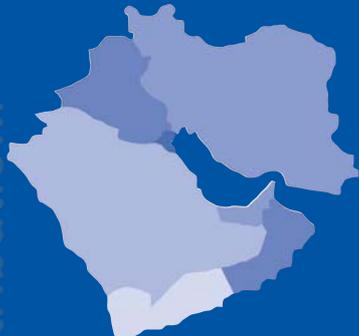


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GSN

Companies & People

Score-settling In Iraq With A Reshuffle Beltway Style

Office of Reconstruction and Humanitarian Assistance (ORHA) head **Jay Garner's** departure from Baghdad, along with his sparring partner, former ambassador to **Yemen Barbara Bodine**, comes after weeks of in-fighting – in **Kuwait**, and on the banks of the Tigris and Potomac. Iraq's incoming Civil Administrator, **L Paul Bremer III**, is a smooth hatchet man, with impeccable State Department and security credentials; he is also close to Defence Secretary **Donald Rumsfeld**. Garner fell because ORHA had not performed as required.

Bodine had made enemies before and since arriving in Iraq. Her term in Sanaa coincided with the 2000 *USS Cole* incident, and the US counter-terrorism community never forgave Bodine for appearing to take President **Ali Abdallah Saleh's** side, banning lead investigator **John O'Neill** from Yemen. The popular **Federal Bureau of Investigation** operative then took the job of security director at the New York World Trade Center, where he died a hero on 9/11. In Iraq, Bodine was perceived to be soft on ex-Baathists. Bremer is on-message – eager to make public a decree on de-Baathification and signal that looters would be shot.

Across The Region

Western intelligence agencies believe the attacks on three Western compounds in Riyadh showed again that the Saudi authorities have been far to laid back in tackling Jihadi groups. Their governments are coming to take the same view. This points to a major potential shift in Saudi international relations. **PAGE 3**

With President Bush signalling that he will push his "road map for peace" hard to obtain a deal in the Middle East, **Qatari Foreign Minister Sheikh Hamad Bin Jassem** met his Israeli counterpart **Silvan Shalom** in Paris on 15 May. Meanwhile the USA has moved its Indian Ocean 'war on terrorism' operations to Djibouti. **PAGE 3**

Five hundred candidates have already declared for October's **Majlis Al-Shura** elections in Oman. GSN takes the temperature of Omani politics. **PAGE 8**

Two obvious candidates have emerged for the Omani succession. **PAGE 9**

Abdelqader Bajammal's rapid reappointment as Yemen's Prime Minister shows how relaxed President Saleh feels after the 27 April election. This election may just be seen as the moment when a credible democratic alternative began to establish itself in Yemen. **PAGE 6**

Shaping Iraqi perceptions is vitally important for the US-led Coalition. But with public opinion balanced on a knife's edge the Coalition has arguably been slower to shape the media environment than local political factions or Iran's savvy media. **CENTREPIECE, PAGE 10**

National Commercial Bank is a case study in Saudi reform. The authorities are gearing up to float a chunk of its equity on the Saudi Stock Exchange. **PAGE 13**

Car maker Iran Khodro plans a new joint venture with Peugeot Citroën. **PAGE 12**

Security contracts are lining up in Iraq, international lawyers are moving into Qatar and the UAE is preparing for the IMF/World Bank meetings. **PAGE 12**

US relations with the **Mojaheddin-e Khalq Organisation** are a testament to how tactical decisions can have strategic effects in modern warfare. **PAGE 20**

Ten years ago a Saudi human rights committee was formed while radical Islamists mobilised. **PERSPECTIVE, PAGE 2**

GSN's Analysis

L Paul Bremer's appointment as Iraq's new Civil Administrator may improve government cohesion and ease bureaucratic tensions. It doesn't necessarily promise a new approach to speed Iraq's recovery. **GSN VIEW, PAGE 2**

The overthrow of **Saddam Hussein** will eventually lead to economic normality, so GSN from this issue assigns a Risk Grade to Iraq – D/3, reflecting a better economic outlook than political risk profile.

