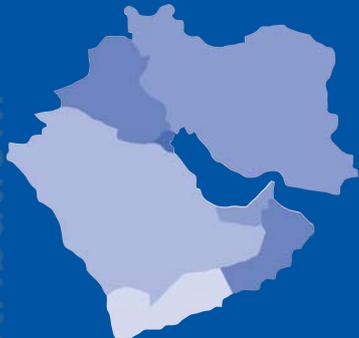


Gulf States Newsletter

Bahrain, Iran, Iraq, Kuwait, Oman, Qatar, Saudi Arabia, UAE, Yemen

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GSN

Companies & People

Saudi Surprise Package

Surprises mounted up in the Kingdom as *GSN* went to press. The extent of the US military withdrawal announced after Defence Secretary **Donald Rumsfeld's** 29 April talks with **Crown Prince Abdallah** set wires humming. One day later, **King Fahd** appointed a 'new' 22-man cabinet including Oil Minister **Ali Al-Naimi** (also Chairman of *Saudi Aramco*) staying on for an unexpected third term. Some things don't alter: liberals were disappointed that only five changes were announced. The prospect of the 68-year-old Naimi's departure had raised international oil company hopes that the stalled Gas Initiatives Project might finally go ahead (see page 17).

Ibrahim Al-Assaf remains Finance Minister but his economy portfolio went to Economy and Planning Minister **Khaled Bin Mohammed Al-Qusaibi**. Electricity Minister **Hashem Yamani** replaced veteran Trade Minister **Osama Al-Faqih** and added Industry to the portfolio. Electricity was added to Water Minister **Ghazi Alghossaibi's** department. Municipal and Rural Affairs Minister **Prince Muteb Bin Abdelaziz** also took over Public Works and Housing. There is also an expanded Information and Culture Ministry under **Fouad Bin Abdelsalam Farisi**.

Across The Region

Saudi Shiites fear the authorities will respond to a reform call with a security crackdown rather than with concessions. Wahhabi sentiment is polarising, with senior Sudairi princes sponsoring headline religious initiatives. PAGE 6

UK Foreign Secretary Jack Straw is reportedly turning his attention to reform in Saudi Arabia. A London conference is said to be planned. PAGE 5

Israel's National Security Advisor has given a view on Saudi Arabia. PAGE 3

Qatar has voted for a new Constitution, with elections to follow in 2004. PAGE 5

A majority of Yemenis voted for President Saleh in general elections – at least according to the official results. PAGE 5

Bahrain's King Hamad has rebuffed requests for a meeting from the four-party opposition alliance that boycotted elections. Wafaq and its partners are building new relationships. PAGE 6

Independent Bahraini daily *Al-Wasat* is in dispute with the conservative Information Minister, but it fights on. PAGE 7

Confronted with considerable domestic opposition to Bahrain's military support for the USA, King Hamad will be greatly relieved the Iraq war was over quickly. Key projects and reforms could now be accelerated. *GSN* maintains its C+/2 Risk Grades, and upgrades could follow. RISK MANAGEMENT REPORT, PAGE 14

The strange affair of George Galloway and papers unearthed in Baghdad's looted Foreign Affairs Ministry reflects a bitter media war that will continue long after final armed resistance in Iraq has been subdued. *GSN* looks at the *Arab TV* saga, and the position of the big players in the Arab satellite world, *Al-Jazeera* and *Abu Dhabi TV*. BACKPAGE, PAGE 20

The UK's Export Credits Guarantee Department is making up for lost time in Iran by building up a bullish programme of capacity for new business and taking direct corporate risk on major parastatals. A new generation of bank lines of credit is to follow. FINANCE, PAGE 13

Ten years ago, the Iraqi opposition was divided, with only the Shiite Sciri active on the ground. PERSPECTIVE, PAGE 2

GSN's Analysis

The USA's decision to pull most of its military presence out of Saudi Arabia will allow both sides to regear a crucial strategic relationship. The House of Saud and the Bush Administration are seeking a measure of continuity, focusing on oil, but critical questions remain. PAGE 3

The size and shape of US forces in the Gulf is the evolving hot topic for military planners. A major shift to Iraqi basing has received "zero discussion" and the Pentagon considers Kuwait its foremost option, followed by Qatar, the UAE, Bahrain, and Oman – especially if there is conflict with Iran. CENTREPIECE, PAGE 8

Differences of approach to the Iranian opposition MKO underline some of the many contradictions that confront the US/UK Coalition as it strives to rebuild Iraq and construct a new political order in the Middle East. GSN VIEW, PAGE 2

Private sector business in the Gulf is fast switching focus to concentrate on the economic opportunities offered by the reconstruction of Iraq. This shift in outlook reflects a wider evolution as Gulf rulers come to terms with reinforced US power in the region. PAGE 11

Iran's reformist government is squeezed by US and domestic conservative pressure. Its D political Risk Grade looks realistic. RISK MANAGEMENT REPORT, PAGE 15

MIDDLE EAST ENERGY

It is far from a sure thing, but the eventual reactivation of the Mosul-Haifa oil pipeline could serve long-term US and Israeli energy security interests – playing a part in Washington's ambition to chip away at Gulf oil's critical importance in the global energy mix. PAGE 16

MEE Pointers on Bahrain, Halliburton in Iraq, Oman and Saudi Arabia. PAGE 16

While the Saudi gas initiative is not dead, ExxonMobil's leadership has sounded a pessimistic note on two of the \$25bn project's Core Ventures. PAGE 17

The US/UK Coalition is looking to restart Iraqi exports after renewal the UN Oil-for-Food Programme in June. Washington is expected to use the opportunity to wring concessions from France, Russia and China. PAGE 18

British ministers seeking to maintain warm relations with Tehran in a carefully constructed “constructive engagement” oiled by large volumes of new export credit cover (*see page 13*) have been left in an awkward position by a US decision to leave the anti-Iranian Mujahedin-e-Khalq Organisation (MKO) intact and in possession of heavy weapons in eastern Iraq. The several thousand-strong MKO forces have artillery and air defence systems, which they have been allowed to keep under the terms of a 15 April ceasefire with the Americans. They may also have tanks, but despite their conventional military capacity, MKO units have concentrated on carrying out attacks in Iranian cities, killing and injuring civilians.

Because of this indiscriminate violence, the MKO is officially categorised as a terrorist group by the US State Department and UK Foreign and Commonwealth Office (FCO). It has been proscribed in the UK under the 2000 Terrorism Act. The FCO told GSN this week that the MKO had acknowledged responsibility for attacks on government buildings in Iran in 2000, 2001 and 2002.

Such facts sit uncomfortably with the apparent ceasefire of convenience worked out by the USA – underlining the many contradictions confronting the US/UK Coalition as it strives to rebuild Iraq, and in British policy as the Blair government seeks to promote an independent policy of constructive engagement while locked into a strategic alliance with the Bush Administration as senior partner.

As GSN has pointed out before, the constructive engagement pushed by Blair and Foreign Secretary Jack Straw is focused on Iran, Libya and Syria. This policy is threatened by the predominance of neo-conservative influences in Washington. Reports that reform in Saudi Arabia, about which the FCO traditionally adopts a discreet approach, is now on Straw’s agenda may suggest another accommodation of the neo-con agenda, although this has yet to be confirmed (*see page 5*).

As GSN went to press, the US authorities were proving reluctant to explain why they had not taken steps to

shut down the MKO, some two weeks after signing an initial ceasefire agreement. This raises suspicions that Washington sees its continuing existence as a useful implement of pressure in its political confrontation with Tehran – whose requests for extradition of Iraq-based MKO leaders it has ignored – and potentially with dissident Shiite groups in Iraq. Ironically, the MKO has a strongly anti-American history. The State Department notes it supported the 1979 seizure of the US Embassy in Tehran and in the 1970s it killed several American civilian and military personnel. Under the 15 April ceasefire, MKO fighters could retain their artillery and air defences, provided these were locked down in “passive travel mode” so they could not be immediately used. In return, they agreed not to engage in hostile acts towards Coalition forces or to attack oilfields and government buildings in Iraq.

Washington’s failure to take steps to disarm the MKO has left its closest ally in an awkward position. MKO positions in central Iraq are controlled by US forces, so the British have no practical leverage. However, the FCO made no secret of its views, pointing out that the Baghdad-based MKO was “one of Saddam’s most trusted supporters”. The FCO told GSN: “We regard the MKO as a terrorist organisation – which is why it is on the list of groups proscribed by the Home Secretary under the Terrorism Act 2000. The British government remains firmly opposed to the violence practised by the MKO and to terrorism from every quarter.”

The MKO’s political arm, the National Council for Resistance in Iran, claims it is fighting a legitimate struggle for democracy. “This claim is difficult to square with its history of violence and its authoritarian nature,” responded the FCO, noting that the group fought for Saddam Hussein in the Iran-Iraq war. The FCO also commented that the MKO lacked a popular base within Iran, “where an overwhelming majority of Iranians have endorsed at the ballot box President Khatami’s reform programme.” This latter view is not the prevailing orthodoxy in Washington.

Perspective: Ten Years Ago

The Iraqi opposition has an unenviable record of failed attempts at unity. What started as the opposition Joint Action Committee (JAC), set up in Damascus in 1991 by Iraqi dissidents, has now split into three main and separate organisations, each with its own attractions and drawbacks as far as opponents of Saddam Hussein are concerned. The Iraqi National Congress (INC) broke away from the JAC and quickly and successfully set about establishing good relations with Western officialdom. Through the Kurdish element in its membership, the INC has an office inside what is technically Iraq, at Salahuddin in Kurdish-held territory.

Another opposition group, the Supreme Council of the Islamic Revolution in Iraq (Sciri) is, in theory, still part of the INC set-up. But the leadership of the Iran-based Sciri, almost entirely Shia in composition, is known to

be dissatisfied with the connection with the INC and is now, to most intents and purposes, a separate body. Sciri, very conscious that its strongly Islamic character and closeness to Iran are factors which probably reduce its chances of Western acceptance, is said to be seeking to change its image and its name in order to give less emphasis to its Islamic make-up.

But, being based in Iran, Sciri is the only opposition organisation which actually carries out anti-regime operations inside Iraq. Sciri’s hit-and-run armed raids into southern Iraq cannot be a real military threat to the regime in Baghdad, but they nonetheless support the picture of a rebellious and resistant South still fighting to shake off the rule of Saddam Hussein.

Gulf States Newsletter, Vol. 18, No. 459, 19 April 1993

US Forces Withdraw: Is It To Ensure Continuity Or Speed Change In The Saudi Relationship?

Shifts were expected in the Saudi/US relationship following the collapse of **Saddam Hussein's** regime in **Iraq**, and in the light of antagonisms generated by the post-9/11 clash between radical Islamism and the global economic and political powers. Even so, **Donald Rumsfeld's** 29 April announcement at a joint press conference with **Crown Prince Abdallah Bin Abdelaziz** had some shock value.

