



Saudi-UAE naval clash over Dolphin pipeline points to brittle GCC relations

Both parties have yet to deny or confirm the incident, but a reported clash between Saudi and Emirati patrol boats has attracted much media attention and highlighted the potential for friction among GCC allies that has provoked renewed fears for Gulf security

Reports of a clash between Saudi and UAE vessels in mid-March talked of an exchange of fire and the detention of the Saudi crew for several days. This was nothing new: previous spats between Gulf navies have occasionally resulted in deaths and injuries. The incident could thus have been much worse, but it underlines the sometimes tense territorial and economic relations within the *Gulf Co-operation Council* (GCC).

The incident has been seen as part of the long-simmering Saudi-Emirati dispute over the Dolphin pipeline, which brings **Qatari** gas to the UAE and **Oman**. It also adds to the long list of small spats between the UAE and Saudi Arabia, ranging from lorry drivers stranded at the border – the result of a row over identity cards – to complaints over proposed causeways. In August 2006, Riyadh wrote to financiers of the Dolphin project to object to the pipeline's route. Riyadh had had six years to consider the route, so its objection was seen as an attempt to gain leverage in

other disputes and pressure resurgent Emirati independence following the death of Sheikh **Zayed Bin Sultan Al-Nahyan** in 2004 (GSN 861/6, 787/7, 761/1, 760/5).

Much of the problem stems from the 1974 border agreement, which was signed when the UAE was a young country. The agreement stipulated that both countries must delineate their maritime boundaries at a later stage, but this has not been achieved. According to November 2009 documents lodged at the *United Nations*, the UAE noted that while Riyadh says it is ready to enter negotiations, the “notes” it had recently sent the UAE did not involve “any change in Saudi position in such a way that would lead to a settlement of all boundary matters”. The UAE also referred to Saudi patrol boats encroaching on Emirati waters in Q4 09 (see box).

Richard Schofield, a borders expert at *King's College London*, said: “Over the last few years, since Sheikh Zayed and King **Fahd**

CONTINUED ON PAGE 3

Iraq decisions

His *Iraqiya* list may have won most seats, but **Iyad Allawi** may not be the first invited to form a government, when that decision finally comes. *GSN* analyses the results with a map showing the balance of forces and an assessment of a number of unsettling risk issues, with bombings in Baghdad pointing to a revival in disorder, while last-minute deals by the old administration suggest a lack of governance control. *GSN* also reports from Basra, where decentralisation and economic autonomy for the south are hot issues.

—SEE PAGES 4-6, 11 AND 16

Abu Dhabi

The death of Sheikh **Ahmed Bin Zayed Al-Nahyan** leaves *Abu Dhabi Investment Authority* (*Adia*) without a managing director during a critical period for the emirate's mighty sovereign wealth fund. *GSN* reports on recent events and possible succession candidates at *Adia*, which is in dispute with *Citigroup*. *GSN* also analyses another of Abu Dhabi's key players, *Mubadala Development Company*, which has released better 2009 results after a poor performance in 2008, but has still to convince it can deliver in the long term.

—SEE PAGE 12

It's official: Oman's Eurofighter deal

Just ahead of its 6 May general election, the **United Kingdom** has finally confirmed that Oman is in line to buy **Eurofighter** jets, although the prime minister's office declined to say how many of the advanced Typhoons were being bought. *GSN* last August reported that Eurofighter— in which **BAE Systems** plays a leading role, with partners from **Germany, Italy** and **Spain** — had emerged as the likely replacement for the **Royal Omani Air Force's** ageing Jaguar squadrons (GSN 859/1, 7).

GSN reported persistent industry rumours about the sale of 24 Eurofighters to Oman. *GSN* sources also said the UK's **Royal Air Force** would train some 24-36 Omani pilots at RAF Coningsby. The Tranche 1 Eurofighter Typhoon is a somewhat unusual choice to replace Muscat's anti-surface warfare fleet: it is an air-

to-air fighter that will have to be modified to undertake anti-surface attacks – in contrast to the **United States'** multi-role F-16, which has become Oman's main air-to-air interceptor. The US has made big inroads into the Omani defence market (GSN 660/6). However, *GSN* last August observed: “BAE and the Eurofighter consortium found their own ways to sweeten the deal and win over the traditionally pro-British leadership.”

Apart from a huge **Saudi** order – also forecast by *GSN* (GSN 773/5, 772/12) – Eurofighter has found it hard to obtain sales of the expensive, advanced fighters. The prime minister's spokesman was quoted as saying that the sale would help secure British jobs and “further enhance the strong strategic relationship between the UK and Oman”.



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New border council

In December 2009, UAE President Sheikh **Khalifa Bin Zayed Al-Nahyan** established the **Council of Border Affairs**, replacing the **Permanent Border Committee**. The new council is chaired by **Abu Dhabi** Crown Prince Sheikh **Mohammed Bin Zayed Al-Nahyan**. Other members are: deputy premier and interior minister Sheikh **Saif Bin Zayed Al-Nahyan** (vice-president of the council); deputy premier and presidential affairs minister Sheikh **Mansour Bin Zayed** (also vice-president); foreign minister Sheikh **Abdullah Bin Zayed**; **Dubai Civil Aviation** president and **Emirates** airline chairman Sheikh **Ahmed Bin Said Al-Maktoum** and presidential affairs deputy minister **Ahmed Al-Zaabi**. The council's secretary general is Dr **Matar Hamed Al-Niyadi**.

Saudi-Emirati naval clash

CONTINUED FROM PAGE 1

died, both sides have tried to negotiate an agreement. The Saudis did show some willingness but there are two main issues, Khor Al-Udeid [an inlet at the south of Qatar also known as the Inland Sea] and Shaybah. There was a round of meetings in the last decade and informal consultations began again late last year." According to Schofield, Saudi Arabia plans to dig a deep-water channel in Khor Al-Udeid which would be "very expensive and technically difficult". The UAE is unhappy about this, saying: "As for the plans for the economic development of the coastal zone of Al-Udeid governorate, this ministry [the UAE's Ministry of Foreign Affairs] would like to refer to the shallowness of the waters in this area and the environmental risk that may occur as a result of the increase of navigation therein."

Some Qatari sources are also surprised by this development – *Unesco* is considering whether to nominate Khor Al-Udeid as a world heritage site.

The littoral area in which the reported clash took place is a grey area in Saudi-UAE-Qatar relations. Though some analysts believe the Dolphin pipeline does not cross the tip of Saudi Arabia's claimed offshore interests zone in lower Gulf waters, there is no exact delineation of exactly how far Saudi waters extend before they are cut short by the converging UAE and Qatari offshore interests zones. It is thus unclear whether the Dolphin pipeline from Qatar to **Abu Dhabi** actually passes through the Saudi zone. The Dolphin route looks uncontroversial given the current delineation of oilfields in the offshore area, suggesting that Saudi Arabia is using the pipeline to gain leverage in ongoing disputes over other contested areas such as Shaybah oilfield and Khor Al-Udeid.

The UAE's reaction to the alleged Saudi presence is more significant than the geography itself. In sensitive areas such as the Dolphin corridor, the Gulf coastguard and naval forces are under strict instructions concerning escalation of force and rules of engagement. Exchanges of gunfire are rare and indicative of a senior authorisation to use force. The clash is

Who's signed what? Border agreements

SAUDI-QATAR: Following several high-level meetings between Saudi Arabia and Qatar in mid-2008, both sides agreed to the delimitation of maritime borders between their countries and beyond the Khor Al-Udeid inlet (in the far south of Qatar). The minutes of the meeting of July 2008 were registered with the **United Nations** in March 2009. According to one account, Qatar redrew its south-eastern maritime boundary to grant the Kingdom a three nautical mile wide sea lane. Under the agreement, Qatar has ownership of natural resources under the sea bed.

UAE COMPLAINT: In June 2009, the UAE complained that it had only become aware of the above agreement in January, when the minutes were lodged with the **Arab League**. It protested that the agreement was incompatible with an agreement on the settlement of maritime boundaries and island ownership between **Abu Dhabi** and Qatar, signed in 1969 and registered with the UN in December 2006. It added that it was also incompatible with the September 2004 agreement between the UAE and Qatar regarding the Dolphin pipeline. In addition, the UAE complained that the agreement violated its sovereignty over Dayyinah island and part of the territorial sea of Makasib island.

SAUDI RESPONSE: In November 2009, Riyadh declared that it did not originally recognise the 1969 Abu Dhabi-Qatar agreement. It said that as it was not party to the convention, "it has no effect on the Kingdom's sovereignty or its jurisdiction rights over the Saudi Arabian maritime coast". In addition, Riyadh noted that, according to the 1974 agreement, it had certain rights over Makasib island.

WHAT NOW? Both sides (Emirati and Saudi) regularly express their willingness to settle maritime issues. The 1974 agreement stipulated that both countries must delineate their maritime boundaries. A 12 November 2009 document from the UAE said that it takes note of Saudi statements that it is ready to enter into constructive negotiations with the Emirati government, "but the notes which the UAE recently received from Saudi Arabia do not involve any change in Saudi position in such a way that would lead to a settlement of all boundary matters". The document also refers to recent encroachments by the Saudi coastguard in the area opposite Al-Udaid governorate, in particular in September 2009, when, apparently, Riyadh argued the boat was in its waters; Abu Dhabi argued the boat was in Emirati waters.

thus a further sign of the growing assertiveness of the UAE's military forces and their specific commitment to prevent Saudi freedom of navigation in the Dolphin corridor.

In the last decade, the UAE has emerged as an alternative military leader to Saudi Arabia in the GCC. Though smaller, the UAE is now unarguably the preferred military partner for the US in the Gulf. In qualitative terms, the UAE is well-postured to defend its territory, to extent air superiority over its airspace and exclusive economic zones and to eventually stand toe-to-toe with either **Iranian** or Saudi naval forces. Though such small border clashes are often the result of mistakes and bravado rather than national policy, they tend to have an incremental effect on the local balance of power. For observers of the intra-GCC military balance, the question is not whether Saudi Arabia will push back, but rather where and when.