RISK MANAGEMENT REPORT, PAGE 14

With radical Islamists active and internal political issues unresolved, Kuwait still faces big political problems, but **Saddam Hussein's** fall means a substantial improvement in the political risk outlook – which is thus upgraded to B-. But much remains to be done if the government's economic reform programme is to be pushed through

RISK MANAGEMENT REPORT, PAGE 15

With Saudi Arabia under the spotlight, Wahhabism has become an international relations issue. This could complicate domestic reform efforts – including signs that the Mutawaa religious police may be brought under new controls – with the USA publicly calling for a form of religious 'tolerance' that many in the Kingdom would oppose. **PAGE 4**

MIDDLE EAST ENERGY

There are deep concerns that the new US-led resolution at the UN is a cover for controlling Iraq's oil revenues. The Coalition pleads not guilty and is putting in place the personnel and structures for a new oil industry. **PAGE 16**

Saudi Oil Minister Ali Al-Naimi wants to quickly wrap up deals on the gas initiatives project – or rebid the core ventures anew. **PAGE 18**

Kuwait is examining gas imports from Iraq's South Rumailah field, which is now in apparent competition with planned imports from Qatar and Iran. **PAGE 18**

The 900trn ft³-plus of gas North Field reserve figure accurately reflects Qatar's portion of the giant structure. **PAGE 18**

MEE Pointers on Kuwait and OPEC oil output, the International Energy Forum, Kuwaiti power and Omani gas. **PAGE 16**

Allies of the outgoing Office of Reconstruction and Humanitarian Assistance (ORHA) head, retired Lieutenant General Jay Garner, compared his determination to a "bulldozer". Washington wags observed that the US government quickly came to see Garner as a bulldozer in terms of his speed not his power. His impending departure from Baghdad, along with his colleague turned sparring partner, Baghdad Administrator Barbara Bodine, underlines the hard fact that virtually every aspect of Operation Iraqi Freedom and its aftermath has been more complicated than the USA expected. The White House is not happy with progress in Iraq and George W Bush is an impatient man: ORHA was a natural lightning rod for his dissatisfaction. Iraq's incoming Civil Administrator, L Paul Bremer III, is tasked with ending infighting among US departments while bringing stability to the country – a daunting prospect.

Diplomatic wrangling before the war was damaging and ultimately fruitless for Washington; a skittish press made the essentially successful war-fighting phase uncomfortable; Iraq's post-war transformation is as complex as pessimists suggested; and managing the personalities in ORHA has been "like herding cats", one Department of Defence analyst told *GSN*. As the search for simple solutions and silver bullets continues in Washington, it is unsurprising that ORHA has been scalped, or at least given a facelift. Victims of the putsch include Garner, Bodine, ORHA spokeswoman Margaret Tutwiler and three of the State Department's nominees for sectoral administrators – ex-ambassadors Tim Carney (Ministry of Industry and Mining), David Dunford (Foreign Ministry) and John Limbert (Culture).

The re-establishment of service provision, payments to state employees and a secure environment have not progressed as quickly as expected, holding up the next, politically vital phase of US involvement – the handoff of power to an Interim Iraqi Authority. The White House believes ORHA was slow to deploy – arriving 12 days after the regime collapsed – and has since been

cloistered in the inaccessible Republican Palace. Garner's leadership is not well regarded in a White House that cares as much for style as substance. There was a sartorial message as Bremer arrived in Baghdad wearing Bush White House regulation suit and tie, to be welcomed by the considerably less fashionable Garner.

Garner was a success in Iraqi Kurdistan in 1991, but now he is seen neither as a civilian nor a military officer; his authority has been undercut by the military chain of command; Land Forces Commander Lieutenant General David McKiernan in a late-April edict claimed he was the ultimate authority in Iraq. Garner has been noticeably short of either sticks or carrots, caught in between the Pentagon and State Department.

Iraq's new Civil Administrator looks and sounds like a proconsul. Bremer is a tough, clear-headed, media-savvy career diplomat who has served under six secretaries of state, but is also close to Defence Secretary Donald Rumsfeld. Bremer's selection was seen to please all the US government's key branches. He is a career State Department official who shares the Bush and Office of the Secretary of Defence belief that Iraq must be de-Baathified and transformed into a democracy. While the White House and Pentagon wish to wipe the Baathist-era slate clean and transform the Iraqi way of governance, Bodine and Garner were more pragmatic about the need to blend new and old leaderships into a patchwork quilt. As one Pentagon staffer told *GSN*, "people have to be singing from the same sheet of music in something like this – everyone has to be 'on message'."

