lower than it was. Many of the projects have been pushed out, so, if we are looking to get something that will compensate for that, then it has to be in what I call the emerging markets, which for me are Libya and Iran.

Q168 **Lord Reid of Cardowan:** Both of you have already touched upon this in a fragmented way in your other answers, but I wonder if I can focus you on the attempted transformation of many of the Gulf countries away from oil and towards diversification in other areas. The obvious and best known one is Saudi Arabia, with its plan for 2030, but of course the Emirates, Kuwait, Bahrain and Oman to some extent have the same programme. First of all, how can we assist this? Assuming that we think in terms of foreign policy and international relations that this is a good thing, which I think we do, how can the United Kingdom assist in that?

Secondly, on the other side of the coin, what are the opportunities for British businesses in so doing? I wonder if both of you would focus in on that; you have already referred to it. Can I encourage you, because your words and advice are so valuable, to raise the decibel level a little, because the acoustics in here are not particularly good? We do not want to lose even a small part of your advice.

***Abdeslam El-Idrissi*:** As we said, the whole region, particularly the GCC countries, have these 2025, 2030 and 2050 visions, which basically involve, as you rightly said, moving themselves away from oil dependency. How can the UK help them? It is very simple. We have a range of abilities in this country. We have touched upon public-private finance, because they want to get all their state-owned companies to go private. We have the skillset. We can show them how to do it. They want to evolve their education systems. They want to create more universities. We have amazing universities in the UK, which can work in partnership with them to evolve their universities.

Funnily enough, we knock it all the time, but we have the NHS. They look at the NHS as an amazing asset to Britain, and what is happening in the NHS they want to use back home. They are trying to learn how to run a system like the NHS. Again, it is another great opportunity for us to sell our skillsets for how we run the NHS. It is not all bad; it has some positives.

Let us go to finance. A lot of them are trying to become finance hubs. Again, we have amazing talent and the ability to tell them how to raise the bar in running their finances and banking. In Saudi Arabia, there are not many foreign banks, and that is going to change. There will be opportunities for British banks to open up branches in the kingdom when 2030 arrives.

The other area where they want to evolve—particularly Saudi Arabia—and which nobody has ever heard about, is tourism. Nobody would have thought you would go on holiday to Saudi Arabia, but they are now pumping in tons of money to evolve tourism in the region. They want people coming into the country, and they are going to start facilitating that.

Those are a few that apply to Saudi, but they apply across all the GCC countries, because these elements are still formative. They want to look at what Britain has to offer in innovation. If there are some good ideas that need financing, then they are ready to come and invest. A Dubai company recently spent $5 million investing in three companies—one is in the UK and another is in Finland—to look at how to create rain in the region when they need it, and whether and how they can manipulate that. It is a scientific exercise, but they are ready to invest money in it. They are ready to do R&D with us. Those six aspects touch on a lot of important opportunities that Britain can bring to the region.

***Peter Meyer*:** I am a little less enthusiastic about what we can get out of this. In order to help them diversify their economies, we have to interact with our SMEs. If you are an SME here and you are looking at linking up worldwide with other SMEs, you will find that the Far East and probably even the US offer many more dynamic opportunities. It is difficult to get them to concentrate on working in what is quite a heavy-water market, if I can put it that way, with the Saudis, where you have to spend an enormous amount of time building a relationship. Between Anglo-Saxons, you can do deals on the telephone. There is no way you can do deals on the telephone with Saudi Arabia. You have to spend time in Saudi Arabia, and how much time do they have?

Lord Reid of Cardowan: What about the other Gulf states?

***Peter Meyer*:** It is true of all the Gulf states. The one that is most open from our point of view is the UAE, because it has left a lot of the Anglo-Saxon management managing affairs, whether it is airports, airlines or utilities. It is very much more an Anglo-Saxon mind-set, which you can relate to very quickly. Saudi is really different. It has quite a big population. We are talking about 25 million to 30 million. Is that right?

***Abdeslam El-Idrissi*:** It is 34 million.

***Peter Meyer*:** You are ahead of me. It is always more difficult to transfer a big number of people. Kuwait is much smaller; you can do things. Even Libya is only 6 million. You can do things relatively quickly. It will be hard to change the mind-set in Saudi Arabia in the short term. Although we can be helpful in a diplomatic sense, if we are talking commercially, I do not see that we would get a lot out of it, except to maintain our existing markets there.