Iraq faces confusion as parties bargain for power

The Iraqiya list may have won the most seats according to the preliminary election results. But this does not mean the bloc's leader, Iyad Allawi, will be the first invited to form a government

Since the election results were announced at the end of March, Iraq's political leaders have indulged in a frenzy of negotiation and deal-making while awaiting confirmation of parliamentary seats. Judge **Qasim Al-Aboudi**, spokesman for the *Independent High Electoral Commission (IHEC)* and one of its nine commissioners, has indicated that the numbers could be approved by mid-April, but the chances of further delay are high. While laying the ground for possible coalition agreements at home, the chief negotiators of the main parties have also been canvassing support in the capitals of Iraq's neighbours – an indication of the influence wielded by **Iran, Saudi Arabia, Syria, Turkey and Kuwait** over Iraqi affairs.

The prospect of a lengthy interregnum has raised the prospect of a revival in disorder and a lack of control in government. A series of lethal bomb attacks against the Iranian embassy and residential districts of Baghdad in the first week of April, blamed on *Al-Qaeda in Mesopotamia* and *Baathist* elements appeared designed to undermine stability. In less than four months, the major withdrawal of US troops will require Iraqi security forces to take over responsibility for security.

Meanwhile, there are signs that some outgoing ministers may be taking advantage of the relative lack of control to sign off on deals which have hitherto been blocked (*see also Energy and Industry*). One such example is transport minister **Amer Abduljabbar Ismail's** approval of a \$4.6bn contract with **Italian** engineering firm *Technital* to build a massive commercial deep-water port on the Al-Faw peninsula. Combined with rail links, it is hoped it will provide a northern Gulf alternative to **Dubai's** Jebel Ali port. According to one observer, Technital wants to establish itself on the ground in 30 days. "If it takes longer than that to form the

next government, they hope they will get away with it," he said. (For more about the possible impact of the election on the politics and economics of Basra region see *GSN View*).

These issues are vital, but it is personalities rather than policies which will decide the next phase of development. The individual with everything to lose is *Iraqiya's* **Iyad Allawi**, who says he is willing to discuss alliances with any other party. There are two main threats to his supremacy. The first is an attempt by the *Accountability and Justice Commission (AJC)* to disqualify six elected deputies on the basis that they have breached Article 7 of the constitution, which forbids individuals with Baath Party pasts or who have "glorified Baathism" from taking public office. The deputies in question have not been named, but two or three are believed to come from the Iraqiya list: a ruling against them would cost the list its slim lead over the *State of Law* bloc. Already, the *Federal Supreme Court (FSC)* has taken a back seat in this dispute. In a ruling after polling day, it refused to admit jurisdiction over the AJC's decision before the vote to ban a large number of candidates, including leading Iraqiya figures (*GSN 873/4*).

Another FSC decision also threatens Iraqiya. On 25 March, FSC said smaller parties could form a post-election bloc, which would entitle them to claim priority over the front-runner to form a government. The ruling was in response to a request from *State of Law* leader **Nouri Al-Maliki**, who may be contemplating a reunion with the *Iraqi National Alliance (INA)*. It is not yet clear that Allawi's rivals will succeed in this move, which could be hindered by Iraqiya making progress of its own in coalition-building. The removal of Iraqiya's plurality by either of these means would be controversial, and would undermine the validity of the next government. Iraqiya has already challenged the authority of the FSC on the basis that it was formed under a February 2005 law which predates the constitution passed in November of that year.

Expats perplexed by new Qatari visa rules

In a surprise move, the Qatari government has told several foreign embassies in Doha that, from 1 May, their nationals will no longer be able to apply for a tourist visa on arrival in Qatar. The 'visa-on-arrival' system has long been available to the nationals of 33 'affluent' countries, making travel to the emirate relatively easy and possible at short notice. It is similar to the tourist visa procedures of most of the Gulf states. The **US, French, Italian and British** embassies have confirmed that their nationals will be affected.

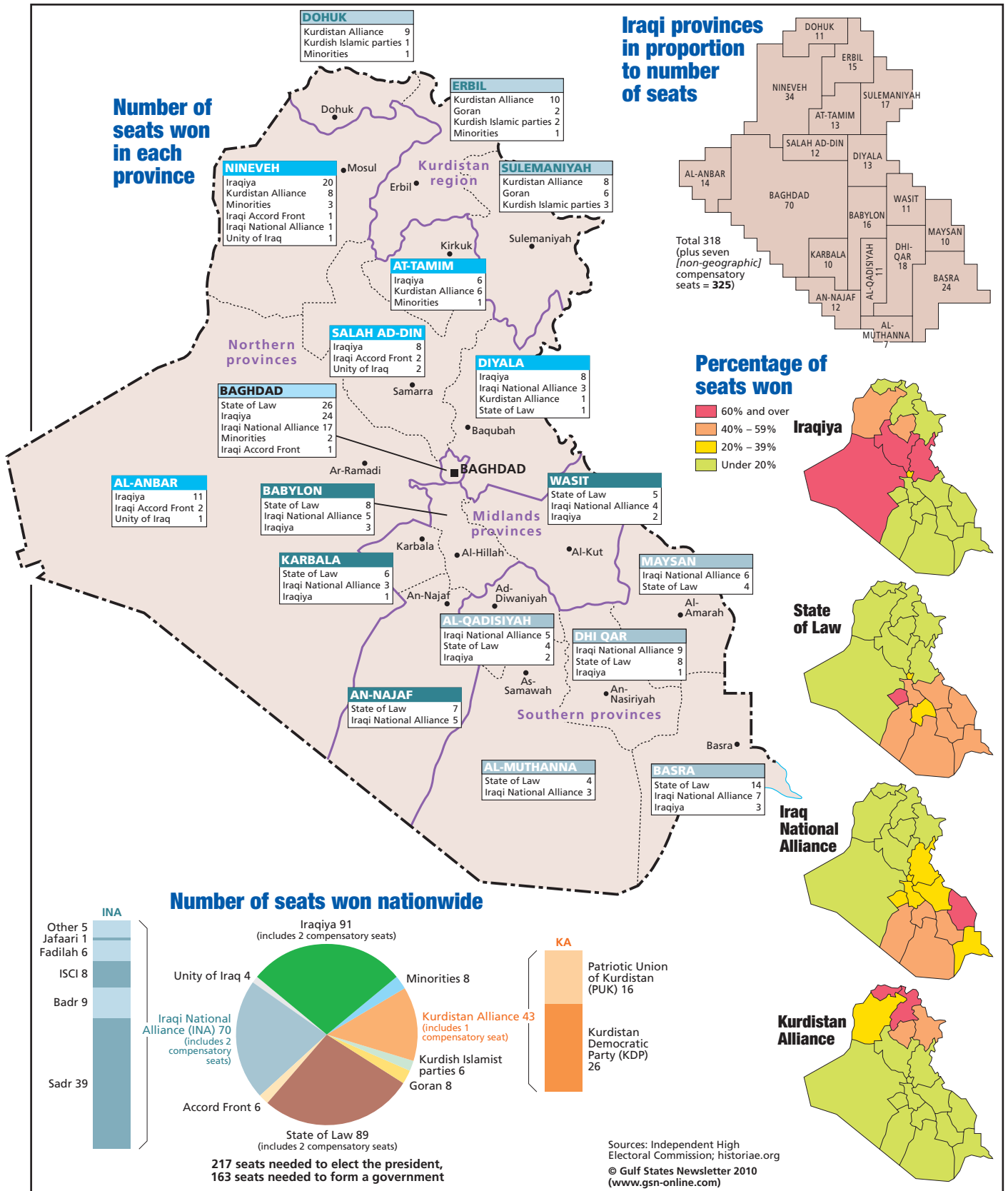
According to a report in the local *Gulf Times* newspaper, talk of Qatar adopting a new policy of 'reciprocity' has been circulating for some weeks, and it is thought the changes will apply to all countries which do not offer visas on arrival to Qataris. Other Doha-based sources believe the changes may be a reaction to the scandal over forged western passports used by the killers of *Hamas* military official **Mahmoud Al-Mabhouth** in **Dubai** in January.

A game of divide and rule

Already, the chief negotiators for each of the main parties have started a well-publicised round of discussions with potential partners and key regional players. Iraqiya is still playing on its lead, announcing that it is open to approaches from any interested partners. Iraqiya and *State of Law* appear to be the least likely partners, although their secular nationalist positions are broadly similar. Neither bloc has yet shown signs of splitting, in spite of rumours of divisions within *State of Law* reported in the Saudi-backed, London-based Arabic language newspaper *Ashark Alawsat*.

The *INA* has effectively already broken down into its main components. *Islamic Supreme Council of Iraq (ISCI)* leader

Iraq: Balance of political parties after the March 2010 election



Ammar Al-Hakim said ISCI would not join a government which did not contain Iraqiya because its exclusion “would be the exclusion of an important component of the Iraqi people”.

The *Sadr Movement* has taken a more dynamic approach. As *GSN* went to press, it had yet to release the result of a referendum among followers in early April which asked them to choose a candidate for the post of prime minister. The candidates included Maliki, Allawi, INA deputy and former prime minister and vice president **Ibrahim Al-Jaafari**, Iraqi vice-president and leading member of ISCI **Adil Abdul-Mahdi**, and **Jafar Al-Sadr**, a member of State of Law, a son of Grand Ayatollah **Mohammed Baqir Al-Sadr** and a cousin of

Muqtada Al-Sadr. The movement’s leadership said it would support members’ choice. Bolstering its image as a considerable political force, a delegation led by Sadr Front committee chief **Karar Al-Khalaji** met Syrian President **Bashir Al-Assad** in Damascus in late March and Saudi foreign minister Prince **Saud Al-Faisal** in Riyadh in early April as part of a tour of Arab countries. At home, Al-Khalaji has also held talks with Maliki.