The US Defence Secretary said US forces would leave the Kingdom except for some 400-500 troops committed to a longstanding training programme.

In an expression of the triumph of neo-conservative values in Washington, Rumsfeld said this was due to the Gulf now being "a safer region because of the change of regime in Iraq". This "changed environment" will allow Washington to regear its relationship with Saudi Arabia – whose bases are no longer essential to US strategic interests (*as analysed on pages 10-12*).

Planners in the Office of the Secretary of Defence told *GSN* that Saudi Arabia was the least dependable basing option among the possible alternatives – the **Gulf Co-operation Council (GCC)** states, **Jordan** and **Turkey**. However, they pointed out that if the Kingdom's interests were sufficiently threatened, Saudi military infrastructure would most likely once more be reliably on offer to the USA.

Meanwhile the Kingdom's strategic significance will continue to be based on its long-term role as the oil industry's undisputed swing producer, which will assure that the USA remains closely engaged.

During a period of realignment, Saudi leaders are not the only ones seeking a measure of continuity in their strategic relationship. Even so, distinctive Saudi policies are beginning to emerge on issues like the military stance towards Iran, the forging of a new Iraq, and democratisation in the Middle East.

The USA should be happy with Saudi Arabia's co-operation of late. Riyadh delivered on its promise to prevent a major oil production shortfall and price spike during the war in Iraq, and is leading efforts to stabilise medium-term oil prices. The Kingdom has also taken pains to stress the ongoing importance of US commercial participation in the Saudi Gas Projects Initiative (*see Middle East Energy, page 17*).

Riyadh remains firmly engaged in the Middle East peace process, with **Israel's** National Security Advisor **Ephraim Halevy** recently lauding the

Saudi peace initiative unveiled by Crown Prince Abdallah Bin Abdelaziz at the Arab summit in Beirut (*see box*).

In other areas, however, there are growing signs that the relationship is undergoing a shift. With the announcement on 27 April that the USA would shift its Middle East air operations base from Saudi Arabia to Al-Udeid air base in **Qatar**, a long-awaited draw down of the military presence in Saudi Arabia had begun. The extent of this was underlined when Rumsfeld visited three days later, but taking a longer view, the move was only the latest in almost a decade of growing distance between the US and Saudi Armed forces.

Military victory in Iraq meant "there will no longer be a need" for the no-fly zones there, according to Central Command chief General **Tommy Franks**. The reduction in the long-term basing of US forces in Saudi Arabia – and Turkey, where Incirlik has closed – is perhaps the most significant development for Western armed forces there since US troops relocated to remote desert cantonments in summer 1996.

Reflecting this trend, recent statements from Crown Prince Abdallah and Second Deputy Prime Minister and Minister of Defence and Aviation **Prince Sultan Bin Abdelaziz** indicated they saw no impediment to a draw down of forces now **Saddam's** regime has been toppled in Iraq. This implied that Riyadh saw no need for Western forces to be based in the Kingdom for use against other Gulf states, notably **Iran**.

According to a US National Security Council staffer any future containment of Iran would not

An Israeli Perspective On The Kingdom

At a Washington DC meeting recently attended by *GSN*, Israeli National Security Advisor **Ephraim Halevy** made his first public address to a non-Israeli audience, issuing surprisingly supportive statements of the **Saudi** government. Halevy noted that Saudi Arabia was "hurtling through hundreds of years of history in a very short time", and experiencing "events of enormous significance".

He praised the Saudi role in the peace process, arguing that **Crown Prince Abdallah's** peace plan – revealed at the Arab summit in Beirut – was "not rejected out of hand by Israel". Instead, it was "dragged down by embellishments added by other states". Halevy also noted that during the first siege of **Palestinian Authority** President **Yasser Arafat's** compound, it was Saudi Arabia that took a hard line with Arafat, forcing him to surrender six fugitives. The apparent message for an informed **US** audience: **Iran** and **Syria**, not Saudi Arabia, are most in Israel's sights.

require "permanent basing" in Saudi Arabia in any case, but would instead rely on "permanent access" agreements in place with GCC states.

SHIFTING SAUDI FOCUS IN IRAQ

Saudi Arabia appears to have recovered from the unexpectedly rapid collapse of Baathist military forces in Iraq, and has begun to shift its focus there as well. According to observers in Riyadh, Saudi leaders and citizens – like their counterparts in many other Arab countries – had fostered hopes that the Iraqi military would at least give a good account of itself. Now the question has been comprehensively settled, Riyadh has again begun to shape its future policy through familiar initiatives like aid provision and regional diplomacy.

King Fahd kick-started the Saudi effort to win Iraqi and regional hearts and minds with an initial \$80m aid donation – a mere drop in the bucket next to the many unaccounted for goods and services already flowing into Iraq from the Kingdom.

A national committee chaired by Interior Minister **Prince Nayef Bin Abdelaziz** is co-ordinating with the Saudi *Red Crescent* newly forming Baghdad headquarters, working from a development plan drafted by Red Crescent workers who made early post-war forays into Iraq.

Saudi initiatives already under way include aid convoys dispatched from Arar into central Iraq, and from Khafji into Basra, protected by *Royal Saudi Land Forces* armoured vehicles; field hospitals in Iraq, and air evacuation of patients to the Kingdom; and co-ordination with the *UN High Commissioner for Refugees* on the safe return of 5,000 Iraqis living in Rafha refugee camp.

Saudi Arabia has begun shipping subsidised oil to Jordan after a 13-year gap. A tanker loaded with 100,000 tonnes of crude docked at Aqaba on 14 April, one week after King Fahd entertained **King Abdallah II** in Riyadh.

Riyadh has initiated a hectic diplomatic programme, culminating in talks involving the heads of state of **Egypt**, Jordan, and **Syria**. Extensive meetings of foreign ministers were held, including an extraordinary meeting of GCC foreign ministers on 15 April and a meeting of the foreign ministers of states bordering Iraq on 18 April.

Formal communiqués presented by Foreign Minister **Prince Saud Al-Faisal** outlined an apparently unified Arab position on Iraq.

Saud stated: "We urge the occupying governments to quickly set up an interim government in Iraq and to control the security situation. The occupying forces should restore security until Iraq succeeds in re-establishing its security agencies and other services. At this point, it is necessary that the legitimate Iraqi government should take over. It is in the interest of Washington and London that withdrawal is done very quickly."

A SAUDI VIEW OF TRANSFORMATION

To counterbalance growing US unilateralism and

influence in the region, Riyadh continues to express interest in the rapid development of regional solutions and mechanisms.

The Kingdom has its own view of the desirability of regional transformation under American guidance. To many observers, the transformation now under way involves not only democratisation but the fragmentation of the collective Arab world along the lines of national self-interest – a development that could be seen in King Abdallah II's so-called Jordan First policy of last year.

Israeli National Security Adviser **Ephraim Halevy** and many other Israeli and US officials view this development – which mirrors a similar, less explicit fragmentation following the 1991 Gulf War – with satisfaction. Halevy recently stated that "the Arab League is a ghost entity... *Hizbollah* and Arab states did not lift a finger to save Saddam, acting entirely out of self-interest, as they will continue to do so."

Yet Riyadh's energetic multinational diplomacy runs counter to such predictions, and is propelling Saudi Arabia into an unusually visual role.

The Kingdom has also managed to warm traditionally frosty relations with Turkey after it lost favour during the Iraq war. In late April, Gul announced new ties between Ankara and Riyadh. Possible joint ventures include the sale of armoured vehicles by Turkey to Saudi Arabia.

On the issue of democratisation, Saudi Arabian and US interests may not be so far apart as is often suggested. A democratic Iraq will not necessarily destabilise the rentier state in Saudi Arabia, nor will it lead to American calls for a rush to democratisation in the Kingdom.

The US State Department – still the lead agency in relations with Riyadh – is populated with cautious proponents of gradual political reform, including US Ambassador **Robert Jordan**. Such diplomats view the prospect of full-scale elections in Saudi Arabia with a certain amount of alarm, foreseeing the potential for **Algerian**-style electoral victories for Islamist movements.

The Saudi public are likewise not yet displaying a strong appetite for radical change. Most Saudis see an ongoing role for the monarchy, and current expectations focus on small steps such as electoral selection of the consultative Majilis Al-Shura – a relatively toothless body being promoted by the Saudi government as evidence of political progress. So far, this has satisfied what popular appetite there is for change.

The Saudi political scene is complicated by continued accusations of involvement in terrorism on the part of various organisations and individuals. Director of the Islamic Affairs Department at the Saudi Embassy in Berlin **Mohamed Fakihi** was recalled to Riyadh after **German** officials raised questions about his possible contact with an Islamic group under investigation for terrorism. In late 2001, German investigators found one of

Qataris Approve New Constitution

While the world focused on the **US** move to confirm their small Emirate as a key hub in its global military strategy, effectively replacing **Saudi Arabia**, Qatari voters on 29 April overwhelmingly approved the new Constitution presented by Emir **Sheikh Hamad Bin Khalifa Al-Thani** (*GSN 708/10*).

Interior Ministry Under-secretary **Sheikh Hamad Bin Nasser Bin Jassem Al-Thani** said 96.6% of participants in the referendum supported the new Constitution, which paves the way for a 45-member Shura (Advisory Council), 30 of whose members will be elected and the rest appointed by the Emir. According to a statement carried by **Qatar News Agency**, 71,406 Qataris voted, out of an 85,000 electorate. Elections are expected in 2004.

Fakihi's business cards in the apartment of **Mounir El-Motassadeq**, who was convicted in Germany of being involved in the attacks on New York's World Trade Center on 11 September 2001. He was also seen visiting a mosque (part-financed by **Al-Haramain Foundation**) that was reportedly frequented by several individuals under investigation for terrorism.

Saudi officials deny Fakihi had any contact with Motassadeq, but the incident plays into American concerns that individuals in the Saudi government may have supported terrorist groups. Al-Haramain is one of the defendants in the \$1trn lawsuit being brought by 9/11 relatives. Members of the Saudi royal family are also accused in the suit.

British Intervention In Saudi Reform Debate

With neo-conservative commentators across the Atlantic continuing to press the case for reform in Saudi Arabia, Foreign Secretary **Jack Straw** is planning a joint conference to promote change – with the Riyadh government's "formal or informal" agreement – the UK daily *The Guardian* reported on 1 May.

"Mr Straw has met with the Saudis to discuss the need to reform or face the threat from a theocratic Muslim society," the daily said.

It also observed that Straw had told the *BBC* he hoped **Saddam Hussein's** fall would create a "benign and virtuous circle".

Confirmation of the plans was not possible as *GSN* went to press on 1 May.

Yemen Votes, Only Seven Dead

The relative calm in which Yemen's parliamentary elections have taken place – previous votes have been surrounded by far greater violence – may be as important as the result itself, which was a predictably comfortable victory for President **Ali Abdallah Saleh's General People's Congress (GPC)**. There were 'only' seven dead.