***Abdeslam El-Idrissi*:** We are talking about SMEs. I deal with SMEs quite a lot across the country. I was up in Sheffield not long ago, speaking to the Manufacturing Forum. Small businesspeople, one or two-person manufacturers, want to export into the Arab world. They are very keen and very happy to do so. We tell them about the cultural challenges that they might have. They are not great cultural challenges, and they have changed tremendously over the years, but it is about understanding how business is carried out. It is about educating people, whether they are SMEs or whatever, informing them and arming them with the information and support they need, as we do. Then they will enter the market with great ease. We have a lot of small businesses that travel to the region on trade missions, time and again. What they need from the British Government is support to go out and visit these countries, because their funds are limited. That is where our challenge exists.

Lord Reid of Cardowan: I have a quick supplementary. I do not know whether this is what Mr Meyer meant, but is there a difference in business culture here? Is what you call the Anglo-Saxon culture much more transaction-orientated, whereas perhaps the Arab culture is based on personal trust and development of trust over a long period of time?

***Abdeslam El-Idrissi*:** That is true, sir.

Lord Reid of Cardowan: Therefore, it takes longer for someone outside of that ambience to develop those relationships than it would take in what you call the Anglo-Saxon culture, where it is: "Show us the money.

Where is the deal? What is the bottom line? What is in it for me?" I may never have met you before. It is more Donald Trumpish than a cultural, trusting relationship. Is that an unfair characterisation?

Peter Meyer**:** It is a fair characterisation.

Lord Reid of Cardowan: Would you agree with that?

Abdeslam El-Idrissi**:** To some extent I would, but I would like to add one thing. Our strapline for the Arab-British Chamber of Commerce is "friendship through trade". That is historical in the Arab world. You have to start a friendship in order to trade. They love talking to you first, and then talking about business. It is a nature; it is a culture; it is a way of doing things. Even Dubai is not as Anglo-Saxon as we believe it to be. It is conservative with a small "c", but there is a lot of conservatism in there. I will not go into details, but there are a lot of differences.

With proper support, education and signposting by people like us, the Middle East Association and DIT, we can make it terribly easy for British companies to do more business in the region. We are missing opportunities. Other countries are going in and taking the lion's share of the business, and we are missing out, for the simple reason that our small businesses find it very difficult, in cost and money terms, to travel and visit these countries.

The Chairman: I will make one comment. I have heard exactly the same argument about doing business with China as the suggestion, which Mr Meyer made, that you need some time to develop these things.

Q169 **Lord Hannay of Chiswick:** We have not talked very much about Iran, although, along with Turkey and Egypt, it is one of the largest markets in the region we are talking about. Could you offer us some thoughts? British trade with Iran is very small. First of all, what are the main impediments? Is it the case that the lifting of sanctions that took place about a year ago, when the nuclear deal was confirmed, has not worked out for the Iranians and has not enabled them to trade as freely as they would wish with the outside world, including Britain?

On the other side, to what extent are British exporters, of both services and manufacturing, impeded by Iranian bureaucracy? There is plenty of that there, just as there is in Europe, perhaps worse. Are there other impediments, such as the nature of the Iranian state and so on? To what extent do you think the Government could help to break those things down? Could the Government help the Iranians over the lifting of sanctions, in the sense of making it more effective? Could the Government negotiate with the Iranians to make access for British businessmen easier and, if so, what should they be doing?

Peter Meyer**:** Those are interesting questions. I have done five missions to Iran in the last 18 months, so I have probably got close to some of the matters that you are raising. When you look at Iran, just forget the JCPOA[5] and look at the track record of how it has been performing over the last few years. It is doing outstandingly well, compared with the other GCC countries. What has it got today out of the JCPOA? It has had a lot of funds unfrozen, so those have come back slowly. It does not have it all back, but it is getting it all back, bit by bit. It has opened up a willingness from our European friends—the Germans, French, Italians, et cetera—to start doing real business with Iran.

On our side, we are in the worst possible position. What is still holding up Iran is the American sanctions that were put in place post-revolution. I say we are in the worst possible position because American companies that want to do big contracts with Iran, such as Boeing, can go to OFAC[6] and say, "This is the contract. Can we do it?" They get a stamp and they are allowed to do it.

None of us here are allowed to do it. We do not have that mechanism. Although we are allowed to talk to OFAC, I do not know any UK company that has been able to go to OFAC. We can talk about Airbus, but apart from that one we do not have the mechanism here. The fact is that these early sanctions affect the banking transactions principally. London is peppered with Americans in its banking system. Even banks such as HSBC and Standard Chartered, which were always very important with Iran, are not able to offer any facilities to UK companies wanting to enter this market.

In fact, we have a very negative situation, in that, if our SMEs can find a market in Iran and want to start trading with Iran, they are told by their banks, "If you start that, then we will have to end our banking relationship with you", normally within 30 days, for personal and corporate. There is a really big problem.