The Kurds, meanwhile, are adjusting to the new reality of sharing the balance of power. They are attempting to put aside internal differences to maximise their leverage. Sulaimaniya-based opposition party *Goran* leader **Nawshirwan Mustafa** recently said they would act as a single bloc.

GSN view: A devolved future for Iraq, as seen from Basra

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in Basra became the focus of conflict. Fadilah’s large-scale illegal siphoning off of oil for resale by local factions represented an extreme form of devolution. Other governorates also began to hoard strategic resources such as electricity, depriving the national grid. By retaining more than their budgeted share of electricity, they denied supplies to critical areas such as Baghdad. On 24 January 2008, Babil province governor **Salim Al-Muslimawi** gave the Ministry of Electricity one week to ensure the province received its share of electricity or it would cut its power plants from the grid. The governor told reporters: “We have sent many messages to the central government but they have not responded... This is why we have given them this period before we cut any connections.” An October 2007 report by the **United States’ Special Inspector General for Iraq Reconstruction (Sigir)** stated that 14 electricity-generating provinces were drawing more than their budgeted share of the national grid and denying power to energy-poor provinces such as Babil.

Decentralised spending and economic federalism

The most likely ‘Basra-first’ initiative is economic federalism, involving the devolution of greater fiscal independence. To curry local favour, Fadilah suggested that \$1 per locally produced barrel of oil should be set aside in a special fund. In response, the Maliki government increased its support from \$0.50/barrel in May 2009 to \$1/bbl of produced oil, \$1/bbl of refined oil and \$1/150 cubic metres of produced natural gas in 2010. Hydrocarbons royalties and federal investment will significantly boost Basra’s budget from around \$200m in 2010 to over \$1bn in 2011.

The role of governorates is also changing. Baghdad-based ministries have traditionally developed programmes in relative isolation from the provinces, with funding allocated by Ministry of Finance (MoF) treasurers at local level. There was minimal assessment of need, resulting in many flashy ‘make work’ projects that did not reflect local priorities. Since 2003, governorates have made increasing efforts to influence the planning process. CPA Order 95 (the Financial Management and Public Debt Law of 2004) laid the groundwork for greater fiscal and planning independence by identifying governorates as spending units on a par with federal ministries and making them responsible for annual budgets and monthly financial reporting to the MoF.

GSN has learned that this decentralisation is about to go further. Under new government regulations, the Basra governor’s office is likely to

become a focal point for the decentralisation of many ministry functions. Last December, the Iraqi parliament passed a law to devolve more power to local technical directorates and director generals (DGs) of the Ministry of Municipalities and Public Works, Ministry of Labour and Social Affairs, Ministry of Water Resources and Inspector General. The Basra governor’s office will, in theory, be responsible for allocating more than \$1bn of annual funding according to local needs.

Though the lack of trained administrators at provincial level is daunting (most are concentrated at the ministries in Baghdad), local DGs in Basra appear to be looking forward to taking control of local planning. The UK’s Department for International Development (DfID) and the US State Department’s *Iraqi Transition Assistance Office (ITAO)* ran a pilot project in which three technical directorates in Basra changed their management systems and structures to see whether they could achieve efficiencies. The directorates were given a freer hand and were less dependent on Baghdad for routine decisions. They reported increased efficiencies of between 25% and 66%.

This kind of economic federalism is much more attractive to Basrawis than forming a political federation. In recent interviews, Basrawi administrators gave *GSN* the strong impression they were not worried that western oil companies would steal Iraq’s oil, but rather that Baghdad was stealing Basra’s revenue. The population is particularly susceptible to the idea that Baghdad is holding the province back, which was certainly the case under **Saddam Hussein**. One *Southern Oil Company* deputy director-general told *GSN*: “Basrawis are simultaneously the richest and the poorest people in Iraq; their region produces the vast majority of the country’s wealth yet its people are among the poorest in Iraq.” Basrawis feel they are owed more than other governorates because of their oil wealth – which has historically brought pollution but little benefit – and because the region has sustained extensive war damage.

Basrawis are most focused on maintaining security and stability so that oil wealth can rejuvenate their previously well-developed city. This means supporting oil companies, at least until their commitment to the local community can be judged. There is little patience for federal disputes over the election or oil policy. As one Basra provincial council official noted: “Even if there are problems in Baghdad, we don’t care. We are our own centre. We live on a sea of oil but live in the gutter. It’s not logical. We are not going to let politicians in Baghdad keep us down.”

Challenges from all sides in election year Bahrain

Political leaders still believe parliamentary seats are worth fighting for, but a disenchanting public seems less convinced by the limited democracy established by King Hamad

With national assembly elections just six months away, Bahrain's legally registered political groups are seeking to sharpen their profiles and consolidate core support in an edgy climate where *Al-Wefaq National Islamic Society* is at risk of losing ground to extra-parliamentary groups *Haq* and *Al-Wefaa*, a new Shia movement led by the high-profile **Abdel Wahab Hussein** and the senior cleric Sheikh **Abdeljalil Al-Mukhdad** (*GSN* 870/1, 846/4, 812/6, 799/3, 770/1). Frustrated by his failure to secure even minor reform victories, Al-Wefaq leader Sheikh **Ali Salman** has opted for a bullish revival of the campaign for a purely constitutional monarchy to try to retain the loyalty of the majority Shia electorate. His assertive stance has riled the government, which promotes a modernising image but resents any slight to its authority.

British ambassador **Jamie Bowden** was accused by government sympathisers of interference in Bahrain's internal affairs after a routine meeting with Al-Wefaq leaders at his embassy (*GSN* 872/3). Some 240 private *majlis* hosts even demanded his expulsion. His office sought to defend itself by naming other political societies the British envoy had met – one of which, the Sunni pro-government *Al-Minbar*, claimed that no meeting had taken place. This is a measure of the sour political mood as all sides prepare for an election that could consolidate the limited democratic system established by King **Hamad Bin Isa Al-Khalifa** in 2002. While the system shows no sign of producing a breakthrough on serious policy or reform issues, the very fact that Al-Wefaq has toughened up its reform campaign to retain its 17 *Majlis Al-Nawab* (Chamber of Deputies) seats – out of 40 – represents a limited success for the political model.

Political societies that did register under the official political societies law and join the election process in 2006, are now battling hard to protect their position. Al-Wefaq is so dominant in its core areas that it is almost assured of at least 17 seats, even with a low turnout, human rights campaigner and political observer **Abdelhadi Al-Khawaja** told *GSN*. Wefaq has adopted a go-it-alone strategy, rejecting alliances with smaller groups.

This has provoked resentment in the left-liberal *Waad* (*National Democratic Action Society*), which did not win any seats in 2006 but is keen to enter the assembly this time. *Waad* had hoped to reach a deal over sharing seats with Al-Wefaq. *Waad* leader **Ibrahim Sharif** attended Al-Wefaq's conference in February. But *Waad* must now carve out a solo electoral strategy, unless **Sharif** can find new allies among smaller reformist groups.

Even in this final year of the current assembly, the largely Islamist incumbent members remain preoccupied with social-religious issues and questions of Arab solidarity. The Salafist *Al-Asala* group, which has eight parliamentarians, has fiercely condemned plans for a football match between the Bahraini and Palestinian

national teams because it will take place in Jerusalem and Bahraini players will have to get Israel's permission to visit. Al-Asala's stance harks back to the assembly's attempt last October to promote a bill banning all travel to and business links with Israel, on pain of ten years in jail. This measure would have forced a reversal in government policy to encourage limited contact with Israel. Like Qatari Prime Minister Sheikh **Hamad Bin Jassim Bin Jabr Al-Thani**, Crown Prince Sheikh **Salman Bin Hamad Al-Khalifa** has publicly argued the case for limited contact with the Israelis to break down mistrust.

Signs of Islamist influence were apparent when the *Majlis Al-Nawab* passed a draft law banning the import and sale of alcohol (see *Bahrain Risk management report*, below). Partly as a response, *Bahrain Chamber of Commerce and Industry* members are contemplating launching a business party to stand in the autumn polls. This group might also struggle to concentrate enough votes in any one constituency to get members elected. A business party would likely be welcomed by the government – which might even try to find it one or two seats in constituencies habitually won by its supporters.

Having faced down socially conservative or constitutional reformist initiatives, the assembly poses no serious obstacle to the government. "Parliament has been powerless and has not done much on the economy or political and social rights," said Al-Khawaja, who is surprised the government did not allow the assembly to push through some small reforms, which would show the system could deliver. This risks alienating voters, and could depress turnout if Bahrainis conclude that such limited democracy is not worth bothering with. Disenchantment could also boost support for Al-Wefaq's calls to implement the full constitutional system that it claims was promised in the King's popular National Charter of 2001. Support could build for more radical complaints, and for street protests led by *Haq* and youth campaign groups. "Many people are disappointed, and that will fuel demonstrations," said Al-Khawaja. This disappointment was "not just among youth but also among other people". For some, an electoral boycott beckons. "Many people are not very encouraged to go and cast their votes – unless there is some development that will make the democratic process more serious," said Al-Khawaja.

Meanwhile, the authorities are standing firm in the face of almost constant street protests. The nurses' trade union was effectively shut down after members working at a local hospital X-rayed a protester wounded in a clash in Kazakan on 14 March; two individuals have been charged with 'harbouring a fugitive' in a move apparently aimed at intimidating medical staff. Al-Khawaja argues that the deterioration in the human rights climate, especially since 2007, is "very obvious" and will have a big impact on the election (*GSN* 871/5).