With results in 21 constituencies to be declared as *GSN* went to press, the ruling party had already gained 214 of the 301 seats, on the basis of a healthy 76% turnout.

The shine was taken off this apparent triumph when independent foreign observers, including the US-based **National Democratic Institute**, reported widespread irregularities.

But the **Bush** Administration, for whom Saleh is a crucial if prickly ally in the war on Islamist terrorism, will be glad to see its man's camp retain a dominant position in the legislature.

The Islamists of **Al-Islah**, the main opposition – with whom Saleh's relations have become more strained over the past few months – have picked up at least 40 seats, while seven have gone to the **Yemen Socialist Party**.

Moves to strengthen opposition co-operation between the left and Islah suffered a tragic blow in December when veteran radical Jarallah Omar was shot just after addressing the Islamist party's conference.

The solid GPC victory in Arabia's only low-income developing country will be privately welcomed by the **International Monetary Fund** and **World Bank**. Impressed by Yemen's economic reforms, they will be relieved the government retains parliamentary strength to persist with controversial "tough medicine" policy measures.

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Saudi Shia Want Reform, Fear Wahhabi Backlash

With Shia politicians flexing their muscles in Iraq, Saudi Shiites campaigning for democracy fear Riyadh will respond with concessions but with a fresh security crackdown.

The tone has been set by Interior Minister **Prince Nayef Bin Abdelaziz**, one of the architects of continued repression of Shia and other minorities, who told a recent meeting of newspaper editors: "Don't forget, we are a Salafi state, whether you like it or not."

This rare expression by a senior royal of the Kingdom's identity in terms of a fundamentalist Salafi interpretation of Sunni Islam has been noted by those from other traditions.

In mid-April, Saudi Arabia's senior Shiite imam **Sheikh Hassan Al-Saffar** and 11 colleagues congratulated Iraqis on the overthrow of **Saddam Hussein**. Noting the prominent activism of Shia in post-war Iraq, Saffar expressed the hope that Saudis would now better understand the Kingdom's own Shiites and realise they were no different from other Muslims.

Saffar also called for changes to school textbooks – which vehemently assert that the Wahhabi culture is the Kingdom's only true religion. Official religious books describe the Shia – who are denied the right to publish their own texts – as infidels.

After the government failed to honour promises of greater tolerance set out in a 1993 agreement, Saffar and other imams mostly kept a low profile. But they eventually concluded that the Shia position would only improve with wider political change and have since sought to raise their profile.

The Wahhabis' natural base of support, in the Najd region, represents only about 25% of the Saudi population. More liberal attitudes prevail among Shia concentrated in Eastern Province and around Medina (accounting for 15-20% of the population) and among Sunnis of the Hejaz (25%), as well as southern Sunnis, Ismailis and Zaidis and some northerners.

Hamza Al-Hassan of the London, UK-based *National Coalition for Democracy in Saudi Arabia (NCDSA)* told *GSN*, "We would like to have recognition of the diversity of Saudi society and we are looking to have a more tolerant view of each other, even politically." Examples of co-operation between pro-reform Shia and secular liberals in other Gulf states have not gone unnoticed, Hassan said. "The situation in **Kuwait** and **Bahrain** has a huge influence on all the Saudis."

As **Crown Prince Abdallah Bin Abdelaziz (CPA)** began openly to explore options for political reform early this year, Shia leaders began to express their

own reform aspirations more openly. Developments in Iraq and US pressure on Riyadh to countenance change further buoyed their hopes.

But NCDSA campaigners, pointing to Prince Nayef's recent harsh rhetoric, fear the powerful Interior Minister is determined to block change.

Although no Shiite clerics are currently jailed, some Shia have been arrested after religious ceremonies, such as the Muharram festival earlier this spring, though they were soon released. Hundreds have had their passports confiscated.

SUDAIRIS AND WAHHABIS

It is not just Nayef, often seen as an ambitious hardliner, who has been promoting Salafism, a philosophy that views social and government policy in uncompromisingly religious terms.

In March, Second Deputy Prime Minister and Minister of Defence and Aviation **Prince Sultan Bin Abdelaziz** financed a reprint edition of **Sheikh Saleh Al-Fawazan's** *The Unity of God*. This stresses Wahhabi supremacy, dismissing Shia, Abadi and Hejazi Islam, as well as Christianity and Judaism. In 1993 the government tried to impose it as an official school text. Faced with protests it eventually retreated, although the book remained available. Now Sultan – like Nayef a Sudairi son of **King Abdelaziz Ibn Saud** and a major rival of CPA – is promoting it once more; he is more usually viewed as a key Western ally.

While Shiites, Hejazis and liberals lobby for pluralistic reform, Sunni conservatives take the opposite view. In a pre-war *fatwa*, Burayda-based cleric **Salman Al-Awda** effectively dismissed Shiites as non-Muslim, arguing that only Sunni Iraqis would mount Islamic resistance to a US/UK invasion force.

Militant Wahhabism is also trying to extend its regional influence, notably through the recent establishment of the **Dubai-based Al-Majd** satellite television station, financed by Saudi royals and businessmen. Within the Kingdom, there is a long-established government-backed radio station, *Izzat Al-Quran Al-Karim*; Wahhabi clerics control religious output on TV and radio.

BAHRAIN: Opposition Alliance Builds Support, But Little Progress

King Hamad Bin Isa Al-Khalifa has so far rebuffed requests for a meeting from the four-party opposition alliance that boycotted last autumn's parliamentary elections. The alliance comprises *Al-Wefaq National Islamic Society* and the *Islamic Action Society* (both Shia), the *National*

Democratic Action Society (NDAS, secular liberal) and the **Nationalist Group Society** (NGS, ex-Baathist).

The alliance continues to push for Bahrain's new political structure to be realigned with the 1973 constitution, giving the elected parliament clear legislative supremacy. Current arrangements give the final word to the nominated upper house.

A third letter to the King from the alliance parties has been rejected by Royal Adviser **Hassan Fakhro**. But the alliance has broadened its campaign base by linking up with the ex-communist **Democratic Forum Society** (DFS) and the **Nationalist Islamist Society** (NIS, Sunni) – which participated in last year's vote – to sign a common "charter of unity" on core demands.

The charter's main themes are the 1973 constitutional principles; separation of legislative, executive and judicial power; the rule of law and human rights; national unity; citizenship rights and duties; action against corruption; and the promotion of women's political, social and economic roles.

The alliance argues that they support King Hamad's agenda of change. "The objective facing this big alliance of six is to support the political reform done by the King," a senior opposition figure told *GSN*.

The original boycott quartet was dominated by Sheikh **Ali Salman**'s Wafaq – Bahrain's largest political grouping – and **Abdelrahman Al-Nuaimi**'s NDAS. Islamic Action, headed by Sheikh **Ali Mahfoudh**, represented Shiites returned from exile in Syria, while **Abdurasool Al-Jishi**, a one-time member of the dissolved 1970s parliament, led the NGS ex-Baathists.

Their new allies significantly broaden the range of religious and political interests in the alliance.

The NIS failed to win any parliamentary seats last autumn, but its signing of the unity charter means that a significant voice of Sunni opinion is now openly committed to the campaign for constitutional change.

Sunni parliamentarians such as Second Deputy Speaker **Adel Al-Maawda** have broadly allied themselves to the government, despite quibbling over state borrowing proposals (which have now been approved).

The charter alliance does have two MPs, both from the DFS – **Abdulnabi Salman** and First Deputy Speaker **Abdulahadi Marhoon**. They have campaigned vocally on constitutional issues and labour rights, unemployment, corruption and financial mismanagement, but are regularly outvoted by government allies.

Wafaq is also exasperated by the powerlessness of the five municipal councils – where it has 22 members. Effective power and expenditure allocations have been vested mainly in appointed municipal governorates. Wafaq has threatened to withdraw its councillors, but opposition sources

believe it will stay on board because at least it then knows what issues are being discussed, even if its powers of decision are limited.

Even reformers inside government face resistance to change. Labour Minister Dr **Majeed Al-Alawi**, a former exiled opposition leader, recently announced plans for further Bahrainisation of the workforce, only to be forced to back down when merchants and the **Bahrain Chamber of Commerce and Industry** complained.

BAHRAIN: Al-Wasat Under Pressure As Hamer Guns For Jamri

Public and private sector advertisers are continuing to back the independent *Al-Wasat* newspaper, even though its founding editor-in-chief **Mansoor Al-Jamri** is the target of legal action by Information Minister **Nabil Al-Hamer**. Jamri was threatened with imprisonment but posted a bail bond to retain his liberty until a final court hearing. He has been a persistent critic of the new press law, but he may also be paying the price for continuing to report on the armed Islamist radicals now awaiting trials (*GSN* 705/7). All of Bahrain's press covered the initial arrests but other papers later submitted to a gagging order imposed by Hamer. *Al-Wasat* felt it could not ignore an important story still running on international news wires.

Jamri, son of prominent Shia cleric **Sheikh Abdelamir Al-Jamri** (who is now in Riyadh recuperating from a stroke), was a leader of the London-based **Bahrain Freedom Movement** until he ended his exile and relocated to Bahrain in late 2001 following **King Hamad Bin Isa Al-Khalifa**'s launch of democratic reform. Eschewing conventional politics, Jamri opted last autumn to launch *Al-Wasat* to challenge the strongly pro-government media's dominance. The new paper is backed by prominent business figures from both sides of Bahrain's religious divide. The chairman of the board is **Farouk Al-Maayyed**, a Sunni with major interests in auto dealerships, real estate, furniture and computers. Another major backer is supermarket operator **Faisal Jawad**.

The authorities initially welcomed *Al-Wasat*'s launch, but the paper's determination in sticking to its lively, independent reporting line – which has won the respect of opposition figures who had feared Jamri would make too many compromises with the rich and powerful – has disconcerted conservative ministers, particularly Hamer. A committee chaired by **Crown Prince Sheikh Salman Bin Hamad Al-Khalifa** produced a reformist and liberal draft press bill. But Hamer's proposals include provisions against denigration of the state and Islam, which critics such as Jamri believe could be used as a catch-all excuse to clamp down on journalists.

Faced with protests, the government invited Jamri, the editors of the other two Arabic language papers – *Al-Ayyam* and *Al-Akbar Al-Khaleej* – and three other journalists to join Hamer and Cabinet Affairs Minister **Mohammed Mutawa** on a review committee. The committee met several times but has been inactive since December; the matter is now in the hands of another cabinet committee. Meanwhile, Hamer has taken vigorously legal action against *Al-Wasat*.

The pro-government *Al-Ayyam* – which Hamer used to edit – is thought to be feeling the competitive heat from the new paper, whose 30,000 circulation has made a big dent in a market with only 50,000 regular newspaper buyers. But Hamer's tough stance does not necessarily reflect the views of government as a whole. It is noticeable that other ministries and state agencies have not cut back on the volumes of advertising they are placing in *Al-Wasat*.