We have a problem with Iran, which expected to have open access to the London financial markets, both in insurance, which is important to it, and in the banking system. That has not happened. I saw Lord Lamont recently—Lord Howell was there as well—and asked him, "What is the light at the end of the tunnel?", but he was not able to give me any comfort. The central bank of Italy has bent over a bit to help, where necessary. The Bank of England, for the minute, has not found it in its power to do so. The big problem is finance, for financing trade, and we have a lot of companies that want to go and do business.

If you talk about government, we are still the little Satan to some extent. We probably did not benefit too much from the fact that Theresa May was in New York shaking hands with the new President, at a time when he was tweeting out all his anti-Iranian stuff. You have to understand that, from the Iranian point of view, they like dealing with British business. Try to forget the Government. What the Government could do is free up the financial system so, as London, we could start financing and opening insurance markets.

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[5] The Joint Comprehensive Plan of Action aka Iran nuclear deal
[6] The Office of Foreign Assets Control of the US Department of the Treasury

Lord Hannay of Chiswick: What about on the Iranian side?

***Peter Meyer*:** All the trips that I have had there have been very encouraging. They want to deal with British business, for some of the reasons that I have already said. They are desperate to privatise their economy, and you have a much better chance there than you do in Saudi Arabia, because you have an already diversified economy and people who are entrepreneurial. It is relatively easy to do your JVs,[7] because you have a lot of JV companies that you can work with in Iran, whereas in Saudi you do not. You have individuals and the state, and not too much between the two. As you might understand, I am very enthusiastic about Iran. The prospects are there. Again, you have to spend time to get the confidence up, but I see a lot of interest from Iran to do a deal with us for financial matters, insurance matters, PPP and project management.

When we look at Iran, we do not look at just the domestic market, which has become very resilient because of sanctions. It can produce a lot of what it wants. There is a bit of cutting-edge technology in the hydrocarbon industry, which it had been denied; Total and Shell are going back and BP will probably produce there. It has very low manufacturing costs. Its motor industry, for example, is being supported very heavily by France, because of the export opportunities from Iran as a base.

We go to them, and what they say to me is, "Yes, we like your widgets, but what we really like is your commercial know-how. We would like that to form an important part of the JV so that we can become more commercial in our own market, but also in the export markets". We have not spoken about Oman, but Oman is a very important market. We have superb relationships between Oman and the British. That is being linked closely to Iran's development. I do not know if that helps.

Lord Hannay of Chiswick: Yes, it was very helpful.

The Chairman: We will finish this question and then we will play musical chairs, because Lord Howell has arrived. Mr El-Idrissi, do you want to come in on this issue of the Iranian nuclear deal?

***Abdeslam El-Idrissi*:** I wish I could, but Iran is outside my remit because we deal just with the Arab world. I would not have much to add.

Lord Howell of Guildford took the Chair.

The Chairman: My apologies for chopping and changing for various reasons. This is a very interesting session. Thank you very much for being with us. The question that I think Lord Jopling was hoping the Committee would now come to is, in a sense, the biggest of all. This concerns China.

Q170 **Lord Purvis of Tweed:** This is returning to the point that Lord Jopling mentioned with regards to China. Briefly, are you able to outline to the

[7] Joint ventures

Committee what you see as the potential for Middle East trade with Asia-Pacific and China in particular? The Committee is aware of the huge amount of trade that is already carrying on within the region, especially in transport, infrastructure and commercial construction. The growth in that trade has been immense over the last few years. I was just reading that they have had their ninth round of discussions on the FTA over a 13-year period, which may be relevant to the earlier questions about how quickly FTAs can be reached.

Given the potential that that will be concluded this year or next, I wonder if you are able to say what we would expect trade with China and Asia as a whole to potentially look like over the next few years, and whether that will be in direct competition with our relationship with the region.

***Peter Meyer*:** We are talking about One Belt, One Road to an extent. Iran is a very important crossroad in One Belt, One Road. We know that Iran was already supported enormously by China, before it signed its nuclear deal. China is still there, and is probably the only large source of finance for Iran at this point in time, with a bit coming from South Korea. We know that the Chinese are taking One Road, One Belt rather seriously, and they are putting rather serious money behind it.

If we are better involved in Iran that will open up UK interests in developing One Belt, One Road, because these are infrastructure projects in which we have consulting engineers who can play their part. It will have to be developed from a commercial and tourism point of view. So many things will happen on that route to which we could contribute that it is an area we should seriously take time to work on. Working with Iran and China is the key to our involvement in that. The route is not just one route. There are wiggly routes, with some bits coming in by sea, so there are ports to be done.