Before Operation Iraqi Freedom, Bodine stated in a lecture: "We do not accept that the West is one monolithic concept, and nor is Islam." Such views lose you friends and influence in the Bush Administration. Garner was too slow. Bodine was off-message. Bremer's appointment may improve government cohesion and ease bureaucratic tensions between State and the Pentagon, but it does not necessarily promise a new approach that will speed Iraq's recovery and represent a change of style not substance.

Perspective: Ten Years Ago

A committee for the defence of human rights has been formed in Saudi Arabia. An announcement in Riyadh last week by the six-man human rights committee called on Saudi citizens to provide it with information that would alleviate injustice and "defend the rights secured by Sharia [law]." The committee is headed by Sheikh Abdallah Al-Masari, a retired judge... All the committee members are from the central province of Nejd and are orthodox Sunni Muslims.

Last week the members of the committee were summoned by Riyadh Governor Prince Salman, who is said to have informed them of his "dissatisfaction and astonishment" at the committee's formation. Prince Salman is also reported to have told them that, lacking government approval, the formation of the committee

was illegal. Masari told the BBC that the six members "defended their position", and told Salman they were acting in accordance with Islamic principles. A spokesman for the committee told the UK newspaper *The Guardian* ... "We hope that one day the Al-Sauds will depart from this path. but at the moment they want to maintain a tribal state."

The Saudi royal regime is coming under increasing but opposing internal pressures to change the authoritarian and autocratic system of government... radical and fundamentalist Islamic groups, growing in number and increasingly vocal in presenting their case, are demanding curbs on the powers of the royal family and a stricter application of Islamic principles.

Gulf States Newsletter, Vol. 18, No. 461, 17 May 1993

Saudi Bombings Fallout Could Signal A Tectonic Shift In Regional Political, Strategic Thinking

The 12 May attacks on three Western compounds in Riyadh were the Saudi equivalent of 9/11, Foreign Minister **Prince Saud Al-Faisal** said. The process of combating such terrorism would bring the two countries closer together, a shaken Prince Saud suggested.

US Ambassador **Robert Jordan** was not so sure, commenting that the authorities could have done more to ensure security – a veritable dressing down in Saudi terms, which will not have gone unnoticed by ambitious Sudairi Interior Minister **Prince Nayef Bin Abdelaziz**, whose department is blamed for giving militants too much rope and then not hanging them. They had not listened carefully enough to US warnings about the threat to the compounds, or the presence of an *Al-Qaeda* cell led by **Khaled Jehani**, Jordan said.

Jehani is a 29-year-old militant who has replaced **Abdelrahman Al-Nashiri**, captured last November, as a key *Al-Qaeda* point man in the Gulf. His group's success in devastating Western targets while US Secretary of State **Colin Powell** was heading for the Kingdom said much for the resilience of *Al-Qaeda* and its affiliates.

Western intelligence agencies believe the Saudis have been far too laid back in tackling these groups and their support bases – despite increased co-operation since 11 September 2001. More troubling for the Saudis, Western governments are coming to take the same view.

In London, Prime Minister **Tony Blair** suggested the cases of UK citizens held in the Kingdom charged with past attacks should be re-examined.

As *GSN* has consistently noted, the British government has preferred a quietist approach towards this potentially explosive issue in bilateral relations, with diplomats publicly accepting the possibility, promoted by Prince Nayef, that bombings against westerners in 2000-01 were the result of “turf wars” among bootleggers, rather than part of an underground Islamist offensive.

With the USA telling all but essential visitors to stay away from the Kingdom, and US diplomats and their families being pulled out, expatriates are asking whether they should stay. In this context, the Jordan and Blair comments represent a deeper shift in the West's relationship with Saudi Arabia in the wake of regime change in **Iraq**, a new push towards Middle East peace and with strategic perceptions changing.

The message the Saudi leadership is hearing this week is that things must change – and much

more quickly and radically than is usual in the Kingdom. A diplomatic freeze beckons while Washington pressures Riyadh to understand fully what the “new reality” following **Saddam Hussein's** fall actually means.