Iraqi Bases Not A “Must Have” To Contain Iran

Donald Rumsfeld's 29 April announcement that US forces would largely pull out of **Saudi Arabia** – leaving only a small, longstanding training programme involving some 400-500 troops in place – may have been because, in the US Defence Secretary's words, “it is now a safer region because of the change of regime in **Iraq**”, which also allows Washington to regear its relationship with the Kingdom (*see page 3*). But it was also an expression of another, relatively new Gulf reality – that the smaller **Gulf Co-operation Council (GCC)** states now offer sufficient facilities and fewer political problems to meet US needs.

With the fall of **Saddam Hussein's** regime, the USA has deactivated one of what it sees as the two northern Gulf threats to regional security, leaving Iran as the key remaining subject of militarised US containment. The size, posture and composition of US force levels in the Gulf is an evolving hot topic in American military planning circles – which *GSN* will track closely for some time to come.

In an early indication of a re-orientation towards an Iranian threat – the predominant threat for Washington throughout the 1980s – *The New York Times (NYT)* on 19 April claimed the USA was angling to establish a permanent military presence at four key Iraqi airbases. This prompted an immediate rebuttal of the reports as “inaccurate and unfortunate” by Rumsfeld.

The Department of Defence never says never to any basing option, yet long-term Gulf watchers also recognise a kernel of truth in Rumsfeld's statement that a major shift to Iraqi basing has received “zero discussion” in the Pentagon.

Following over a decade of diversification away from **Saudi** airbases and into the smaller GCC states, other ring states surrounding Iran and stand-off platforms for power projection such as carriers and long-range bombers, Iraqi bases represent a “nice to have” but not a “must have” option in Iranian contingencies.

A growing number of bases in the smaller GCC states proved sufficient to take out Iraq, and several of these facilities are being further developed.

THE APPARENT LOGIC OF IRAQI BASING

The logic of establishing permanent or at least long-term US military basing in Iraq rests on a mix of invalid and valid assumptions. Many assume, following the examples of US-occupied **Germany** and **Japan**, that Iraq will be a pliant host nation. This is a questionable assumption that Rumsfeld and others have downplayed.

The USA is also broadly perceived to need

basing options to replace those previously assumed to be available in Saudi Arabia and **Turkey** – another questionable assumption considering the coalition performance in Operation Iraqi Freedom.

Iraq's recent military clashes with Iran are arguably a more valid reason for assuming that Iraq will be developed as a basing option. If the USA decides to embark on long-term militarised containment of Iran – an increasingly likely option while Tehran presses ahead with its nuclear programme – America will need to remain postured to carry out a number of missions.

Although rollback of suspected weapons of mass destruction (WMD) and terrorist infrastructure can be achieved with stand-off assets – carrier aviation, missile-launching ships and submarines, and long-range bombers – the USA recognises the utility of being able to physically halt Iranian incursions into Iraq, prevent Iranian amphibious activity in the Gulf – a possible subject during Rumsfeld's 27 April visit to the **UAE** – or even support or physically threaten regime change.

Iraqi basing offers critical advantages for these latter kinds of operations – unlikely as they are. Use of Iraq's borders to insert land formations and special forces completes the Islamic Republic's encirclement by potential US allies. Iraqi airbases enjoy the one asset that GCC states lack – strategic depth – protecting them against Iran's growing arsenal of theatre ballistic missiles.

The majority of Iraq's airbases are well hardened, with almost 600 hardened aircraft shelters (HAS) in the country, albeit in various states of disrepair.

But the possibility of terrorist attacks and the degraded state of Iraqi military infrastructure are discouraging the US military from seeking a major relocation to Iraq. The force protection environment is likely to remain sensitive for a number of years, particularly in an Iranian scenario, where local proxies could play a role.

Iraq continues to represent an austere operating environment for supporting air operations. US air forces operated in non-optimal conditions in **Afghanistan** and Iraq but the Pentagon would prefer to use familiar, well-maintained bases in any major conflict that would require US forces to operate at optimal levels for a sustained period.

Iraqi bases require permanent US airfield support packages, which resurface and mark runways, establish perimeter security, and provide control tower equipment, navigation aids, lighting, and other procedural assistance. Airbases designed for smaller Soviet aircraft lack facilities and undamaged HAS for large aircraft; they require

conversion to high-quality Western jet fuel. Messing and accommodation facilities are lacking for long-term habitation by US forces.

The *NYT* reported the USA was considering developing a long-term presence at the four key airfields now under use by US forces. But these fields were chosen due to the contingencies of battle, not for long-term basing potential.

This suggests the *NYT* article presupposed the USA would continue to use its existing forward bases (see box below). But if the USA were to undertake future operations against Iran – the principle reason for developing airbases in Iraq – a different set of airfields would need to be developed, including at least one of the *Iraqi Air Force's* eastern main operating bases (Ash-Shuaybah, Basra, Kirkuk, Mosul and Baghdad's Rashid airbase).

GCC BASES ARE SUFFICIENT

US planners increasingly see such development as unnecessary. A US Air Force-sponsored *Rand Corporation* publication – *Evaluating Possible Airfield Deployment Options: Middle East Contingencies* – failed to mention use of Iraqi airbases in Iran contingencies. Similarly, when GSN asked **Michael Rubin**, a Special Plans staffer in Rumsfeld's Office of the Secretary of Defence (OSD), to rank regional host nations by their importance, Iraq was not mentioned as an option.

Rubin noted said the OSD considered **Kuwait** to be its foremost basing option in Iranian contingencies following Operation Iraqi Freedom, followed by **Qatar**, the UAE, **Bahrain**, and **Oman**.

Oman was only placed this far down the list because, despite the Sultanate's ungrudging basing of combat aircraft in the recent war, "no-one knows what happens after [Sultan] **Qaboos**".

The USA's Forward Bases In Iraq

US forces are using four forward bases in Iraq:

- **BAGHDAD INTERNATIONAL**—Its key feature is proximity to the capital and high-quality 13,000ft and 8,800ft runways. But the airfield is not a military airbase, boasting only eight hardened aircraft shelters (HAS). Although large US transport aircraft are likely to continue to use this hub for some time, the airfield will eventually have to be turned over to civilian traffic. The Pentagon prefers to use dedicated, remote military airfields rather than dual-use facilities.
- **TALLIL**—This major airbase near Nassariya was Southern Iraq Sector Operations Centre. It boasts 12,000ft and 9,700ft runways, plus sufficient room to operate two fighter squadrons. A high proportion of the 36 **Yugoslav**-built HAS originally emplaced there appear to have been destroyed in the last 12 years.
- **H-1**—A dispersal base in western Iraq that was incomplete when the 1991 Gulf War prevented further development. It appears that Coalition forces probably used it to relocate air and special forces assets based in **Jordan** and **Saudi Arabia** shortly after the beginning of Operation Iraqi Freedom.
- **BASHUR**—A dispersal base near Sulaymaniyah, recently developed by the **86th US Expeditionary Contingency Response Group**.

Saudi Arabia and Turkey were ranked last and would probably not see high levels of US basing now that the no-fly zones had ended.

The OSD clearly thinks that investment in the smaller – some would say more pliant – GCC states throughout the 1990s paid off in the recent war. Of 58 airbases within optimal range of Baghdad, only three were made available to the USA – all of which were in Kuwait. Key standoff options, including basing of combat aircraft with no strings attached, were provided by Qatar and Oman. UAE support is assumed in any future Iran contingency.

The GCC offers better developed facilities than in other states surrounding Iran, such as **Azerbaijan** (with seven US-surveyed sites including the earmarked Bina airfield), **Armenia** (with four US-surveyed sites including the preferred Zvartnots airfield), and options in Afghanistan and **Pakistan**.

The smaller GCC states, in conjunction with standoff options, proved sufficient in the Iraq war and are ideal to provide close basing options against Iran – albeit too close for some US planners who fear massive Iranian employment of theatre ballistic missiles (TBM) in a future scenario. To guard against possible Iranian "anti-access" strikes on airbases, the USA and smaller GCC states continue to undertake parallel policies of hardening, dispersing, and distancing their deployment options.

BAHRAIN: LIMITED OPTIONS

Being both small in size and positioned close to strong Iranian airbases, Bahrain lacks strategic depth and dispersal options for its air forces. Muharra's dual civil and military airfield – the main operating base of the *Bahrain Amiri Air Force* until the 1990s – is particularly vulnerable, positioned at the northern tip of Bahrain and lacking shelter facilities. To remedy the lack of a modern, dedicated military airfield, situated as far to the south as possible, Sheikh Isa airbase was built at Suwan during the 1990s, incorporating HAS for two squadrons of aircraft, plus enlarged dispersal hardstands. The base was conceived in 1985, and while planned to cost \$100m, ended up costing closer to \$200m, being built largely by the *US Army Corps of Engineers (USACE)*.

KUWAIT: PROVEN PERFORMER

Kuwaiti airfields were extensively developed before the 1991 Gulf War, including **Yugoslav**-built HAS. Thereafter, USACE provided over \$145m worth of construction assistance, which accelerated since 1997. Due to the extreme vulnerability of bases at Ali Al-Salam and Kuwait International, the USA and Kuwait developed the more southerly Ahmed Al-Jaber as the main operating base. As with other Kuwaiti airfields, this boasts improved fuel facilities and now stocks JP8 aircraft fuel.

The majority of coalition land-based strike aircraft launched from Kuwait, later transferring to forward bases in Iraq; Kuwaiti air bases were so crowded that support aircraft were diverted to

improvised desert dirt strips to leave ramp space free for high-tempo strike aircraft operations.

Kuwait mulled the development of an additional airbase in the south as recently as November 1994, but its status is uncertain.

OMAN: STRATEGIC DEPTH

Oman operates four main bases – Thumrait, Masirah, Seeb and Salalah – and maintains a small forward operating strip at Khasab on the Musansam Peninsula facing Iran. Oman provides a US/GCC alliance with strategic depth; Masirah, Thumrait and Salalah are beyond the current comfortable range of Iranian TBM; additional HAS construction has been under way at the vulnerable Khasab and Seeb bases, as well as Masirah, since the late 1990s.

A new base is planned at Masana, 120km north-west of Muscat, to reduce military use of Seeb, the main international airport. The logistics base, originally slated to cost \$120m-150m was reduced in sophistication in July 2002 to cost \$60m; it has been designed to meet US operating requirements.

A second airfield, designed by UK firm *Scott Wilson Kirkpatrick* but not been sited yet, will cost some \$70m. In common with Saudi Arabia and Kuwait, major Omani airbases now maintain stocks of JP-8 jet fuel.