We are very much in touch, at the MEA, with the railway authorities in Iran, looking at their transit routes. That is a very interesting area. We are also talking about fibre-optic cables, which often run alongside railways. This is going to be a very important link between China and Europe, and it would appear to anyone who has had experience in the banking sector that, if you cut milliseconds off the time of data transfer, it is worth a fortune. Obviously, this is going to be a shorter route than the present routes coming up through the Suez Canal.

***Abdeslam El-Idrissi*:** I can go back quite some time to when I used to see tenders coming from the region specifically saying "no Chinese goods". That has changed over the years, and China has been involved in the region quite a lot since the 1990s. Since then, it has upped its game and its standards. China is providing an amazing workforce with amazing people to come and design metros and railways, at an affordable price. At the end of the day, it is about price.

We cannot beat China on price, but we will be the people who design the metros and railways for the Chinese to build. I do not think an FTA with China will impact the trade between the UK and the Arab world. It will actually enhance it, because there will be more programmes happening for the Gulf states and other states to deliver. We, as great innovators, can supply the products, the design and the technology that they need to make them happen.

Lord Purvis of Tweed: The scale of this is so large that the FTA between the GCC and China is potentially of greater economic value to the UK than a UK FTA with the GCC.

***Abdeslam El-Idrissi*:** An FTA with the GCC would enhance the connections of the FTA with China. If you do not have an FTA with the GCC, that business will not be there, because you do not have easy access to it. The whole idea of an FTA is to have privileged entry into markets and into these big contracts. That is why we need to have an FTA in place.

The Chairman: Who is going to pay for it all? It all sounds terrific, but where are the resources coming from—China?

***Abdeslam El-Idrissi*:** The Gulf states, as you know, are diversifying and issuing bonds. Saudi is selling a big stake in its own oil company, Saudi Aramco. There are talks about having a GCC fund to help push the economy across the whole region, so that nobody misses out. There is some thought being put, as we speak, into how to fund these projects. The money can be got through selling-off and privatisation within their own countries and building those funds in that way.

The Chairman: Can I press you a little further? Are we looking at Chinese strategic politics? Are we looking at vast subsidised market forces? You hear that the Chinese want to reduce their reliance on overseas energy sources—this is their instinct—and at the same time expand these enormous activities right through the Middle East and, indeed, Africa. They have more or less taken over Africa. We should try to understand the motive of these two, as they advance into the Middle East. What is it?

***Abdeslam El-Idrissi*:** I cannot speak for the motive of the Chinese, apart from gaining the big contracts and the money that comes with them. The motive of the Arab states is to build their economies at the best price possible. If somebody comes in with a better project price, because it all goes out to tender, they will go for the best price. That is where the pressure comes. The FTA will make sure that people who are trading with Saudi, Oman or Qatar are coming in at what the market is expecting for those projects.

The Chairman: Do you see China politically, militarily and in security terms being more sucked into the whole region, partly through the OBOR initiative, but partly through its involvement with the United Nations? For instance, a joint UK-China defence dialogue has now been started. Is the whole issue that we are discussing going to come on to the agenda of that group?

***Abdeslam El-Idrissi*:** I really would not have an answer to that. I know that the whole region is trying to find ways to bring peace to the region and calm the whole situation as it stands. All the differences that exist, whether with Iran or Syria, have to be addressed and dealt with as quickly as possible, because the region cannot grow and evolve if there is still turmoil and doubt about doing business there. People get put off when a region has wars happening in its neighbourhood.

***Peter Meyer*:** The latest links that I have had with China have indicated that it is much keener on the money it has available to promote infrastructure projects being put into One Belt, One Road than into Africa. It is saying that Africa will take a second place in this. When we talk about China, very often we are looking at projects that are really UK-China. One of our major consulting companies has a JV arrangement with a Chinese construction company that is bidding for a large contract in Iran. A similar one is bidding for the metro project in Tripoli.

To the extent that the Chinese were initially going in on their own, a lot of the countries now are saying, "No, we feel more comfortable if we have a UK project management involved, because then we will get the project on time and to cost. There will be appropriate training programmes and an appropriate after-sales service for spares, et cetera". The Chinese are now much more inclined to go with a British project management company into these markets, which could be very good for us.

The Chairman: I have one final question on this, because it is a vast issue. What do you think India feels about the Chinese bypassing it and penetrating the Middle East? What do you think Russia feels about it? Is it possible to assess that?

***Abdeslam El-Idrissi*:** It is terribly difficult from my perspective.

The Chairman: Presumably it does not like it at all.