A WORLD OF CHANGE

Two events among the dizzying welter of recent newsflow underline how this brave new world is evolving at a pace Gulf governments cannot ignore:

- With President **George W Bush** signalling that he will push his “road map for peace” hard to obtain a deal in the Middle East, **Qatari** Foreign Minister **Sheikh Hamad Bin Jassem Bin Jabr Al-Thani** – not a popular politician in Riyadh – met his **Israeli** counterpart **Silvan Shalom** in Paris on 15 May. This came one week after **Emir Sheikh Hamad Bin Khalifa Al-Thani** met Bush in Washington. In between the two meetings Emir Sheikh Hamad said Doha could consider a peace treaty with Israel if it served Qatar's interests. Shalom told a joint press conference that Qatar's strong relationship with the recently appointed **Palestinian** Prime Minister **Mahmoud Abbas (Abu Mazen)** could boost the chances of peace. “Qatar is a very important country on this issue,” he said.

- General **John Sattler** was ordered to move his base for ‘war on terrorism’ operations from the *USS Mount Whitney* in the Indian Ocean to **Djibouti**. This is not a traditional US base – rather, it is **France's** window on Indian Ocean security. The move thus reflects Washington's altered strategic perceptions (*GSN* 709/3; 8). And, as one observer put it, “some people in Washington also liked Djibouti because it will piss off the French.”

THE SAUDI RESPONSE

The suicide bomb attacks which left at least 34 people dead threw a very different international spotlight on Saudi Arabia after months of preoccupation with Iraq. But the violence, spectacular and terrible as it was, represents only a segment of an increasingly complex political and social crisis in the Kingdom, to which there appears to be no straightforward answer.

Further US pressure on the ruling **Al-Sauds** to tighten up security and crack down on the teaching of radical Islamist ideas may provide no more than a temporary respite for leading princes, who face profound dilemmas in plotting a way forward – and it is far from clear that the **Al-Saud**

leadership will be able to agree on what to do.

The bombings – and the fact that some of the attackers appear to have escaped an arrest attempt just one week earlier – are a shattering blow to the Saudi government's security credibility.

In the immediate aftermath of 9/11, the Saudis attempted to play down the extent of support for militant Islamism in the Kingdom. Subsequently, under US pressure, they have stepped up their efforts to hunt down extremists, but failed to give a convincing impression of openness – as has been underlined by the “turf war” bombings affair.

In the wake of the Riyadh bombings Crown Prince Abdallah has led the government's public response, given **King Fahd's** incapacity, with a television speech condemning the killers as “criminals, butchers and devoid of all Islamic and humane principles”, and a televised visit to the victims. The decision to address the attack directly on national television represents an admission that in the modern information age bad news cannot be swept under the carpet.

One of the compounds attacked was the main local base of **Vinnell Corporation**, a politically well-connected US company that trains the **Saudi National Guard**. In contrast to the armed forces, led by Defence Minister **Prince Sultan Bin Abdelaziz**, and security forces loyal to Prince Nayef, the National Guard is commanded by CPA and represents his main military powerbase.

However, it seems likely the attackers were motivated by the fact that Vinnell is symbolic of US defence ties to the Kingdom rather than by a direct attempt to attack CPA's interests.

Saudi sources told *GSN* that the overall impact of the attacks would be to damage Prince Nayef's credibility as the head of the internal security apparatus. As recently as 6 May, his Interior Ministry had announced that it had “foiled” an Al-Qaeda plot after a huge arms cache was discovered in a raid on a hideout in Riyadh – itself a follow up to an earlier arms discovery in March.

The more significant fact was that all 19 suspects managed to escape the 6 May raid, even though their getaway car failed to start. The authorities were reduced to issuing “wanted” photos and offering a SR300,000 reward for information.

As *GSN* has charted, Nayef has appeared increasingly powerful, emerging as the leading opponent of reform concessions or a watering down of the ascendancy of conservative Wahhabism. But the bombings showed his securocrat response to dissent, whether peaceful or not, to be failing, even in the narrow terms of maintaining peaceful order and Al-Saud authority.

Opposition sources claim that many security personnel are now demoralised and, frankly, scared of confronting Islamist militants who have no qualms about shooting fellow Saudi troops and police to secure their escape or stage an attack. In

at least one of the Riyadh suicide assaults, the attackers shot local security guards dead as they barged into the compound to set off their bomb.

This atmosphere of doubt among security personnel has deepened as a number of ulema have issued fatwas against the protection of “infidels” or US interests. These amount to a declaration that Saudi security personnel are legitimate targets.

Were Nayef's standing to be weakened, CPA would have more opportunity to begin moving down the path towards more publicly accountable and even democratic government – an agenda at which he has hinted in a paper circulated to fellow Arab governments earlier this year and in talks with domestic campaigners for political change.