QATAR: AL-UDEID FOCUS FOR US TIES

The Al-Udeid airbase was originally conceived as a French construction project, budgeted at \$210m and managed by *Sodeteg* (now part of *Thales*), but as relations improved, the USA built new features

into the airfield, covering a significant proportion of the final total cost of around \$1bn. Emir **Sheikh Hamad Bin Khalifa Al-Thani** declared in April 2000 that it would become “the centrepiece” of closer ties with Washington. This has certainly proved the case. Dispersal hardstands and HAS for over 100 aircraft indicate American concern about Iranian TBM. Although Qatar has transferred all fighter operations to Al-Udeid, it will maintain its former fighter base at the military complex at Doha International, where a small number of HAS and extensive fuel storage facilities are available.

UAE: MAJOR NEW BASE PROJECT

The UAE’s principal military airfields – Al-Dhafra and Bateen – are close to the Gulf coast and do not take advantage of the minimal strategic depth that the UAE’s inland desert offers. Ten other airfields are scattered throughout the country, mainly along the coastal belt, including the **Abu Dhabi** and **Dubai International Airports**.

A major priority is the development of at least one new, dedicated military airfield, which may each house 40 of the UAE’s new combat aircraft. New sites will incorporate advanced features present at other new airfields such as Prince Sultan Air Base in Saudi Arabia, and Al-Udeid, including improved, low-profile hardened aircraft shelters, hardened command posts, underground fuel storage, separate ammunition storage areas, and redundant taxiways. US firm *Stanley Group* will oversee the \$1.2bn construction of at least one site, possibly inland at Al-Hamra or Suwaihan.

Possible US Airfield Deployment Options In The GCC

Airfield	Ramp space (m ft²)	Runway length (ft)	HAS	Fuel storage	Munitions storage	Role
Ahmed Al-Jaber (Kuwait)	2.5	9,800				
Kuwait International (Kuwait)	5	9,800 11,100 11,500	Yes	Yes	Yes	Main fighter base
Ali Al-Salam (Kuwait)	1	9,800 9,800	N	Yes	Yes	Joint civil/military logistics base
Al-Udeid (Qatar)	1 (may rise to 3.6)	15,000 14,000	Limited	Yes	Yes	Smaller forward fighter/ helicopter base
Doha International (Qatar)	3.7	15,000	Some, more being built	Yes	Yes	Main fighter base, strong logistics hub
Al-Dhafra (UAE)	5	12,057	Limited	Yes	Yes	Prior main military airfield
Bateen (UAE)	1.5	10,499	Yes	Yes	Yes	Main fighter base, strong logistics hub
Abu Dhabi International (UAE)	3.4	13,452	Yes	Yes	Under construction	Headquarters and transport aircraft
Sheikh Isa (Bahrain)	1.4	12,400	No	Yes	No	Civilian airports, alternative bases for transport aircraft
Muharraq (Bahrain International)	1.5	12,000	Yes	Limited	No	Main fighter base
Thumrait (Oman)	1.6	13,000 6,400	Yes	Yes	Yes	Logistics base
Masirah Island (Oman)	Less than 1	10,000 8,400	Yes	Yes	Yes	Main fighter base
Seeb International (Oman)	5.4	11,762 2,400	Limited	Yes	Limited	Training base
Salalah (Oman)	Less than 1	11,000	No	Yes	Yes	Logistics base
Khasab (Oman)	Less than 1	8,200	No	Limited	No	Helicopter and dispersal base
						Forward operating base

HAS—Hardened aircraft shelters.

Sources: Rand Corporation, Santa Monica, *Evaluating Possible Airfield Deployment Options: Middle East Contingencies (2001)* and GSN research.

Gulf Business Makes Peace With Military To Fight For Iraq Reconstruction Contracts

Business leaders and governments in the Gulf are already preparing to snap up new project and supply prospects offered by Iraq's reconstruction. **Kuwait** – among the first to provide humanitarian relief – and **Dubai** in particular are bubbling with interest.

Given the unpopularity of the US/UK invasion, private-sector traders, financiers and contractors are not exactly crying their enthusiasm from the rooftops. But, like GCC governments, they are fast switching focus to concentrate on the economic opportunities opening before them. *Thuraya Satellite Telecommunications Company* is already vigorously promoting its services in Iraq, where demand is surging rapidly as international relief work gets under way.

The shift in outlook reflects a wider evolution in the political climate, as Gulf rulers come to terms with reinforced US military and strategic power in the region. The UAE has formed a ministerial committee to look at economic relations with Iraq.

Dubai Ports Authority has already been subcontracted by *Stevedoring Services of America* to help run the port of Umm Qasr – with which many of its managers have a long acquaintance.

Meanwhile, the *US Agency for International Development (USAID)* has said bidders for major reconstruction logistics work should have the capacity to handle shipments through Dubai, as well as Aqaba in **Jordan** and **Turkey's** Mersin.

The *United Nations World Food Programme (WFP)* has warehousing at Dubai, and USAID is expected to follow suit. Dubai has long been an important supply hub for Oil-for-Food Programme (OFP) shipments. The *Red Crescent* – which has just opened offices in **Jebel Ali Free Zone** – is now sending regular shipments from **Jebel Ali** and **Port Rashid** up to **Umm Qasr**.

As one of the World's major trading entrepôts, ideally sited for supplies coming in from the Far East, Dubai has long been set to take a role in a post-sanctions Iraq. The city's business leaders have been prominent at the annual **Baghdad International Trade Fair** over recent years.

The WFP's agents, Dubai-based *Gulf Agency Company*, says commercial shippers are looking at the establishment of further transit points in **Bahrain**, **Jordan** and **Kuwait**, as well as the UAE.

KUWAIT MENDS FENCES

Kuwait is clearly keen to re-establish good relations with its northern neighbour after the bitterness of the past 13 years. It has been an early

and generous provider of emergency aid and has also facilitated shipments from other donors. The Kuwaitis were quick to provide emergency help in putting out oil fires. Health Ministry officials have been in Iraq carrying out initial needs assessment surveys. As *GSN* revealed, the Kuwaiti government has commissioned a plan for regional projects that would bind Iraq, **Iran** and **Saudi Arabia** into a network of mutual interdependence and co-operation, much as the *European Iron and Steel Community* locked **France** and **Germany** together after the Second World War (*GSN 705/10*).

The Kuwaiti government has approved plans to develop a free trade zone near **Abdali** oasis on the Iraqi border. This would feature warehouses, trade fair facilities and industrial units.

The Kuwaiti private sector is pushing hard. USAID has been inundated with proposals from companies active in cement, shipping, warehousing, customs clearance and tourism. A real estate entrepreneur wants to develop a resort near **Basra**.

Geographical proximity gives the Kuwaitis a natural advantage in bidding for subcontracts from *Bechtel*, the US company which is handling much of the initial reconstruction work.

But it is the UAE that will more likely emerge as a major player, given its project development and trading experience, and **Abu Dhabi's** long pockets. UAE President **Sheikh Zayed Bin Sultan Al-Nahayan** has already ordered the construction of a 250,000 g/d desalination plant for **Basra**.

Many potential reconstruction suppliers and subcontractors already have a Dubai presence. This is particularly true of the **Indian** OFP suppliers now identified as potential *Bechtel* subcontractors.

CLEARING THE COMMERCIAL FOG OF WAR

The war caused complications for UAE business, as well as presenting opportunities. Economics and Commerce Minister **Sheikh Fahim Bin Sultan Al-Qasimi** has indicated that the status of Dh7.4bn (\$4.5bn)-worth of trade deals between the UAE and Iraq remains unclear. He said the authorities were examining compensation claims from firms whose business was disrupted by the war. Uncertainty hangs over the Iraq/UAE bilateral free trade agreement, at least until there is a recognised political authority in **Baghdad**.

Sheikh Fahim said Gulf governments were even forming a joint reinsurance firm, because the war risk premiums imposed by international reinsurers on cargos in the region were "exaggerated".

FINANCIAL ANGLES

Iraqi financial interests in the region appear to pose few complications. *Central Bank of the UAE* and *Bahrain Monetary Authority* have already taken control of *Rafidain Bank's* local offshoots.

UAE Central Bank Governor **Sultan Bin Nasir Al-Suwaidi** said the assets of Rafidain's Emirates unit were "very small". With most legal Iraqi trade in recent years handled through the OFP account at *BNP Paribas* in New York, local Rafidain business was limited to a handful of cheque transactions. Suwaidi saw no need to freeze assets.

He has also said that no UAE bank had assets of the former Iraqi government or its personalities or parastatal companies.

Iraq, with its statist financial system, will need to attract foreign expertise and technology if it is to develop a modern banking network. This offers considerable investment opportunities for Gulf

banks whose long-term expansion prospects in crowded home markets are limited.

Suwaidi is offering the UAE Central Bank's services to help restore its Iraqi counterpart's operations. The Abu Dhabi-based *Arab Monetary Fund* has a long history of providing training programmes for the Iraqis.

The long-term pattern of reconstruction contracts will partly depend on the way programmes and projects are financed. As long as US bilateral aid funding remains dominant, American companies and their subcontractors seem set to get the lion's share. But wider considerations should influence the distribution of contracts awarded by an interim – and eventually a permanent – administration, financed from national oil revenues, while multilateral-financed contracts will have to be awarded under standard open competition tender rules.

Finance

Big Two Iranian Corporates Focus For UK Export Credit Push

The UK's *Export Credits Guarantee Department (ECGD)*, whose ability to underwrite Iranian risk was for years blocked by a dispute over pre-revolutionary debt payments, is making up for lost time, building up a bullish programme of capacity for new business in the Islamic Republic and taking direct corporate risk exposure on major parastatals.

By the end of May, ECGD also hopes to have completed preparations for underwriting exposure to major Iranian commercial banks – a crucial tool for delivering export credits for the purchase of capital equipment by small and medium-sized Iranian private sector businesses.

ECGD Underwriting Director **John Weiss** will attend the *Iran Petrochemicals Forum* on 18-19 May to publicise the support now on offer from an export credit insurer (ECI) that had remained off-cover throughout the 1990s, leaving European rivals such *Italy's Sace* and *Germany's Hermes* as bridgeheads into the market.

For many years ECGD held back from new cover while the UK government haggled with Tehran over the extent to which the Islamic Republic should be liable for pre-1979 debts – in a dispute the foreshadowed the growing debate of *Iraq's* much bigger obligations and the concept of "odious debt".

Eventually a compromise agreement was reached with Tehran and cover was restored in October 2000, limited initially to short-term exposure, until Iran completed its payment obligations under the debt settlement. Since this took place in March 2002, ECGD has been willing to look at long-term risks – a shift signalled by a

\$40m deal for rehabilitation of the Tabas coal mine.

In contrast to the reluctance of the 1990s, ECGD now offers what ECGD oil and gas underwriter **Mike Brown** describes as "extremely robust" capacity. While the publicly declared exposure appetite is £80m (\$127m), Brown told *GSN* that ECGD was willing to look at sovereign-guaranteed deals up to £200m; each case is considered on its individual merits.

ECGD has been prominent in opening up pure "corporate risk" cover for top names *National Petrochemicals Company (NPC)* and *National Iranian Oil Company (NIOC)*. For these, it sees no need for a Ministry of Finance or *Bank Markazi Jomhourri Iran (Central Bank of Iran)* guarantee.