BAHRAIN

MOHAMMED BIN ISA: Investcorp board

Bahrain-based asset management firm *Investcorp* has named Sheikh Mohammed Bin Isa Al-Khalifa as a director. Sheikh Mohammed is chief executive of the *General Organisation for Social Insurance*, chair of *Oasis Capital Bank* (which was established in 2008) and on the board of *Batelco* and *Bank of Bahrain & Kuwait*. He is also chief executive of the prominent *Economic Development Board*.

QATAR

EMIR SHEIKH HAMAD: Meetings

In late March, Emir Sheikh Hamad received Bulgarian Prime Minister Boiko Borissov and his delegation in Doha. Following talks, they agreed to conduct feasibility studies on five joint projects, and signed agreements on co-operation in the energy sector. The Emir – who recently broke his arm in a fall at his Wajba palace – was in Libya for the Arab summit, which adopted a Qatari proposal for a committee to look at joint Arab action on key issues. Members are the Emir, Libyan leader Muammar Gaddafi, Egyptian President Hosni Mubarak, Yemeni President Ali Abdullah Saleh and Iraqi President Jalal Talabani. The Emir then travelled to Congo-Brazzaville for a one-day visit and talks with President Denis Sassou-Nguesso. On 2 April, Sheikh Hamad attended the wedding of his daughter, Sheikh Hind, to Sheikh Faisal Bin Thani Al-Thani (GSN 870/7). Sheikh Hind's mother, Sheika Mozah, and elder sister, Sheikh Mayassa, also attended. The couple will honeymoon in China.

SHEIKHA MOZAH: Two kingdoms

Sheikha Mozah has been in Saudi Arabia on a historic three-day visit, where she met King Abdullah and visited universities and educational facilities. From 6-9 April, Sheikha Mozah was in the UK at the invitation of Queen Elizabeth. She attended a reception at Windsor Castle to mark the launch of *Bloomsbury Qatar Foundation Publishing*, and the *Qatar Philharmonic Orchestra* was due to perform at the Royal Albert Hall. She was also expected to plant a sidra tree (native to Qatar and the symbol of the Qatar Foundation) in the Quranic garden project at Kew Gardens with Prince Charles. This is likely to raise Mozah's profile in the West.

SAUDI ARABIA

KING ABDULLAH: Janadriyah

The big event in the Kingdom in March was the annual *Janadriyah* national festival of heritage and culture, and France was the guest of honour. King Abdullah's family was very much on display – *Saudi Arabian National Guard* deputy commander Prince Miteb Bin Abdullah was at the opening ceremony, and another son, Najran governor Mishaal, also had a prominent role. King Abdullah's wife, Hessa Bint Trad Al-Shaalan, who has a reasonably high profile, opened the festival's women's programme (GSN 854/6, 852/9). As usual, the King's daughter Adila, had a prominent role, awarding medals to women poets and writers. Elsewhere, King Abdullah held

talks with visiting US congressman Keith Ellison (Democrat, Minnesota) and Britain's Prince Charles. Charles was in the Kingdom to launch the 10th Painting & Patronage programme with his old friend, Mecca governor Prince Khalid Al-Faisal.

CROWN PRINCE SULTAN: Out and about

In mid-March, Crown Prince Sultan toured the southern border region and inspected troops in Jizan. His large entourage included senior family members Bandar Bin Mohammed, Khalid Bin Fahd Bin Khalid, Khalid Bin Saad Bin Fahd (all of the Abdelrahman branch) and Sultan's son Khalid. The late King Saud's sons Mansour and Sattam Bin Saud also accompanied him. After the *Janadriyah* opening ceremony, Sultan set out immediately on another high-profile trip, to Eastern Province, where he announced a SR20m donation to a charity, and a SR60m donation for the building of a college for visually impaired people.

KHALID BIN SULTAN: Defence meetings

In late March, assistant defence minister Prince Khalid Bin Sultan held talks with US *Missile Defence Agency* director Lieutenant General Patrick O'Reilly. The US and Saudi Arabia recently held a joint military exercise to test a submarine-launched ballistic missile, which O'Reilly attended. Prince Khalid remains in the public eye, carrying out regular inspections of army units. In early April, he was in Najran Province to inspect armed forces stationed there. During the visit he warned intruders against entering Saudi Arabia: "Those who violate Saudi borders, we consider it a battleground ... we'll be always vigilant to protect our borders. Nobody should think we would slow down our readiness after the war. On the contrary, our readiness will be much stronger."

SAUD BIN ABDELAZIZ: London trial

A member of the Al-Saud, Prince Saud Bin Abdelaziz Bin Nasir Bin Abdelaziz will stand trial in October for the alleged murder of a man at a London hotel. On 25 March, he was remanded in custody by the Old Bailey court to face trial on 4 October. A bail application was turned down. Prince Saud is a grandson of the late Nasir, a brother of King Abdullah. Saud's father has a reasonably high profile, having worked in a senior position at the Ministry of Interior.

ABDELAZIZ BIN FAHD: Stockholm mosque

Prince Abdelaziz, a son of the late King Fahd, is reportedly preparing to finance the construction of a 11,000m² mosque in north Stockholm. A leading imam in Stockholm said the prince wanted to make the SK350m-400m (£32m-36m) donation to honour his father. There are rumours that Prince Abdelaziz, a minister, may soon be given a bigger government role. Closer to home, Abdelaziz was reported in early April to be funding a SR20m housing project in Qassim province.

UAE – DUBAI

MBR: Allawi meeting

In early April, Sheikh Mohammed Bin Rashid Al-Maktoum held talks with former Iraqi prime minister and *Iraqiya* leader Iyad Allawi.

KUWAIT

MPs reject Rafale deal

An Islamist parliamentary group has warned the government not to purchase French-made Rafale fighter jets, saying the deal is “suspicious”. “The bloc reiterates its firm rejection of this suspicious deal, especially following information that the latest technical reports have recommended the rejection of the deal,” the *Reform and Development Bloc (RDB)* said in a statement on 21 March. It did not say why the deal was deemed suspicious. However, in November, opposition MPs claimed it would be too expensive, and parliament voted unanimously to ask the independent *Audit Bureau* to investigate three planned arms deals with the United States and France, including the Rafale purchase (GSN 865/8).

The RDB comprises four of the *Majlis Al-Umma*’s current 21 Islamist MPs. Its statement said no other country had bought Rafales, despite many expressing an interest. “We warn the government against squandering public funds on suspicious deals,” said the RDB’s prominent spokesman, **Waleed Al-Tabtabai**. Veteran opposition MP **Ahmed Al-Saadoun** on 30 March claimed that two senior army officers had resigned in protest over the planned Rafale purchase.

Defence minister **Sheikh Jaber Mubarak Al-Sabah** in March said the Rafale deal remained a priority for Kuwait. In October 2009, Kuwait and France signed a new defence agreement and discussed the Rafale deal. Jaber said after talks in Paris that Kuwait would be “proud” to have the Rafale jet and had passed the matter to technical teams for detailed scrutiny. During a Gulf tour in February 2008, French President **Nicolas Sarkozy** said there had been talks on the sale of between 14 and 28 Rafales, which are made by *Dassault Aviation*.

The potential Rafale deal and defence agreement signal France’s growing influence in the Gulf. A deal with Kuwait could whet the appetite of others; the **United Arab Emirates** is exploring the purchase of 60 Rafale jets. But some analysts doubt whether France is genuinely positioning itself as an alternative strategic partner to the **United States** in the region. Instead, they argue, it is using the defence agreement with Kuwait as a sales pitch.

PROCUREMENT

Pentagon attacks quality control on missile defence programmes

Senior **United States** Department of Defence officials have criticised the defence industry for inadequate quality control on missile defence programmes, saying the administration planned to use more fixed-price contracts. According to *Missile Defence Agency (MDA)* director Lieutenant General **Patrick O’Reilly**, the sector was facing two “real challenges”, including poor quality. Speaking at a missile defence conference in March, he

Surprise departure of former BAE chief

BAE Systems has parted company with former chairman and chief executive **Sir Dick Evans** just weeks after admitting to compliance failings under his leadership. Sir Dick had been retained by BAE as an adviser on **Saudi Arabia** and was paid £46,954 last year. However, according to BAE’s annual report, which was published at the end of March, his contract was not renewed on 28 February.

Sir Dick was the chief executive of BAE from 1990 to 1998 before becoming chairman. It was during this period that allegations of bribery and corruption were made against BAE in some of the contracts it was seeking to sign with foreign governments, and there were investigations by the UK’s **Serious Fraud Office** and the **United States** Department of Justice. BAE said on 5 February that it would plead guilty to one charge of false accounting relating to the 2001 sale of an air traffic control system to **Tanzania**. The company has also agreed to pay a \$400m fine for making false statements to the US government in relation to proposed deals in 2001 to lease Gripen fighter jets to **Hungary** and the **Czech Republic**.

On 17 February, BAE chief executive **Ian King** had told *The Times* newspaper that the company would continue to employ Sir Dick despite failings made under his leadership.

declined to identify the other problem, saying he would address that in testimony before Congress on 13 April. O’Reilly said he had made a personal commitment to shoring up cost, performance and schedule on missile defence programmes, and planned to give lawmakers information to allow better tracking of contractor performance.

He remained troubled by quality control issues and was withholding funding for some programmes. “I don’t see the level of scrutiny ... for the precision work that’s required,” the MDA chief said. “Our quality is just not where it needs to be.”

However, the government shared some of the blame, O’Reilly said. **Lockheed Martin** had done a “fantastic job” on the Terminal High Altitude Area Defence (THAAD) missile, partly through using a better design. But success had followed seven failures. O’Reilly also cited the failed 31 January attempt to shoot down a missile mimicking an attack from **Iran** after a malfunction in a radar built by **Raytheon**, saying it had resulted in a “tremendous amount” of useful data.