However, exiled opponents remain pessimistic. They are not persuaded that CPA has the determination to countenance and implement genuine political change, even if his hardliner rivals within the ruling family are momentarily weakened by bombing, which has left many ordinary Saudis deeply shaken.

Sceptics see CPA's reformist talk – a message eloquently conveyed by his adviser **Adel Al-Jubair** – as no more than a public relations exercise designed to placate Western allies. They complain that when it comes to the crunch he does not stand up to the conservatives and protect his natural allies such as liberal academics (see below). This is not the sort of analysis a Washington emboldened by Saddam Hussein's fall, will want to hear.

Wahhabi Islam Is An International Relations Issue

Ordinary Saudis have been shocked by the spectacle of major bombings in the capital – and criticism of Jihadi militants is understandably strong among those with ties to the Al-Sauds and the wider liberal middle class. This rejection of violence may be fairly widespread even in Najd, heartland of conservative Wahhabi Islam.

But there is a significant stream of opinion that regrets the deaths of Muslims in the attacks but whose grief is outweighed by their joy at the blow struck against the **Americans** and Al-Saud prestige.

It is almost impossible to gauge the true weight of support for this view. The number of people prepared to engage in or actively support militant activity may be small. But extremists can draw on the tolerance of a wider pool of sympathisers, including within the security forces.

Wahhabi opposition groups are cagey about revealing their true feelings. “If you say something that is seen as condemning terrorism you will lose your support in the country because of the immense hostility towards the regime. And if you condone it you will be in trouble,” one prominent critic of the Al-Sauds confided to *GSN*.

Some Wahhabi clerics have been ready to

criticise the militants: **Mohsen Al-Awaji** recently told *The Guardian* newspaper of his fear that Jihadis would attack westerners in general.

Opinions are divided. Many conservative clerics are fiercely critical of the corruption and hypocrisy they say characterises the régime. But they are also aware that it is the Al-Sauds who guarantee the ascendancy of their stream of Islam in a country where Wahhabism enjoys the core support of about one-quarter of the population.

Some prominent Wahhabis have given more or less overt support to Jihadism, especially in the wake of the invasion of **Iraq** – which they view as a further American attempt to impose imperialist authority on the Arabs.

A significant stream of fundamentalist Salafi Wahhabi thinking seeks the installation of an even more rigorously religious state than Saudi Arabia has today.

As early as 1993 a Salafi petition demanded greater power for the Wahhabi clergy.

Saad Al-Fagih of the *Movement for Islamic Reform in Arabia* is strongly supportive of calls for free speech and freedom of association, but he seems wary of supporting the sort of pluralistic electoral democracy now being advocated by many prominent Shias and liberals.

A number of Riyadh-based Wahhabi thinkers have spoken out in favour of a more moderate and tolerant religious and political model, earning the respect of non-Wahhabis as a result. These include **Dr Abdel Al-Hamid** – described as “fantastic” by one admiring Shia – who was a founder of the *Committee for the Defence of Legitimate Rights* and is a strong advocate of democracy and writer of newspaper columns and academic studies.

A former judge, **Abdelaziz Al-Qassim**, has been influential in persuading the previously hardline **Awaji** and **Salman Al-Awda** to adopt a more moderate stance. **Mansoor Al-Niqaidan** has written studies analysing the Wahhabi/Salafi approach to Islam and arguing that conservative hardliners have produced a distorted version of Wahhabi Islam. **Hassan Farhan Al-Maliki** has produced an analytical critique of Wahhabism’s cultural base. **Abdelaziz Al-Khudair**, publisher of *Al-Muhayyet* magazine and a newspaper columnist, has argued the moderate case.

Life has not been easy for these men. **Qassim** seems unable to secure a new judicial post.

Hamed was dismissed from his university teaching post and even served a spell in prison.

Niqaidan lost his column on the usually independent-minded and broadly pro-liberal *Al-Watan* newspaper.

Maliki has been ejected from his post as a teacher and adviser to the Ministry of Education.

Opposition pessimists cite their harsh treatment as evidence of **Crown Prince Abdallah**’s unwillingness or inability to stand up for his natural allies in encouraging reform.