ECGD has been putting in place ceilings of £100m on NPC and £150m on NIOC, with a limit of £20m per transaction (or about \$35m for a ten-year risk). Five NPC transactions have so far been done; an NIOC deal is under consideration.

ECGD is not alone in taking risk on NPC – it has done some business on its own and in other cases it has reinsured British subcontract work for Italian led deals; Hermes has also taken NPC risk. But the UK agency may be a pioneer in taking on NIOC pure corporate risk.

ECGD, like other European and Asian ECIs, will also look at structured finance deals secured against hydrocarbons or petrochemicals revenue offtake. But because of the multiple bank fees entailed, such arrangements are much more expensive for the Iranian borrowers. Such costly arrangements make transactions based on straightforward exposure to local entities more

attractive to Iran and foreign ECIs, who will want to keep financing terms as competitive as possible.

ECGD has a three-pronged strategy: sovereign exposure guaranteed by the Ministry of Finance in Tehran or Bank Markazi; corporate exposure to a few top parastatals led by NPC, NIOC and potentially *National Gas Company (NGC)*; and the commercial bank lines now being prepared.

MORE INFORMATION, LESS RISK

Good financial information is essential to the underwriting of the corporate and banking risk. In an ideal world, Western agencies would like to see Iranian entities produce accounts audited by blue-chip international names. But they accept that for the foreseeable future they will have to rely on figures checked by Iranian audit structures.

ECGD has been impressed by the quality of NPC's management, which has provided not only its full results data but also a set of detailed explanatory notes translated from Farsi, which allow underwriters to properly understand the story behind the numbers they are seeing. ECGD is now awaiting NIOC's latest annual results, and hoping for similarly detailed explanatory notes.

Actual export and project deliveries are generally destined for operating companies belonging to the major parastatals – such as NPC offshoots *Fajr* and *Fanavarian*. Some of these are being given commercial freedom or are seeing their

shareholder base diversified.

But it is the high-level entities which provide ECGD with the detailed accounts used to determine payment risk. NPC is the borrower for deals involving its offshoots. NIOC is positioning itself as the ultimate *obligor* for the South Pars nine and ten projects.

Western ECIs have to find other ways to provide credit for the growing Iranian private business sector. Agencies such as ECGD cannot hope to properly assess the risks entailed in covering supplies to many small or mid-sized Iranian companies. But Iranian banks could do so, which is where the commercial bank lines come into play.

Over the next few weeks, ECGD plans to carry out a detailed assessment of the balance sheets and financial notes submitted by the main public sector commercial banks. Lines will then be put in place, extending medium-term credit to the private sector. ECGD is already able to support significant short-term exposure to the banks, but medium-term capacity is needed for capital goods supplies.

The heavy demand for private market insurance and bank forfeiting capacity highlights the need for extra official export credit capacity, especially as US sanctions prevent many – but not all – *Lloyd's of London* underwriters taking on Iran exposure.

Banks likely to be approved as acceptable risks for ECGD are *Mellat*, *Melli*, *Sederat*, *Sepah*, *Tejarat* and *Bank of Industries and Utilities*.

Galloway, ATV And Gulf Media Wars

CONTINUED FROM PAGE 20

estimated £1m came from UAE President **Sheikh Zayed Bin Sultan Al-Nahayan**, with big inputs from Saudi Arabia and Zureikat, chairman of the fund. This underlined the maverick MP's money-generating potential in the Gulf.

Zureikat was the main channel of funds for ATV. He was also named in the papers published by The *Daily Telegraph* as Galloway's "representative in Baghdad". Galloway and ATV shared a great interest in Iraq. The MP has an exceptional grasp of how Iraq's *Baathist* leadership worked and "close friends" at the top, notably Deputy Premier **Tariq Aziz**. In one past discussion with GSN, Galloway described Saddam as an "Arab revolutionary" with Stalinist leanings. He pointed out that Saddam lived in safe houses even before it was necessary to do so and was very resilient – comparing favourably to the Saudi and other *GCC* leaderships.

ATV had some 20 staff in London and a team of ten in Baghdad in the run-up to the war. It recorded one big scoop when the channel, not yet broadcasting, secured a rare – and highly sympathetic – interview with Saddam by aristocrat of the British left **Tony Benn**. This was seen as a major coup for the new channel – gaining a cover story in that Monday morning bible of the UK media elite the *Media Guardian* (written by ATV producer **Roddy Mansfield**). In an associated article, *Channel 4 News* Managing Editor **Guy Kerr** said: "We knew ATV had significant contacts in Iraq, but made robust inquiries

into their set-up and the veracity of the material they had. We were satisfied with both." C4 bought the rights to the interview in a heated bidding process; *Associated Press Television News* and *CBS* purchased other rights. According to Benn, "Saddam's people filmed the interview and then handed the film over to ATV."

Selling the rights gave ATV some income and much kudos – especially when it subsequently handed other broadcasters the material virtually for free – but it had yet to broadcast. Start-up problems were due to technical hitches, and then politics intervened: on 3 March, one day after appearing on a *BBC Panorama* programme sounding uncomfortably pro-Saddam, Zureikat – who was educated in Baghdad and is a member of the Jordan-based *National Mobilisation Committee for the Defence of Iraq* and other activist groups – returned to Amman where he was arrested by Jordanian intelligence. ATV sources suggested this was "requested" by the US *Central Intelligence Agency*. With Fawaz behind bars the money dried up; the US/UK Coalition invaded Iraq, McKay got his team out of Baghdad and by early April ATV's London base was empty. Zureikat was released but ATV was dead.

More documents are coming to light. GSN has long believed a conquest of Iraq would reveal compromising material, notably on the skimming of illicit oil contracts. Further allegations about Saddam's old friends, some known some not, will emerge: the *Telegraph* also got its hands on a box marked 'France' and that material was feeding through as GSN went to press.

GSN Risk Grade – C+/2: Growing political opposition; investment climate unaffected

Political And Social Development

Overview: In the face of domestic opposition King Hamad Bin Isa Al-Khalifa will be greatly relieved that the Iraq war was over quickly; an estimated 10,000 protesters took to the streets in one peaceful protest. Some others turned violent with police reportedly used rubber bullets and tear gas. Opposition demands to change the constitution (partly in protest at sharing legislative functions with an appointed Shura Council) have fallen on death ears but the movement continues to grow.

Opposition: King Hamad's hopes that opposition protests from groups that boycotted the parliamentary elections would die away have not been realised. Those parties – Wefaq, NDAS, Islamic action and NDS (ex-Baathists) – have been joined by the Democratic Forum Society and Nationalist Islamist Society to campaign for the constitution to be realigned with the main principles of the 1973 constitution. The National Assembly is dominated by representatives of the Sunni minority. Parliament's two chambers (elected and appointed) locked horns over a \$500m bond issue; the elected chamber eventually approved the bill by 19 votes to 15 in late March.

Security: Iraqi diplomat Nazim Jawad Ali was expelled from Bahrain in early April for alleged links to an explosion on 24 March near the headquarters of the US Fifth Fleet. Iraqi national Uday Abdelamir Hassun has apparently confessed to the crime. There were no casualties in the incident, which was initially reported as a deliberate gas cylinder explosion caused by anti-war protesters. In mid-February five Sunni Bahraini nationals were arrested on suspicion of planning a terror attack on the Fifth Fleet base. The USA authorised the return of Embassy family members and non-emergency personnel in late April.

External relations: The USA remains a close ally. King Hamad will continue to offer friendly advice as to the running of post-war Iraq. Diplomatic ties with Iraq and the privileges of Iraqi diplomats have been frozen until a new government takes control. An eleventh hour offer of amnesty to Saddam and his officials was a symbolic gesture aimed more at placating domestic opposition to the war. Bahrain is the present chair of the Arab League. Close dialogue is kept with GCC states; Saudi Arabia is routinely consulted on a variety of issues.

Economic Outlook

Overview: Bahrain continues to develop its capabilities as a regional financial centre including a planned \$1bn financial district in Manama's old harbour area and an International Islamic Financial Market. Bahrain pumps around 40,000 b/d from its own oil fields and 140,000 b/d from a shared offshore field with Saudi Arabia. Unemployment remains a real concern. The government plans to overhaul the work permits system by 2005. Permits will only cover a maximum six-month period, although exceptions will be made in sectors where there are skills shortages.

Financial sector: The Bahrain Monetary Agency has published proposals to allow the establishment of captive insurers. The BMA is also undertaking a review of its anti-money laundering/terrorist financing regulations to ensure that they continue to meet high international standards. At end-Feb, offshore banking assets were \$58.5bn and commercial bank assets \$11bn. A debut five-year \$500m sovereign eurobond was launched in January. S&P provided an initial A- rating. BMA plans to issue Islamic bonds worth \$670m in 2003 to develop the market; a \$250m issue is expected in May. On the downside, the Pension Fund Authority (PFA) and General Organisation for Social Insurance (Gosi) face problems. Gosi could be bankrupt by 2023 if the benefits regime continues.

Budget: A BD316.9m budget deficit is forecast for 2003 and BD331m in 2004. Total BD1.129bn spending is envisaged in 2003, 8% up on 2002; BD600m has been set aside for development, including BD112m for customs and ports, BD80m for electricity and BD34m for Bahrain International Airport. BD650m-700m/yr foreign investment is required to meet targets. Domestic debt was BD599.1m at Q3 02.

Liberalisation: Bahrain expects around \$700m FDI from privatisation sales in 2003. MTC Vodaphone won the second GSM licence in mid-April. A Telecommunications Regulatory Authority is being created; a new telecoms law is due 2004. A committee has been created to prepare a feasibility study to privatise the electricity and water sectors. Transport sell-offs could include management of Mina Salman and Khalifa Bin Salman ports. Privatisation studies for the postal services are set to begin.

Bahrain: Key Projects

HIDD POWER AND DESALINATION PLANT EXPANSION: France's Alstom has a \$300m contract to install 700MW.

ALUMINIUM BAHRAIN: Fifth potline for completion June 2005; Bechtel started construction mid-February. Five tranche \$1.05bn commercial bank facility secured; \$300m European export credit tranche also sought. Alstom was awarded a 650MW power contract in April (see page 16). USA's Alcoa is mulling a sixth potline to raise output to 1m t/yr.

BAHRAIN FINANCIAL HARBOUR (BFH): \$1bn project planned in 202,272 m² plot. First phase construction started December 2002. Completion expected October 2005.

FORMULA-1 MOTOR RACING TRACK: Scheduled to open in 2004, with long-term F-1 deal secured. Construction has already started. Government funding passed in late March after a parliamentary tussle.

BANGAS LPG: Debottlenecking and 20m-30m ft³/d expansion to existing 280m ft³/d processing plant. FEED award expected in June; bidders include ABB Lummus Global, Costain Oil & Gas, Foster heeler and Stone & Webster. EPC tender expected Q1 04 for 2006 completion.