Deputy defence secretary **William Lynn** and Pentagon acquisition chief **Ashton Carter** spoke of the drive toward fixed-price contracts. Lockheed Martin vice president of air and missile defence systems **Michael Trotsky** said the company had fixed-price contracts on several programmes, including the Aegis missile defence system. Joint Chiefs of Staff vice chairman General **James Cartwright** reminded delegates that the Pentagon was stepping up efforts to collaborate on missile defence with allies such as **Israel** and **Japan**. Officials said they were exploring co-operative agreements with many countries, including the **UAE**, **Saudi Arabia**, **Qatar**, **Kuwait** and **Bahrain**. This could involve shared missile warnings and include joint development and manufacturing of weapons (GSN 872/8).

GOVERNANCE AND POLICY

IRAQ: Canadian court to decide on Bombardier jets

Canada's *Bombardier* could lose hundreds of millions of dollars in future Iraqi contracts if its Supreme Court rules in favour of *Kuwait Airways* in its long-running dispute with Iraq. "We hope it will be in our favour. The Iraqi government has been harmed by this action," said **Ahmed Saadawi**, adviser to Iraqi Prime Minister **Nouri Al-Maliki** and head of the office overseeing ports and airports. "We require more aircraft, and if this issue isn't resolved soon, we will have to look elsewhere," he said. Bombardier won two Iraqi contracts worth an estimated C\$400m (\$399.8m) for 10 CRJ-900 regional jets in the spring of 2008, but Kuwait Airways wants to confiscate the jets as compensation for the destruction of its fleet in the 1990-91 Gulf war. Kuwait Airways took its case to the Supreme Court of Canada last August after courts in Quebec ruled that Iraq had state immunity and refused to recognise a 2008 decision in the UK ordering Iraq to pay the airline C\$84m in legal costs. Observers expect a ruling in two to six months. In 2005, UK courts ordered state-owned *Iraqi Airways* to pay Kuwait Airways more than C\$1bn. If Iraq wins the case, Saadawi said there was potential for future orders. To date, Bombardier has delivered four of the ten jets to Iraq.

PROCUREMENT

BAHRAIN: Rockwell Collins simulator

Rockwell Collins of the United States is to provide a Transportable Black Hawk Operations Simulator (T-BOS) to train UH-60M Black Hawk utility helicopter pilots. The T-BOS will be delivered under a Foreign Military Sales (FMS) contract administered by the *US Army* and is the second foreign sale of the trainer. The first foreign T-BOS will be delivered to the **United Arab Emirates** this year, the company said. T-BOS is a high-fidelity flight simulator that can be deployed to forward operating bases. The trainer is in use at several army bases in the US.

KUWAIT: Russia to supply Murena landing ships

Russia has agreed to supply two Project 12061E Murena-class landing ships in a debt repayment deal. *Rosoboronexport* deputy director general **Viktor Komardin** told Russian state news agency *Itar-Tass* there had been "a certain breakthrough" in the regional market.

QATAR: Russia, neighbours make splash at Dimdex

Russia exhibited for the first time at the 2nd International Maritime Defence Exhibition (Dimdex-2010) in Doha, with state-run weapons exporting company *Rosoboronexport* looking to make a major breakthrough in the region. Arms manufacturers from **Belarus** showed off modern anti-pirate equipment at the exhibition. **Vyacheslav Sheida**, head of marketing and advertising for arms exporting company *BelTechExport*, told *Itar-Tass*: "We have brought over here full-scale specimens of Skif and Korsar portable anti-tank guided missile systems." Asked about prospects for military or technical co-operation with Gulf countries, he said: "Negotiations continue all the time." Gulf countries bought "armoured vehicles, computerised control systems, and tank trailers" from Belarus, he said.

QATAR: ITT wins US Army contract

ITT Corporation has won a contract to provide support services to the *US Army* at Camp As Sayliyah and other facilities. The \$125m contract is for one year, with an option for four additional years. ITT Corporation, which has headquarters in New York, is a high-technology engineering and manufacturing company operating in water and fluids management, global defence and security, and motion and flow control.

QATAR: EADS opens Tetra competence centre

EADS and the Ministry of Interior (MoI) have opened a Tetra competence centre in Doha to train MoI engineers to operate the Qatar Secure Tetra Radio System. EADS trainers will transfer technical knowledge to MoI teams, and use the centre – the first of its kind in the Middle East – to train other clients from the region.

SAUDI ARABIA: FMS contract

The **United States** has called for bids under a Foreign Military Sales (FMS) one-year contract (with two one-year option periods) for the repair, refurbishment and replacement of *Royal Saudi Air Force (RSAF)* aerospace ground equipment and special purpose vehicles at six locations in the Kingdom. The equipment is used to service and maintain F-15, C-130 and E-3 aircraft.

Contact: *Raha Group for Trading Services (RGTS)*, Riyadh 113711. www.fbo.gov/spg/USAF/AFMC/WRALC/FA8505-10-R-26320/listing.html.

SAUDI ARABIA: \$30m contract for Cubic

Cubic Corporation has won a contract worth more than \$30m to supply small arms training systems to Saudi Arabia. It will provide its EST 2000 Engagement Skills Trainer to the *Saudi Arabian National Guard (Sang)* under a contract from the *US Army*. The contract is Cubic's largest involving a foreign customer for EST 2000, which uses digital video projectors, high-definition screens, game-based computer graphics, and ballistically accurate simulated weapons to create lifelike virtual combat scenarios. Cubic will work with a local company to provide the building infrastructure to accommodate the systems, as well as 12 months' maintenance support.

UAE – SHARJAH: Gama plans executive facility

British company *Gama Aviation* has announced plans for a multimillion dollar luxury business travel facility at Sharjah International Airport, in a move which could challenge the dominance of Dubai International Airport. Gama says it will invest \$15m in a hangar facility to operate charter flights and run an aircraft maintenance business. The hangar would be the first dedicated facility for business jets at Sharjah, said Gama chief executive **Marwan Khalek**. There was a dramatic growth in regional business travel during the economic boom between 2004 and 2008, but the downturn has forced some carriers to operate flights at below cost. **Abu Dhabi** is challenging Dubai's dominance, opening Al-Bateen Executive Airport on Abu Dhabi Island last year. Gama said its new facilities would offer wealthy UAE travellers yet another option. Gama is 33% owned by *GrowthGate Capital*, a private equity fund based in **Bahrain** that includes *Crescent Investments* of Sharjah as an investor.

SYRIA/CORPORATE

Gulfsands moves into North Africa

Syria-focused *Gulfsands Petroleum* has agreed with Australia's *AuDAX Resources* to farm into the Chorbane and Kerkouane exploration permits in Tunisia, and another in southern Italy. On Chorbane, Gulfsands will pay 80% of the estimated \$5m cost of the first well to earn a 40% interest. It will drill one well on Kerkouane – which is contiguous to the Italian asset, G.R.15.PU – at an expected cost of \$20m. Gulfsands will take a 20% interest by paying for 30% of a \$5.2m 3D seismic programme.

Chorbane was previously explored by Philip Anschutz's *Anschutz Overseas Corporation*, which also owned Kerkouane but sold both permits to Canada's *Grove Energy* in 2006 (see *GSN's sister publication African Energy: 107/9, 102/21*). Grove was then taken over by *Stratic Energy*, which sold the permits to AuDAX in late 2007 (*AE: 171/10, 131/16, 112/23*). Former Grove official **Wolfgang Zimmer** is AuDAX's managing director. On 23 March, AuDAX said it had terminated farm-in talks with Norway's *DNO International* over a 50% stake in Chorbane, and announced a farm-in agreement with the unknown *Bombora Energy*, which will take a 10% interest in return for paying 20% of the costs of the first exploration well.

AIM-listed Gulfsands is an ambitious minnow that has done well in Syria. Key founding members were its president, well-connected Iraqi national **Mahdi Sajjad**, and corporate development director **Kenneth Judge**. Directors, including Judge, Sajjad, **David Cowan**, **Andrew Rose** and **Richard Malcolm**, all hold equity interests, as does *Schroder Investment*

Management and founding partners at *Sloane Robinson*, which invests in listed companies.

Other shareholders include **Abdelrahman Kayed**, identified as a UAE-based businessman with interests in steel and gold. *Al-Mashrek Global Invest*, a subsidiary of *Al-Mashreq Investment Fund*, has a 5.78% interest; both of these entities are thought to belong to Syrian investor and businessman **Rami Mohammed Makhoul** and his family. Makhoul is a maternal first cousin of President **Bashar Al-Assad**. In 2008, the United States Treasury placed Makhoul on the 'specially designated nationals' list, alleging that he was a "powerful Syrian businessman and regime insider who improperly benefits from and aids the public corruption of Syrian regime officials" (*GSN 826/15*). Makhoul has telecoms interests (including a majority interest in *Syriatel Mobile Telecom*) and is involved with *Cham Holding* through his Mashreq fund. Cham has a memorandum of understanding with Gulfsands to form a joint venture to pursue energy projects in Syria and Iraq. Gulfsands has also been looking for Omani assets.

On 23 March, Gulfsands announced that state-run *Indian Oil Corporation* and *Oil India* were behind a rejected \$570m cash approach for the company. It said: "The board is unanimously of the view that the proposal is wholly inadequate, highly conditional and materially undervalues the company."

The company said in March that its proved plus probable (2P) Syrian oil reserves rose by 31% in 2009, strengthening its defence against the takeover approach. It has upgraded its 2P working interest reserves for the Khurbet East and Yousefieh fields in Block 26 to 46m bbls for 2009 from 35.2m bbls in 2008 – when it posted its first pre-tax profit (\$27.8m).