***Peter Meyer*:** Russia is feeling its way into a greater role in the Middle East, which we certainly have to take account of. That is also a function of how much the US wants to pull back. I spent about 15 years in Libya so I am sorry if I talk a bit about it, because I think it is important. We have just had a slight change in the FCO attitude. A statement was made by our Foreign Secretary, saying that now there is only one man who can be looked to to sort out the problems in Libya, and that is General Haftar.

We ran a major conference at Lancaster House a week ago, and up until that time, in my weekly meetings with the FCO, I kept saying, "The GNA are rather weak at this stage. What are the dialogues going on with General Haftar?" They said, "There are none and we are only looking to support the GNA". It seems to be a rather quick change of step, so now it would seem we are supporting General Haftar, within a one-week interval. That, some people are saying, is because the new President in the US has said, "I do not want to get too involved in Libya. It is a complicated situation. Why do we not leave it to the Russians? Let them sort it". I hope that is not the case, but that is what is being said. It is difficult territory.

The Chairman: Those are enormous trends.

Q171 **Lord Grocott:** The final question is about trade within the region. It is partly triggered by a comment that one of our earlier witnesses offered, which was that relations between the Gulf states and Iran in particular can sound pretty belligerent at times, but in practice, under the radar, there are increasing amounts of trade within that part of the region. Maybe you could comment on that, particularly in the light of the observation that one of you made earlier about the watchword being "friendship through trade". What, if anything, is going on in that part that I have referred to, and what are the hopes of some friendship arising as a result?

***Peter Meyer*:** My experience in my three years of running the Middle East Association is that you have government and, under that, you have the trading families operating in the GCC. A lot of these trading families have Iranian origins, through people who have moved across in the course of the last 100 years. The trading companies have a network that extends back into Iran, and it is normal. We understand that all these links between the trading families are now being reactivated.

This is distinct from the political elite in government. We possibly do not see it as much, because we tend to see the headlines related to what Government are saying about incidents. It seems to us quite clear that the trading families—particularly in Kuwait recently, but not only Kuwait; Oman is a very active area—basically see that there will be increased trade in Iran, and I think they will take advantage of it.

***Abdeslam El-Idrissi*:** The only thing I would really add is that trading goes on whether or not the media say, "It is not good; it is not happening. They are at war with each other". As Peter said, those trading families continue to trade. I know there has been a lot of trading done through the UAE, Oman and Bahrain. A lot of trade is happening under the radar, which is not documented in most cases. The issue with Iran and the region has been boiling over for some time, since the Iran-Iraq war, and it has continued.

At the bottom line, Governments are talking to each other. Last month, the Saudi Government and the Iranian mullah were talking. It was to do with hajj. They sat down together because there is a lot of business between Saudi Arabia and Iranians coming to the pilgrimage in Mecca and Medina. Iranians are allowed in, because it is to do with Islam. There are talks going on. Only a small movement is needed to broker the difference in terms of nuclear proliferation and all the stuff that is concerning the whole region about Iran. The Saudis are keen to sit down and sort out the problems that they have, and all the rest will follow suit.

There is movement on that and a possibility of us concluding on it quite quickly. Again, we heard something from the President of the United

States that has thrown another dice—about putting Iran on notice. What that means nobody knows, so I do not know how it is going to affect the long-term relationship within the region.

The Chairman: The hajj has always been a bit of a unifier; they have to work together. Beyond that, can one point to any real signs that either the inner group of the GCC or the larger group of Arabia will co-operate and work together on major developments of prosperity and defence, or is this just an eternal hope that never happens?

***Abdeslam El-Idrissi*:** The will is there. It could be an eternal hope, as you said, but the will is there. When you hear the people who are responsible in the region, they are looking at it in a positive way. They want peace in the region because, at the end of the day, their biggest challenge moving forward is how they create jobs for the millions and millions of young people who need them between now and 2030. That is their key thing. If they do not sort that out, they are going to have problems in their own countries. Their key thing is how to get a stable region. As long as you have wars happening around you and across your neighbours, there is no prospect of people investing or building the economies of those countries as they want them to be.

The Chairman: I know that Lord Jopling is very grateful, as am I, and I apologise for the interruption in the middle. These are huge areas and huge issues. I believe that the Prime Minister said that this area, and the GCC in particular, is the biggest investor in the United Kingdom.

***Abdeslam El-Idrissi*:** That is correct.

***Peter Meyer*:** That is right.

***Abdeslam El-Idrissi*:** It is looking to invest more as we move forward.

The Chairman: On that note, which is both hopeful and questionable, thank you very much indeed, both of you, for being before the Committee. We are very grateful to you indeed. It has been a great help. Thank you very much.