MUTAWAA IN THE SPOTLIGHT

The US government’s official *Commission on International Religious Freedom* has called for the dissolution of the *Committee for the Propagation of Virtue and the Prevention of Vice* religious police – the *Mutawaa* – who enforce strict adherence to dress and behaviour codes,

Mataween are deeply unpopular with the Kingdom’s non-Wahhabi communities and recent weeks have seen an upsurge of attacks on their harsh behaviour in more liberal newspapers such as *Al-Watan*.

But the US Committee’s demand, in a new report on the Kingdom, represents a huge challenge to the authority of the Al-Saud, for whom the *Mutawaa* have been a key instrument for enforcing religious and social conformism.

In a sidelong barb at the *Mutawaa*’s use of poorly disciplined and largely unaccountable auxiliaries, the US Committee said that Riyadh should “entrust enforcement of the law to regular professionals in law enforcement agencies subject to judicial review and appropriate human rights norms, and dissolve the *Mutawaa*.”

The report calls on the USA to demand that Saudi Arabia honours commitments made in the *Universal Declaration of Human Rights* and grant genuine freedom of worship to Saudi and foreign adherents of religious faiths other than the official Wahhabi strain of Islam.

The US intervention could complicate a growing domestic debate, which was brought to a head by the March 2002 death of 14 girls in a fire at a school complex. The building held 800 girls, instead of the official quota of 220, and *mutaween* prevented firemen rescuing those who could not put on full female dress before they fled.

Al-Watan, owned by **Prince Khalid Al-Faisal**, has published the complaints of families persecuted by the *Mutawaa*. Columnist **Hamza Qablan Mazini** has complained that Saudi children are being condemned to a “cultural death”. Also in *Al-Watan*, **Abdallah Sadiq Dahlan** condemned contradictions in Saudi society that could produce “violence in dialogue”, and condemned extremists who “hide behind religion”.

The announcement of the establishment of a national human rights non-governmental organisation (NGO) shows Riyadh feels the need to be seen to respond to such complaints – even if the planned body turns out to be a meaningless cipher. In 2001, the government announced the establishment of government and NGO human rights bodies. Nothing has been heard of these since, but the pressure for action is greater this time. Whether the leadership will respond to US calls for more radical reform is highly questionable. A gulf of misunderstanding is getting ever wider between the old allies, with issues such as human rights and governance becoming a pressing soft security issue that cannot be ignored.

Government And Opposition Emerge As Winners From Yemen's Parliamentary Elections

The rapid reappointment of Abdelqader Abdelrahman Bagammal as Prime Minister – just days after he had gone through the formality of resigning his government in the wake of last month's parliamentary elections – is a sign of the extent to which President Ali Abdallah Saleh feels relaxed about the opposition's lively performance in the poll. A few weeks ago Sanaa was abuzz with speculation that Bajammal was about to quit office, but by voting day on 27 April he was tipped to stay.

In years to come, this election may be seen as the moment when a credible democratic alternative to Saleh's regime began to establish itself, particularly through the consolidation of a strong support base in the main cities. But for now, Saleh and his ruling *General People's Congress (GPC)* remain comfortably dominant.

Evidence of numerous procedural violations is hard to gainsay, but these appear mainly to have been the work of ruling party hacks trying to protect local strongholds, prestige and patronage, rather than a nationwide attempt to fabricate a government victory that was never in serious doubt.

For the President, recent events have proved rewarding. The opposition challenge, reinvigorated by an alliance between the Islamists of *Al-Islah* and the *Yemeni Socialist Party (YSP)*, has been contained, despite some humiliating local defeats for the GPC in Sanaa.

Western governments were impressed by the fact that electoral abuses were on a much smaller scale than in previous contests. They remain strongly supportive of Saleh, as an ally in the struggle to curb Islamist radicalism, and encouraged by the Bajammal team's record on economic reform and grassroots development.

The government appeared conscious of the need to be seen pursuing a genuine attempt at democracy if it was to retain enduring Western financial and security support.

Some highly questionable episodes were reported by the international observer group organised by the US-based *National Democratic Institute*. Up to 200,000 under-age voters may have been allowed to cast ballots, which may have had a significant impact in several constituencies. In one seat, police cadets were reported voting in public under their officers' supervision.

In one Aden constituency, Islah was well ahead in the count and the GPC was complaining, when

shots were heard and the building was cleared. When vote-counters and party representatives were allowed back ballot papers had disappeared.