COUNTRIES AND MARKETS

IRAQ: Post-election challenge to oil contracts unlikely

The impact of the election on oilfield service contracts already signed by major international oil companies is unlikely to be significant. A *State of Law*-led government would inevitably support its earlier policy whether or not **Nouri Al-Maliki** remains prime minister. Although a number of voices in the *Iraqiya* camp have called for all contracts to be presented to parliament, this is unlikely. Iraqi leader **Iyad Allawi** may not be able to lead his group as prime minister, and he has avoided making a commitment to this. According to *Upper Quartile* consultant **Adrian Green**, "there is a small window of opportunity to conduct a review because no one has started work on the ground". But he doubted the incoming government would want to "tie itself in knots" over this. "There is a difference between what you call for in opposition and what you do in government," Green said (see *Politics* for an update on the balance of political forces).

YEMEN: Second LNG train starts production

Yemen LNG Company has started production from a second train of its natural gas export project ahead of schedule, according to main shareholder *Total*, which has a 32.62% stake. The second unit at its terminal at Balhaf on the Gulf of Aden came on stream on 1 April, a

month early, and will increase output to full capacity of 6.7m t/yr. First gas flowed last October (*GSN 867/15*). Total exploration and production president **Yves-Louis Darricarrère** said: "The commissioning of the second Yemen LNG train ahead of schedule represents another major step in the history of our partnership in Yemen, where we have been present for over 20 years. I would like to thank our project teams for their commitment, hard work and constant attention to industrial safety. Thanks to them, the first liquefaction train had reached its plateau production very quickly. This start-up will cement Total's position as a top-tier global LNG producer."

Oil and minerals minister **Ameer Salem Al-Aidaroo**s called the project "a true success story for Yemen". Since initial production in October, Train 1 has enabled Yemen LNG to deliver gas to *Total*, *GDF Suez* and *Korea Gas Corporation (Kogas)* under 20-year sales and purchase agreements. Deliveries have been made to the United States, China, Mexico and Spain. The \$4.5bn Yemen LNG project is the country's largest investment. Gas from Block 18 in the Marib region of central Yemen is transported through a 320km pipeline to the liquefaction plant; it is then shipped by a dedicated fleet to destinations worldwide. Shareholders are *Total*, state-owned *Yemen Gas Company* (16.73%), *Hunt Oil* (17.22%), *SK Energy* (9.55%), *Kogas* (6%), the *General Authority for Social Security and Pensions of Yemen* (5%) and *Hyundai Corporation* (5.88%).

UNITED ARAB EMIRATES

All eyes on Adia following Sheikh Ahmed's death

Sheikh Ahmed Bin Zayed Al-Nahyan, a son of the UAE's founding president, has died after a microlight aircraft he was learning to fly crashed in Morocco on 26 March. Sheikh Ahmed was managing director of *Abu Dhabi Investment Authority (Adia)* and had substantial business interests. He was born in 1969 to the late sheikh Zayed Bin Sultan Al-Nahyan and his prominent wife Sheikhha Mozah Bint Suhail Bin Awaidha Al-Khaili. His older full brother is deputy prime minister and interior minister Sheikh Saif Bin Zayed; he reportedly had three other full brothers. In 2003, Sheikh Ahmed married Alyazia Bint Hamad Bin Suhail Al-Khaili.

Sheikhs Ahmed and Saif built up substantial business interests through *National Holdings*, which is chaired by Jawaan Bin Awaidha Bin Suhail Al-Khaili and operates via subsidiaries including *Abu Dhabi Investment House, Leap Investments, Exeed Industries, Bloom Properties, Petromal* and *Rise General Trading*.

Sheikh Ahmed's death comes at a busy time at Adia. On 14 March, it published its first annual review (*GSN 873/10*). On 17 March, UAE President and Abu Dhabi Ruler Sheikh Khalifa Bin Zayed Al-Nahyan issued a decree appointing Sheikh Mohammed Bin Zayed Al-Nahyan (MBZ) to the Adia board. The board otherwise apparently remains unchanged, except that Khalifa is no longer named chairman on the official release, where Sheikh Sultan Bin Zayed Al-Nahyan is the 'president's representative'. (This may be an oversight as Khalifa is listed above MBZ on Adia's online list of board members.)

Adia's most spectacular investment under Sheikh Ahmed's leadership was arguably its purchase of 4.9% of *Citigroup*. Adia is now in dispute with the US bank, filing arbitration proceedings in New York last December over the \$7.5bn investment, which stipulated a conversion into Citigroup shares that valued the stock at around \$32-37 per share; they now trade at around \$4. Adia's filing alleges that Citibank was guilty of "fraudulent misrepresentations" in negotiations leading to the deal. Citibank denies the claim.

Speculation about who will succeed as managing director has involved figures close to Sheikh Khalifa, including his son Sheikh Mohammed and long-time adviser, former *National Bank of Abu Dhabi* chairman and *Supreme Petroleum Council (SPC)* member Mohammed Bin Habroush Al-Suwaidi. Also mentioned is MBZ's only full brother on the board, presidential affairs minister Sheikh Mansour. Sheikh Ahmed was one of the seven Al-Nahyan SPC members.

He is the second of Sheikh Zayed's sons to die in an aviation accident in the past two years. Sheikh Nasser Bin Zayed Al-Nahyan died in June 2008 when his helicopter crashed into the Gulf (*GSN 831/8*). Funerals of senior ruling family members are usually attended by the rulers of all seven emirates.

Predictably, nonogenarian Ras Al-Khaimah Ruler Sheikh Saqr Bin Mohammad Al-Qasimi did not attend Sheikh Ahmed's funeral. A more notable absence was UAE vice president and Dubai Ruler Sheikh Mohammed Bin Rashid Al-Maktoum.

Mubadala's 2009 results warrant close inspection

Abu Dhabi's ambitious *Mubadala Development Company* has released results for 2009, which are better than those for 2008, although it appears MDC is substantially dependent on government-related operational activities, external investments and shares in foreign entities to offset losses elsewhere in its portfolio to make an overall profit. "Total comprehensive income was Dh8.6bn, largely driven by revenue from the sale of goods and services at Dh13.1bn and improvements in the fair valuation of investments at Dh6.4bn," said MDC's report.

This statement requires some untangling. Comprehensive income includes changes in MDC's equity (net assets) during the period, not only in relation to transactions but also to the fluctuation in the value of shares in other companies. A table below shows MDC's earnings from operational activities and 'other comprehensive income' from external investments.

Profits from non-operating activities were helped by substantial improvements in the fair valuation of investments totalling Dh6.4bn, although this figure is offset by a decline in the value of other investments. The majority of this income stream derived from an increase of Dh4.2bn in the value of shares in US microchip maker *Advanced Micro Devices (AMD)* – MDC owns almost 20%, which soared from around \$2/share in January 2009 to finish the year nudging \$10. Investments in telecoms operator *Du and Aldar* also made significant gains.

MDC is making profits on operational activities associated with Abu Dhabi government initiatives. Revenue from the construction of campuses for *UAE University, Zayed University* and *Sorbonne University* on Saadiyat Island contributed Dh2.6bn. *Dolphin Energy* added a further Dh2.8bn in 2009. The bulk of MDC's non-energy revenue came from Switzerland's *SR Technics*, an aircraft servicing company in which MDC's 70% stake contributed Dh4bn to revenue. Singapore-based *Pearl Energy* added Dh1.5bn. Some Dh800m came from a land sale in Abu Dhabi.

MDC: Operational activities and 'other comprehensive income' from external investments		
	2009 Dh'000	2008 Dh'000
Profit/loss for the year on operating activities (after tax)	4,649,167	-11,766,899
Other comprehensive income/loss for the year net of income tax	3,962,476	-8,039,147
Total comprehensive income/loss for the year	8,611,643	-19,806,046

In 2009, the Abu Dhabi government contributed Dh8.6bn in equity to MDC, according to chief financial officer **Carlos Obeid**. This brings total government cash and non-cash contributions since inception to Dh42.2bn. Obeid said the contribution would be higher this year, although he declined to be more specific. Meanwhile, MDC has Dh88.5bn of assets, substantially more than the Dh50.4bn of assets it held at end-2008, and the group continues to expand.

Major deals announced this year include an agreement with **Maldives-based EoN Resorts** to develop an exclusive resort in the islands, to be operated by **Viceroy Hotels and Resorts**, in which Mubadala is a 50% shareholder. The group also said it would buy a 9% stake in the **Raine Group**, a young US merchant bank specialising in media, entertainment and sports.

Meanwhile, in March, MDC stepped in to help district-cooling company **Tabreed** with a Dh1.3bn bailout after it posted a Dh1.12bn loss for 2009. This underlines that the group is not a conventional business and is mandated to help diversify Abu Dhabi's economy, an ambition that will almost certainly impair its performance in purely commercial terms. The apparent disadvantage should, however, be counterbalanced by the billions of dollars poured into MDC by the emirate government and the group's inside track to government-related initiatives such as the Dolphin project and university campuses.

MDC's results show it had a better year in 2009, but it is worth noting that the accounts rely on the valuation of assets, many of which fluctuate independent of MDC's management, and some of the valuations appear notional.