BAPCO REFINERY: Renovation work on secondary units at the 250,000 b/d Sitra facility including a fluid catalytic cracker delayed two months by war. Work scheduled to take place in Q2/3 03. Bapco also plans to install a \$1bn naphtha-based cracker producing ethylene and propylene.

GSN Risk Grades

The GSN Risk Grading is based on GSN's assessment of the outlook for political and payments stability. The political outlook is reflected by a letter rating, where A is most stable and E least. Payments conditions are represented by a number: 1 is most favourable and 5 least. + or - represents a slightly higher or lower than average score.

Bahrain: Economic Indicators

(\$ million)	1998	1999	2000	2001	2002
GDP current prices	6,166	6,601.1	7,947.3	7,911.7 ^a	8,100 ^a
GDP growth (%)	-2.6	7.1	20.4	-0.5 ^a	0.5 ^a
Exports	3,260.7	4,350	6,176.3	5,562.1	5,354.6
of which: hydrocarbons	1,689.2	2,767.7	4,464.3	3,671.4	3,530.2
Imports	3,555.6	3,686.8	4,619.7	4,294.4	4,619.9
Trade balance	-294.9	663.2	1,556.6	1,267.6	734.7
CPI (percent)	-0.4	-1.3	-0.7	-1.8	0.5 ^a
Current account	-775.1	-339.7	112.7	182 ^a	-440.0 ^a
Foreign exchange reserves	1,290	1,369	1,564	—	—

^a Preliminary. ^e Estimate. GDP – Gross domestic product. CPI – Consumer price inflation.

Sources: Ministry of Finance and National Economy; Bahrain Monetary Agency; Coface; Standard & Poor's

GSN Risk Grade – D/3: Political risks remain high, may further slow economic reforms

Political And Social Development

Overview: The conservative/reformist struggle could be entering a crucial phase at a time of acute geopolitical tensions. The direction of the US' post-Saddam focus has promoted unity in the face of a common foe. Growing voter disenchantment, underlined by the low turnout for the February municipal elections, is a reminder that something needs to give ahead of parliamentary elections due Feb 2004.

Two key bills: At the centre of the reformist/conservative struggle is the passage of two President Khatami-supported bills that would reduce the conservative Guardian Council's power to veto electoral candidates and give the President greater power to rein-in the judiciary. Both have been passed by Parliament but the first was vetoed by the Guardian Council in early April. A Guardian Council spokesman said a second bill, aimed at reducing the reactionary judiciary's powers, would also be vetoed. Khatami and reformist parliamentarians have threatened to resign if they are rejected.

Referendums: There has been much speculation that Khatami might try to force a referendum to settle the fate of the two bills. This would not be popular with the conservatives. Reports in late April suggested that Abbas Amir-Entezam, a former deputy prime minister and political prisoner, had been sent back to prison for calling for a referendum on the Islamic Republic's political system. The reformists are not the only ones touting the referendum card. In April, a key player, former president and Expediency Council chair Ali Akbar Hashemi Rafsanjani, suggested a referendum could be held to determine the future of ties with the USA, which he said shaped by political rather than ideological factors.

External factors: Iran is in the US neo-conservative spotlight. The USA has warned Tehran not to try and exploit the power vacuum in Iraq following the collapse of the Saddam-led regime by attempting to influence Shiite Muslims. Iran's nuclear energy programme is also the subject of US attention; Washington suggests it is a cover for obtaining nuclear weapons technology. Relations with the EU are strengthening: talks are under way on a new free trade agreement and the promotion of energy co-operation. Iran could become a key battleground in the USA's battles with "old Europe".

Economic Outlook

Overview: Iran has shown it can make significant economic progress without US investment and even successfully tap the international capital markets. Investment flows from Europe are increasing, while an ambitious target has been set to reduce reliance on oil sector revenues. Serious structural problems remain, however, including state domination and a weak banking system. A recent IMF report highlighted concerns over bonyad foundations, including accountability issues connected to "non-business" activities. Unemployment is officially 16%; bureaucracy and corruption must be further addressed. The government is forecasting 6.1% GDP growth for 2003.

Life beyond oil: Finance Minister Tahmasb Mazaheri aims to stop using oil revenues to finance current spending by the end of the Fourth Development Plan (2010). Achieving this goal will require difficult decisions, including ending subsidised credits for a number of different enterprises and programmes.

Finances: Credibility with foreign investors has grown helped by a good repayments record and successful bond issues. The death in March of Bank Markazi (Central Bank) Governor Mohsen Nourbakhsh was a blow. Two Eurobonds of €375m and €625m were issued in 2002. Further issues could follow in 2004. The budget, based on \$18-19/bbl oil, envisages borrowing up to \$2.3bn in 2003 for development projects. Bankers report substantial structured trade finance activity in the hydrocarbons, petrochemicals, power and mining sectors, with National Iranian Oil Company (NIOC) and National Petrochemicals Company (NPC) regarded as the soundest corporate risks. Export credit volumes are growing – particularly in the gas and petrochemicals industries – although there is concern that complex trade and project finance structures may face domestic opposition.

Liberalisation: The two-tier exchange rate was scrapped March 2002; import procedures have been streamlined but restrictive elements remain. Privatisation progress has been slow. Urgent reforms are required to labour and commercial laws, and to regulate securities. A revised investment law was passed in May 2002. The government has proposed lifting ceilings on oil sector buy-back contracts. A third round of talks with the EU on a free trade agreement were held in early April.

JUDICIARY UNDER SCRUTINY: The judiciary has taken flak from both sides in recent months with conservatives reacting to popular calls for retrials in a number of high-profile cases including that of Hashem Aghajari. Reformist Abdollah Ramezanzadeh's retrial is under way. He was originally sentenced to six months in prison for criticising a Guardians Council order when he was governor of Kurdistan province. Foreign Minister Kamal Kharazi has confirmed the release of the last of ten Jews jailed on charges of spying.

Iran: Key Data and Forecasts*

(\$ billion)	2001 ^p	2002 ^p	2003 ⁱ	2004 ⁱ
Nominal GDP	71,548.1	83,513.7	107,112.2	127,836.6
Exports	28,461	23,716	24,881	25,494
of which: hydrocarbons	24,280	19,339	19,875	19,856
Imports	15,086	18,138	22,726	25,524
Trade balance	13,375	5,578	2,154	-30
Current account	12,634	5,432	1,624	-535
Capital & financial account	-4,897	-552	1,131	3,475
External debt**	8,000	7,200	7,300	9,100
of which: short-term	3,700	2,700	1,700	1,900

* Years to 20 March. ** Public and publicly guaranteed.

^p Preliminary. ⁱ Forecast.

Sources: IMF, Washington; Bank Markazi, Tehran.

Iran: Key Projects

SOUTH PARS GAS FIELD: Initial 12 phases; TotalFinaElf (TFE)-led phases two and three in initial production stage. Work under way on phases one to ten. Award of phases 11-12 awaited (BP, Eni, Petronas, Statoil and TotalFinaElf among revised bidders). Shell reportedly interested in phases 13 and 14.

LNG: Four projects under discussion. Contracts for TFE and Shell-led projects expected in H1 03. BG expects firm project agreement by end-year. BP's Iran LNG project slower.

BUSHEHR NUCLEAR PLANT: Work behind schedule on controversial 1,000MW plant built by Russia; completion expected H1 04.

INDEPENDENT POWER PROJECTS: State Tavanir is selling 350MW Khoy gas/steam plant in Azerbaijan province; bids due mid-2003. Tavanir is also tendering six 500MW projects, led by Zanjan one and two (bidding closes mid-June), followed by Khorram Abad one and two, and plants in Mashad and Kashan.

KHARG ISLAND ETHANE CRACKER: Technip-Coflexip and local Nargan Consulting Engineers awarded a €173m contract by NIOC Mar 03, to take 27 months.

YAZD IRON ORE PALLETISING PLANT: Japanese consortium led by Kobe Steel supplying machinery/equipment and engineering, project management and technical assistance. European firms including ABB also acting as suppliers. Financing includes Japanese, Swiss and Spanish export credits.

GTL PLANT: ABN Amro appointed financial adviser March 2003; six month financial feasibility study planned. Sasol and National Petrochemical Company propose developing a 70,000 b/d capacity plant.

MIDDLE EAST ENERGY

POLICY, RISK AND PROJECTS IN THE GULF AND LEVANT

MEE Pointers

BAHRAIN: Alba order, excred

Alstom has won a €320m order to supply a 650MW power plant for Aluminium Bahrain (Alba)'s Line 5 smelter expansion. This will raise production capacity from 500,00 t/yr to 750,000 t/yr. Commercial operation is due to start in mid-2005. Alba has decided to fund the last tranche of its expansion from export credits. It has mandated **BNP Paribas** and **HSBC** to raise \$300m, which will most likely include **French Coface** credits.

OMAN: Oxy gas deal

Occidental Petroleum signed an agreement in late April to sell 120m-130m ft³/d of gas from its Block 9 operations, beginning mid-year 2005. As block operator with a 65 % working interest, Oxy will add around 10,000 boe/d to its worldwide production.

Halliburton's war dividend

Halliburton is already seeing the Iraq effect. The US oil services group said Iraq contracts accounted for a 39% sequential revenue increase in government-related engineering and construction contracts in Q1 03. However, Iraq-related work accounted for less than 1% of total Q1 net income .

Saudi reshuffle

Oil Minister **Ali Al-Naimi** surprised many analysts by staying on in **King Fahd's** 30 April reshuffle. He is expected to maintain the Kingdom's oil price policy, swearing to hold **Opec** prices at around \$25/bbl for the next decade "if necessary". Whether the horsetrading that led up to the concession included a concession on the Gas Initiatives Project is not known. With **Hachem Yamani** becoming Trade and Industry Minister, Electricity was added to Water Minister **Ghazi Alghoshaibi's** brief to create a Water and Electricity Ministry. Also noted: new Agriculture Minister **Fahd Abdelrahman Bilghoneim** is a desalination expert.

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Tel Aviv Stokes Conspiracy Theories With Iraq Chatter

"It's all about oil," critics said, and speculation that Iraqi oil might be pumped through Israel for the first time since 1948 is stoking conspiracy theories. But it's a long shot.

Israel was more than happy to play the part of interested onlooker during the three-week Iraq military campaign, but some senior Israeli politicians didn't wait for the guns to fall silent before angling for possible war dividends from the conflict.

Speculation about the possible reactivation of the Mosul-Haifa oil pipeline – effectively defunct since 1948 – was sparked in early April following press comments attributed to Israel's National Infrastructure Minister **Joseph Paritzky**, who said he had requested an assessment of the condition of the pipeline running through **Jordanian** and Iraqi territory.

The sourcing of Iraqi crude could serve long-term Israeli energy security interests. It could also play a part in Washington's ambition to chip away at Gulf oil's critical importance in the global energy mix. Although Iraqi output has traditionally been regarded as Gulf crude, the piping of northern Iraqi supplies to the Mediterranean would provide a further alternative to shipping through the Straits of Hormuz.