Stock markets and exchange rates

Stock Market (Index)	Index value (8 April 2010)	Index % change		Since 01.01.10	2009 performance	Currency	Exchange rate			
		One week					£	\$	€	¥ (x100)
Bahrain ¹	1,573.66	2.04	▲	7.91	- 19.58	(Dinar)	0.5732	0.3770	0.5031	0.4025
Iran ²	13,681.20	5.69	▲	22.07	29.48	(Rial)	15,044.40	9,895.00	13,204.40	10,565.40
Iraq ³	n/a	n/a	n/a	n/a	n/a	(New Dinar)	1,771.27	1,165.00	1,554.63	1,243.93
Jordan ⁴	2,602.94	5.69	▲	2.74	- 8.15	(Dinar)	1.0772	0.7085	0.9455	0.7565
Kuwait ⁵	7,569.50	1.26	▲	8.05	- 9.99	(Dinar)	0.4391	0.2888	0.3854	0.3084
Oman ⁶	6,852.27	1.92	▲	7.59	27.90	(Rial)	0.5854	0.3850	0.5138	0.4111
Qatar ⁷	7,635.45	2.19	▲	9.72	1.06	(Rial)	5.5365	3.6415	4.8594	3.8882
Saudi Arabia ⁸	6,774.98	-0.38	▼	10.67	27.46	(Rial)	5.7019	3.7503	5.0046	4.0043
UAE – Abu Dhabi ⁹	2,823.44	-1.26	▼	2.91	14.79	(Dirham)	5.5844	3.6730	4.9015	3.9218
UAE – Dubai ¹⁰	1,800.12	-3.22	▼	-0.19	10.22	(Dirham)	5.5844	3.6730	4.9015	3.9218
Yemen	n/a	n/a	–	n/a	n/a	(Rial)	337.947	222.275	296.615	237.334

¹ Bahrain Stock Exchange – All Shares Index. ² Tehran Stock Exchange – Tepix Index. ³ Iraq Stock Exchange – ISX Price Index. ⁴ Amman Stock Exchange Index.

⁵ Kuwait Stock Exchange Index. ⁶ Muscat Securities Market – MSM 30 Index. ⁷ Doha Securities Market – DSM 20 Index. ⁸ Tadawul All Shares Index.

⁹ Abu Dhabi Securities Exchange. ¹⁰ Dubai Financial Market.

Sources: *Cross-border Information, Hastings. Financial Times, London.*

Events across the region

19 April: Saudi Arabia Trade & Export Finance Conference

To be held in Riyadh. Web: www.exportagroup.com

25-27 April: Gulf Water & Power Forum, Bahrain

Web: www.gulfwupf.com

26-27 April: Investment Opportunities in Abu Dhabi

To be held in Abu Dhabi. Web: www.flemingulf.com

10-11 May: TradeTech Middle East, Dubai

Web: www.wbresearch.com/TradeTechmiddleeast/

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GSN Risk Grade – C3: Opposition faces uphill battle, energy sector investment aims to boost economy

Political and social developments

Overview: Bahrain has been headed by King Hamad Bin Isa Al-Khalifa since 1999, when he succeeded his father, Emir Sheikh Isa Bin Salman Al-Khalifa. In the first half of the last decade, King Hamad introduced major changes to modernise a government in which Al-Khalifas hold most of the top jobs and a system where family factions remain resistant to change. These changes included a shift to constitutional monarchy, parliamentary elections and votes for women. The status of women is promoted by King Hamad's wife, Sheikha Sabika Bint Ibrahim Al-Khalifa, who heads the Supreme Council for Women. But, after the initial promise, the political environment has deteriorated. Hamad seems to have remained true to his belief that the Al-Khalifas' monopoly on power is unviable, and that his regime can survive only if it recovers popular support. But he is troubled by deteriorating communal politics, the potential rise of sectarianism and opposition from within the Al-Khalifa ranks.

Election pressures: Parliamentary and municipal elections are scheduled for 2010, but opposition parties are deeply pessimistic about their chances when the government is making their lives extremely difficult. Opposition leaders Sheikh Ali Salman and Ibrahim Sharif are under pressure from supporters and the extra-parliamentary Haq movement is repeatedly questioning the point of opposition participation within the constitutional structure. Government supporters have prevented Sheikh Ali's Al-Wefaq National Islamic Society from securing parliamentary endorsement for any of its proposals, while Sharif's secular reformist National Democratic Action Society (Waad) is yet to win any seats. Despite government support for Sunni groups and the difficulties this places on rival Shia parties, neither Al-Wefaq nor Waad appear ready to abandon the parliamentary process, with both set to participate in the next election after ruling out a boycott.

Human rights: Amid increasing political tensions between the majority Shia community and Sunni-dominated government, Human Rights Watch has documented the regime's return to the practice of ill-treating detainees which defined its reputation until the late 1990s. Security officials are reported to have used a specific repertoire of techniques against detainees, including electro-shock devices, suspension in painful positions, and beating the soles of the feet (falaka), head, torso and limbs. Bahrain is a signatory to the United Nations Convention against Torture and Other Cruel, Inhuman or Degrading Treatment or Punishment, but King Hamad's efforts to curtail such treatment continue to be ignored by some in the Ministry of Interior.

Migrant workers: A major regional issue is the Gulf's dependence on migrant workers, who make up about half of the labour force in Bahrain. For decades they have been the key to oil-fuelled economic development by filling jobs that nationals were not qualified to do. But the Bahrain Economic Vision 2030 plans to double the income of every Bahraini household by giving companies incentives to hire nationals rather than foreign workers. The reforms have met strong resistance from sectors heavily dependent on migrant workers.

Economic and commercial outlook

Overview: The low price of oil, worldwide downturn and the knock-on effects of Dubai's debt crisis slowed economic growth in 2009, with the International Monetary Fund (IMF) predicting growth of only 2.6% compared to 8.1% in 2007 and 6.1% in 2008. Although overshadowed in recent years by the rise of financial centres in Dubai, Qatar and Saudi Arabia, Bahrain remains a key financial centre in the Gulf, with prudent policies by its regulator, the Central Bank of Bahrain, helping it to weather the global financial crisis. But growth has slowed and, facing a predicted budget deficit, the government has issued a \$1.25bn ten-year sovereign bond taken up by investors in the US, Europe and Asia. Attempts to diversify the economy have seen non-oil exports rise to 73% in 2009, compared to 40% in 2000, but an IMF report recommended the government push ahead with tax reforms.

Energy: The National Oil and Gas Authority (Noga) plans to invest \$1.6bn to raise oil output to 700,000 b/d over the next five years and gas supplies by 1bcf/d by 2020. Domestic consumption has increased over the past decade, while imports from Saudi Arabia have remained constant, resulting in a drop in oil exports to 81m bbls in 2008. Tatweer Petroleum, a joint venture between Noga, Occidental and Mubadala, aims to increase production from the Bahrain oil field to 100,000 b/d over the next seven years.

Finance: Gulf Finance House (GFH), which prospered during the Gulf's boom years, has agreed with creditors to restructure \$300m of debt, but had its credit rating lowered by Standard and Poor's to 'SD' after making a loss of \$728m in 2009. GFH has since announced plans to sell its 37% stake in Khaleeji Commercial Bank by the end of 2010. Kuwait's Tandem Investors also plans to sell its 25% stake in Bahrain-based Ahli United Bank for \$1.35bn. But the sector remains attractive to international companies, with Credit Suisse and Arab Bank due to open offices. National Bank of Kuwait's Bahraini subsidiary recorded strong profits for 2009 despite the downturn.

Industry: Manufacturing accounted for 15% of real GDP in 2008. United Steel Company, a joint venture between Bahrain-based Gulf United Steel Holding Company and Japan's Yamato Kogyo Company, has been awarded a \$1.2bn contract to build a steel plant in Bahrain. Japan's Kobe Steel will also build a \$430m iron plant for United Steel. South Korea's Samsung Engineering, in partnership with Germany's SMS, has been awarded a \$500m contract for a steel plant in the north-east of the country.

Islamist influence: Islamists in parliament's lower house are pushing for austerity. In February, the Majlis Al-Nawab passed a draft law banning the import and sale of alcohol. The government is likely to try to block this in the appointed upper house, the Majlis Al-Shura, because it would end one of the main attractions for tourists. Businesses are also concerned about planned restrictions on cafes discussed in the Wefaq-dominated Manama municipal council. Islamists' preoccupation with such issues may explain why members of the Bahrain Chamber of Commerce and Industry are contemplating the launch of a business party to stand in parliamentary elections in the autumn.

BAHRAIN: Corruption

Overview: King Hamad fired minister without portfolio Mansour Bin Rajab on 22 March following an investigation into international money laundering. It is the first time in Bahrain's modern history that a minister has been removed from office over corruption allegations. The government is determined to clean up politics – the country lags behind neighbours Qatar, UAE and Oman in Transparency International's 2009 corruption perceptions index, which ranks it 46th out of 180.

MINISTERIAL SACKING: Bin Rajab has been charged with laundering up to \$30m from criminal enterprises, including kickbacks from trafficking weapons and narcotics. The former agriculture and municipalities minister had been under investigation since early 2009, and faced questioning by parliament over financial irregularities in 2008. Reports have suggested that the money-laundering business had ties with Iran's Islamic Revolutionary Guard Corp, which is believed to run a large-scale illegal arms trade in the region, although this is denied by officials in Tehran. Under Bahrain's anti-money laundering law passed in 2001, the crime carries a minimum sentence of five years imprisonment.

BAHRAIN: Selected economic indicators

(\$bn)	2005	2006	2007	2008pre	2009pro
GDP (% change)	7.9	6.7	8.1	6.1	2.6
Nominal GDP	13.5	15.8	18.4	21.2	18.1
CPI (% change, avge)	2.6	2.0	3.3	3.5	3.0
Current a/c balance	1.5	2.2	2.9	2.3	0.3
Gov. expenditure (% of GDP)	25.5	26.1	26.2	25.7	31.6
Total exports	10.2	12.2	13.6	17.3	10.3
Oil exports	7.8	9.2	10.8	13.8	7.5

pre = preliminary; pro = projected; GDP = Gross domestic product; CPI = Consumer price inflation

Source: IMF Article IV consultation, September 2009

GSN Risk Grade – D↓4↑: Popular opposition stifled, but parliament challenges Ahmadinejad's policies
Political and social developments

Overview: The heavy-handed tactics of an increasingly repressive state security apparatus appear to be stamping out Iran's popular Green opposition, following several months of political unrest. The authority of Rahbar (Supreme Leader) Ayatollah Ali Khamenei at the summit of the velayat-e faqih (government of the jurist) system seems to be growing stronger as the mass protests that followed the disputed 12 June presidential election lose momentum. President Mahmoud Ahmadinejad remains deeply unpopular, as do his economic policies. But, with the backing of the powerful Islamic Revolutionary Guard Corps (IRGC or Pasdaran), his position remains relatively secure, for the time being at least. Although the further large-scale protests expected during the 11 February rally celebrating the 31st anniversary of the Islamic revolution and the Iranian new year on 21 March failed to materialise, the popular desire for democracy and civil rights among a predominantly youthful population is unlikely to go away. Defeated presidential candidates Mir Hossein Mousavi and Mehdi Karubi, who emerged as the opposition's leaders, continue to call for public support, but the violent crackdown by the authorities is making life increasingly difficult for the opposition on the political field as well as on the streets. However, the regime may face renewed pressure in the face of a new round of United Nations sanctions as the country's nuclear programme isolates it further.

International relations: US President Barack Obama's renewed offer of dialogue with Tehran was publicly rejected by Khamenei during his new year address, and relations with the West continue to deteriorate. Ahmadinejad's unexpected visit to Afghanistan has complicated relations further as Iran tries to coerce regional countries, and revelations that Taliban fighters are being trained in Iran has further heightened tensions. While Russia remains opposed to any nuclear weapons programme, its involvement in the planned Bushehr nuclear power plant casts renewed doubt over the UN Security Council's ability to secure a consensus on fresh sanctions, with China's commitment to further dialogue remaining the most serious challenge. But should a UN International Atomic Energy Agency (IAEA) investigation team verify the existence of two more secret uranium enrichment facilities, both Russia and China may be forced into a more confrontational approach.

Opposition: Mousavi and Karubi continue to call for fresh protests, with the former claiming that 2010 will be a "year of perseverance" for the Green movement. Former president Mohammad Khatami remains committed to the reformist movement, renewing calls for free elections and the release of political prisoners, but the Green leaders are reluctant to directly criticise the constitution, although many on the ground have begun to protest against it. Several family members of influential cleric Ayatollah Ali Akbar Hashemi Rafsanjani (who chairs the powerful Expediency Council and Assembly of Experts) have been arrested, of whom grandson Hassan Lahouti is the latest to be detained. The regime has reportedly banned the large Islamic Iran Participation Front and the Etemad and Iran Dokht newspapers, two of the last opposition publications in circulation.

Economic and commercial outlook

Overview: Mismanagement and tighter international sanctions continue to pressure an economy heavily reliant on oil and gas revenues. A recent International Monetary Fund (IMF) Article IV report puts GDP growth for 2008/09 at 2–2.5%, a marked decline from 7% the previous year. Non-oil GDP growth is forecast at 2.5–3% in 2009/10, but a decline in oil production and a reduction in Opec quotas is likely to result in real GDP growth slowing to 1.5–2%. The world's fourth largest oil producer relies on oil and gas revenues for 25% of its GDP, while an ineffective subsidies system accounts for 25% of government spending. Mismanagement of the energy sector and macroeconomic policy failings mean Iran is forced to import and ration fuel. The government has failed to control budget deficits, but the high oil prices of recent years have masked the urgent need for reform. The IMF estimated 12-month inflation at 7.5% in October 2009, significantly down from the 30% recorded the previous year. Despite political and economic unrest, hydrocarbons exports remained undisturbed during 2009 at around 4m b/d of oil and 600mcm/d of gas, according to National Iranian Oil Company. There is a target output of 5.15m b/d of oil and 1.111bcm/d of gas by 2015 under a five-year plan. But sanctions continue to push international oil companies out of the market, with Russian giant Lukoil the latest to abandon operations in the country.

Budget and subsidies: Iran's \$347bn budget for 2010/11 has been passed by the Guardian Council after much debate in parliament (Majlis). Ahmadinejad was forced to accept a compromise on energy and food subsidies, but it is widely believed that parliament will eventually give in to his demands and raise the budget to the full \$368bn (although it is not known how such a late change could be implemented). Parliament has initially agreed to only half of Ahmadinejad's proposals to raise \$40bn through increasing the price of subsidised goods, but while this marks the beginning of plans to scrap the ineffective subsidies system over the next five years, it will prove an unpopular move and push up inflation. Some experts estimate inflation could rise to as much as 30%. The new budget cuts fuel rations by 25%. But the oil ministry has pledged to increase domestic petrol production by 13m litres to counteract further sanctions on a sector which imports one third of its fuel. Domestic consumption will be further hit by the decision of energy suppliers Vitol, Glencore and Trafigura to stop supplying petrol as a result of US pressure.

Financial sector: The likelihood of further sanctions targeted at the financial and energy sectors has resulted in a squeeze on credit and insurance, meaning that the once-lucrative global market leader for trade financiers is now off limits despite attractive potential margins. But the government pushes on with efforts to improve the sector as a means of diversifying the economy and easing financial pressures. The authorities plan to recapitalise the banking sector before its full privatisation.

IRAN: Selected economic indicators

(% of GDP unless otherwise stated)	2006/07	2007/08	2008/09e	2009/10p	2010/11p
GDP (% change)	6.2	8.1	2.3	1.8	3.0
CPI (%)	11.9	18.4	25.4	10.3	8.5
Gov. expenditure	29.8	28.3	27.0	27.1	26.1
Gov. revenue	29.9	30.9	27.0	24.4	24.7
Current a/c balance	9.2	11.9	7.2	2.6	2.4
Total external debt	10.4	9.8	6.0	5.0	4.0
Oil production (m b/d)	4.0	4.1	3.9	3.7	3.7
Oil & gas exports (\$bn)	62.0	81.8	81.9	59.2	64.4

e = estimated; p = projected; GDP = Gross domestic product;

CPI = Consumer price inflation

Source: IMF Article IV report March 2010

IRAN: International sanctions

UNITED STATES: The US continues to push for unilateral economic sanctions against Iran, with the Comprehensive Iran Sanctions, Accountability and Divestment Act passing through the Senate on 11 March. The new legislation, an extension of the 1996 Iran Sanctions Act, authorises the prosecution of any person or company with a presence in the US which trades with any entity related to Iran's energy sector. It is expected to be signed into law by President Obama in the coming months.

UNITED NATIONS: The five permanent members of the UN Security Council plus Germany continue to deliberate over sanctions, with the US calling for a resolution "within weeks". But while many believe China will eventually come on side, winning the support of other members, namely Brazil and Turkey, remains difficult. The major concern for the West is being forced to accept a compromise, as China remains reluctant to impose sanctions directed at Iran's energy sector, instead favouring targeted sanctions against such entities as the IRGC.

Southern Iraq: economic federalism more likely than secession in Basra

While the secession of the **Kurdistan Regional Government (KRG)** area has occupied most attention, a failure of state-building in post-**Baathist** Iraq might also see other regions looking for at least Kurdish levels of autonomy, if not outright independence. Of most concern to Baghdad would be the hydrocarbons-rich south. *GSN* spoke to a range of decision-makers in Basra to test the support for different kinds of decentralisation in the province, which has been called 'the failed Gulf state' by historians of the area.

Political pressures continue to mount in the area. On 24 and 26 March, a number of southern Iraq's provincial governors issued collective statements backing Prime Minister **Nouri Al-Maliki's** demand for a recount of votes. At an event in Basra, **Sami Al-Askari**, a member of Maliki's inner circle, warned: "If the commission does not respond to the demand of the provincial councils... the ten provinces will begin a major escalation of measures." Al-Askari speculated that if the vote was seen as illegitimate, the Shia south (which is mainly administered by pro-Maliki governors) could declare itself a semi-autonomous region and disrupt oil exports. With oil-rich Basra accounting for 60% of Iraq's wealth, such a threat again brings its secessionist tendencies into focus.

The Basrawi public would not support secession, but the March statements hint at the leverage of local politicians when they do not like decisions made in Baghdad. Talk of secession generally becomes more extreme whenever the federal government is run by a different faction to that of the Basra provincial council – an ominous pointer if Maliki is unseated in the coming months of coalition-building negotiations. This trend was most obvious when **Al-Fadilah Al-Islamiya** (a breakaway from **Moqtada Al-Sadr's** movement) ran the Basra council under governor **Mohammed Al-Waeli** in 2005-09. Relations with the

federal government deteriorated as Fadilah quickly dissolved into a political-criminal syndicate. This triggered Fadilah support for 'Basra-first' regionalists, who agitated for a separate administrative region akin to the KRG.

Since 2003, Basrawi judge **Wael Abdul Latif** has consistently championed a separate Basra region, the so-called *Iqlim Al-Basra*. In January 2009, using Iraqi law and with **High Electoral Independent Commission** oversight, Latif sought (and failed) to secure signatures from 10% of the registered electorate in Basra (around 80,000 voters) to trigger a formal referendum on whether it should become a separate administrative region with its own constitution, laws and parliament. Latif drew support from elements of Fadilah, the **Islamic Labour Organisation** and other tribal and business leaders. The move – an idea briefly considered in the early 1920s – did not win popular approval due to perceptions that it might threaten Iraq's territorial integrity or lead to hostile intervention by neighbouring states.

The issue was also complicated by competing regional schemes such as the region of the south (*Iqlim Al-Janub*), encompassing Basra, Maysan and Dhi Qar, and the nine-governorate Shia federal region (*Iqlim Al-Wasat Wa-Al-Janub/Iqlim Janub Baghdad*). According to *GSN's* soundings across a range of political, military and community leaders, the idea continues to be viewed with suspicion.

The risk of less formal segregation between Basra and the federal government is a more serious concern. When the Fadilah-led provincial council was at odds with the federal government, the administrative relationship began to break down. Local ministry branches led by Fadilah sympathisers loosened their ties with national ministries, and the appointment and deselection of senior officials

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GULF STATES



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