Paritzky was reported by the left-leaning daily *Ha'aretz* as saying he was certain the USA would respond favourably to a reactivation of the pipeline, given the installation of a pro-Western post-**Garner** administration.

It is possible that Washington

sees energy co-operation as an integral part of a regional peace settlement involving Israel and Iraq that would be similar to the 1979 Camp David deal guaranteeing Israel a portion of **Egyptian** crude exports. But a speedy restarting of Iraqi oil exports through Israel, while grist for many a conspiracy theorists' mill, looks a long shot.

Well-placed Israelis have downplayed the significance of the reports, which nevertheless garnered substantial column inches in some weighty corners of the Western media. "In any constellation of affairs, to ask Iraq at such an early stage to start pumping oil to Israel seems to be raising the most difficult problems," said **Paul Rivlin**, a senior research fellow at Tel Aviv's *Moshe Dayan Centre for Middle Eastern and African Studies*. "Even if they wanted to change the relationship with Israel, actually pumping oil through an old pipeline that goes back to the colonial mandate era would seem to be the most politically incorrect thing to do."

US officials have not even broached the thorny issue of establishing formal diplomatic ties between post-**Saddam** Baghdad and Tel Aviv. Treading carefully around Arab sensitivities has never been a noted Israel trait, and Paritzky's comments may amount to no more than grandstanding, with

little actual substance. However, Tel Aviv sources suggest that the initial impetus for the pipeline came from Jordan rather than Israel. Jordanian officials allegedly asked for a meeting with Paritzky, according to a National Infrastructure Ministry source quoted by *Reuters* – a claim strongly denied by officials in Amman.

But the Jordan link adds an ounce of credibility to reports of the project's resurrection. Sensing US ambitions to shift the regional political landscape, Amman may be manoeuvring to snare lucrative transit fees on the pipeline.

Israel too would have much to gain from reviving the link. Paritzky has suggested it could cut Israel's fuel bill by 25%. The pipeline could also help in repositioning Haifa as an international oil transit terminal on a par with Rotterdam.

This is not the first time Tel Aviv has attempted to cash in on positive political currents surrounding Iraq. During the 1980s Iran-Iraq war **Yitzhak Shamir's** government proposed a plan to pump Iraqi oil through the Haifa pipeline as a way of enabling Iraq to circumvent the blockade erected against it by **Iran** and **Syria**. Baghdad's rebuff of the scheme did not prevent further Israeli efforts to curry favour with the Iraqis, including a "no objection" sanction from Tel Aviv of an oil pipeline to run from Iraq through Jordan to the Red Sea port of Aqaba.

This plan failed to make headway, though a noted participant in those discussions, **Donald Rumsfeld** – then an adviser to the **Reagan** Administration – could yet play a role in determining whether the Mosul-Haifa link now stands any chance.

Little is thought to remain of the Mosul-Haifa link, at least that portion which runs through Jordanian and Iraqi territory. Reactivating it would effectively mean laying new infrastructure, rather than rehabilitating an existing link. But technical hurdles will take a back seat in determining the scheme's chances of getting off the ground. If heavyweight regional backing can be secured, possibly helped along by progress on the US-backed Middle East "road map" for peace, the Iraq-Israel pipeline could provide the commercial logic to underpin the wider political project dreamed up by Washington's neo-conservatives.

Israel is already tempting other implacable foes with energy co-operation deals as the reward for reform. Prime Minister **Ariel Sharon's** government has warmed to the idea of sourcing gas from concessions held by the **Palestinian Authority (PA)** in offshore Gaza. The plan is helped by increased confidence that PA Prime Minister **Abu Mazen's** new administration will not attempt to siphon revenues to militant groups.

Talks between PA officials, **Israel Electricity Corporation** – eager to diversify its sources of feedstock away from Israeli monopoly suppliers – and the UK's **BG Group** began in April, raising hopes that Israel may soon be lifting Gazan gas to fuel its power stations. These talks took place in

apparent contravention of Sharon's assurances that no deal would be struck in the absence of a full political settlement with the Palestinians.

SAUDI ARABIA: Exxon Still Committed To Troubled Gas Initiative

Rumours of the Saudi Gas Projects Initiative's death are greatly exaggerated, according to its principal defender, Foreign Affairs Minister **Prince Saud Al-Faisal**. The latest bout of doom-mongering on the troubled \$20bn project was prompted by comments in April from ExxonMobil chairman **Lee Raymond**, who told *Forbes* magazine the deal "just wasn't competitive" given what the company could invest in around the world.

Coming from the leader of the GPI's biggest Core Venture the comments were another hammer-blow – if hardly unexpected after the lengthy stalemate in negotiations between the government and the majors. But ExxonMobil's official line is that its participation is still active, notwithstanding Raymond's referring to it in the past tense in his *Forbes* interview.

Although the company's participation in the core ventures has been diluted as a result of the suspension of the ExxonMobil-led Core Venture 2 (CV2) in the Red Sea last January, it is not about to relinquish its stake in CV1 covering the giant Ghawar field. Exxon insisted Raymond's comments were taken "out of context" and that discussions with the Saudi government were continuing over CV1, in which ExxonMobil has a 35% stake.

At a 22 April press conference, Prince Saud launched into his familiar refrain that the GPI was still on track, citing a letter from Raymond "categorically denying that the company had pulled out". The Saudi government believes ExxonMobil is unlikely to quit the project in such a peremptory manner given the high stakes involved.

But Raymond – whether caught off guard or deliberately spinning against Riyadh – gave a useful insight into the majors' reticence about the GPI as it stands. Aside from the perennial quibbles over the internal rate of return on offer, another key sticking point for IOCs is the limited amount of gas that **Saudi Aramco** – which has been sceptical of the CVs – is making available for the project.

The current political climate is not exactly conducive to striking a deal. Prince Saud may be constrained from offering improved terms by heightened popular suspicion of the US following the war in **Iraq**. This situation will be improved by the USA's decision to pull out most of its troops (see page 3). But the much-anticipated departure of Oil Minister **Ali Al-Naimi** has not happened, disappointing IOCs and reformist elements.

Naimi is an Arameco man through and through; he is close to Sudairi factions lukewarm about the GPI and vying for power with its sponsors, **Crown Prince Abdallah Bin Abdelaziz** and Prince Saud.

Despite the near two-year deadlock on the GPI

talks, key insiders indicated to *MEE* that the Saudi leadership remained committed to the project. "The gas initiative will happen. The political will is there, it will just take more time – but that's always the Saudi way," said an adviser to the government.

The gas initiative has seen more progress on the *Royal Dutch/Shell*-led CV3, on which the company tabled a tentative offer last November – an offer that received a frosty response from Saudi officials.

Yet without movement on the \$15bn CV1 at Ghawar the GPI will continue to flatline.

ExxonMobil failed to make an official response to a Saudi negotiating committee's "improved" offer on CV1 in Q4 02.

Oil executives canvassed by *MEE* retain a long-term perspective. The Saudis' refusal to compromise on the rate of return issue and over access to gas reserves are bargaining tactics rather than fixed positions, they say. Saudi officials have in the past engaged in judicious leaks to the press to put IOCs on the spot. The ExxonMobil Chairman's latest barb suggests the IOCs are playing Riyadh at its own game.

Key Decisions Imminent On Iraqi Oil Exports

Early June is looming as a key period in the re-emergence of Iraqi oil into global markets. The US/UK Coalition is looking to restart Iraqi exports after a renewal and possible revision of the UN oil-for-food programme (OFP), whose current authorisation is due to expire on 3 June.

Washington is expected to use the opportunity to wring concessions from France, Russia and China, having concentrated until now on repairing facilities and getting refining capacity up and running, following the securing of oil fields.

Analysts say that waiting until after 3 June to push for exports would strengthen the US/UK hand in the Security Council debate over the administration of Iraq's oil. Iraq is unlikely to begin exporting until the OFP is renewed again.

With Opec ministers due to meet on 11 June, that week could prove decisive in determining the trajectory of Iraq's oil exports in H1 03.

The deadline for the OFP's renewal could provide an opportunity for discussion of some of the thorniest issues surrounding Iraqi oil, such as the legal ownership of the reserves, under which conditions it could be sold and the UN role.

The US and UK occupation forces are keen to maximise Iraq's export potential, not least to help underwrite reconstruction costs. While the other Security Council Permanent Members have no direct interest in restraining Iraqi production, they will be keen to

ensure that the issue of who controls the oil will at least be given a proper public airing.

There are few technical challenges to restoring Iraqi production to 2m b/d levels by Q3 03, although extended UN wrangling could stymie efforts at a speedy return. "We think exports will get back to 2m fairly quickly after 3 June," said *Deutsche Bank's* Adam Sieminski.

OPEC DOUBTS

Opec's attitude is less easy to gauge. "Opec has got to try and convince the market that they know how they will incorporate Iraqi oil back into the system. If it's still undecided by 11 June, then it's not going to be easy to do," said Sieminski.

Opec's 24 April meeting, which saw the cartel simultaneously raise quotas and slash production, effectively matches demand in Q2. But likely Iraqi output growth in H2 – whether within the confines of Opec or not – will need Opec-10 members to rein in output by up to 1m b/d.

The legitimacy of a new Opec quota negotiated by Jay Garner's interim administration might also be subject to question. US authorities admitted in late April that the reinstatement of the Oil Ministry was taking longer than other ministries.

Philip Carroll, former CEO of the US-based *Shell Oil*, has been appointed by the Pentagon to head the Oil Advisory Team that will be responsible for restarting crude exports. His senior Iraqi aide will be Mohammed Ali Zainy (*GSN 708/20*). They expect to make speedy technical progress; far less sure is the extent to which they can build local confidence.

Major international oil services and engineering corporates are teaming up to bid for Iraqi work. UK-based engineering services group AMEC (49%) has formed a Fluor/AMEC joint venture with US giant Fluor Corporation (51%) to undertake Iraqi oil contracts. Danish oil and shipping group AP Moeller, oil company Maersk's parent, said it has responded "positively" to an approach from US authorities to participate in reconstruction.

Gulf Currency Box				
	\$	£	€	¥ (x 100)
Bahrain	0.3770	0.5998	0.4155	0.3139
Iran	8153.0	12,968.2	8984.61	6788.23
Iraq	0.3110	0.4947	0.3427	0.2589
Jordan	0.7095	1.1285	0.7819	0.5907
Kuwait	0.2997	0.4767	0.3303	0.2495
Oman	0.3850	0.6125	0.4243	0.3206
Qatar	3.6401	5.7900	4.0114	3.0308
Saudi Arabia	3.7502	5.9651	4.1327	3.1224
Syria	46.000	73.1676	50.6920	38.2998
UAE	3.6730	5.8423	4.0477	3.0582
Yemen	178.005	283.135	196.161	148.208

Source: Financial Times.

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