The results in four constituencies, including three in Aden, are being disputed. It seems unlikely that in these seats the government will be prepared to lose face and accept defeat.

But in contrast to previous contests, voting secrecy was generally respected. The military were not sent to vote en bloc for vulnerable government candidates and, overall, abuses do not seem to have been sufficiently large scale to change the basic outcome – a solid GPC victory.

Before the vote, ministers went out on the road and campaigned hard in provincial areas. As part of the drive to counter Islamist radicalism and assert central control over tribal areas, the government has been investing in grassroots education and health services, instead of just trying to buy rural loyalties by handing out cash to influential heads of families.

MIXED OUTLOOK FOR THE GPC

The election showed the GPC reaping a political reward for these efforts. Islah candidates lost ground in the Marib, Jawf and Shabwa tribal areas, where they had led the field in the 1997 contest. In mountainous Hajjah governorate, north-west of the capital, the ruling party swept the board.

The poll saw a new form of opposition emerge, which is more urban and political and less rooted in traditional, localised loyalties. Islah captured more than half the seats in Sanaa, ousting prominent GPC figures such as Hussein Al-Maswari and Abdelwahab Al-Rawhani.

The opposition showed strongly in a string of towns and cities on the main south-north road running from Aden right through to Amran,

Yemen Parliamentary Election, 27 April 2003*

	SEATS	% OF VOTE
<i>General People's Congress</i>	226	58.0
<i>Al-Islah</i>	47	22.55
<i>Yemeni Socialist Party</i>	7	4.69
<i>Nasserites</i>	3	1.85
<i>Baath Party</i> (Syrian version)	2	0.68
<i>Independents</i>	14	9.9

* Partial result. Results in four seats are disputed and have yet to be declared.

stronghold of parliamentary Speaker and Islah heavyweight **Sheikh Abdallah Bin Hussein Al-Ahmar**, who polled 24,350 votes, more than 0.5% of the total cast nationwide.

Opposition groups did well in Lahij, Taiz and Dhamar, which saw gains for socialists, who did not participate in 1997. Southern wariness of northern strongman Saleh may also be reflected in the opposition's strong showing in Abyan, around Aden.

Coming months will show whether the opposition can build on this urban base through a more effective critique of the government, thanks to its infusion of new parliamentary blood.

The GPC is not unassailable. While the outgoing cabinet included some strong performers – such as Finance Minister **Alawi Salih Al-Salami**, who is well regarded by donors – the team also numbered its fair share of duds, perhaps reflecting a need to balance the demands of administration and policy leadership against regional and sectional interests.

ISLAH'S COALITION OF CONVENIENCE

Islah's polling success with the more sophisticated urban electorate has been achieved through vigorous campaigning on corruption rather than religious issues. Another influence nudging the movement towards concentration on a mainly secular agenda is its *Coalition for Reform* alliance with the YSP and other opposition groups.

Having paid such handsome electoral dividends in Sanaa, this arrangement is likely to survive for the foreseeable future. The YSP has a strong interest in maintaining the partnership (*GSN 701/5*). The Socialists have been short on charismatic leadership since the assassination of veteran leader **Jarallah Omar** after he had addressed Islah's party conference in December.

The Islamist stance towards government appears slightly ambivalent, holding back from outright opposition. **Mohammed Qahtan**, head of Al-Islah's political department, blamed Saleh for the electoral violations, only to find himself pressured by colleagues into a humiliating apology. Meanwhile, his YSP counterpart **Abdelghani Abdelkader** continued to criticise the poll abuses.

Al-Islah's leadership called an extraordinary meeting which issued a further grovelling apology to Saleh. The next day, Sheikh Ahmar was re-elected by acclamation as Speaker.

Sheikh Ahmar's sons were detained after a still unexplained violent incident outside the UK Embassy last October, but were quietly released some time ago. The British are still trying to get compensation for damage to their perimeter wall.

PRESSURES FOR SOCIAL REFORM

There are clearly still limits to the meaning of opposition in Yemen. The government and Islah need each other, particularly in delicate areas such as education. It is now a year since the Bajammal administration amalgamated the parallel religious and state secondary schooling systems under

unambiguous government control. The government is preparing a major new effort in this area, with the Education Minister travelling to Washington to discuss Yemeni participation in the *World Bank's* Education for All initiative.

For a country where 70% of girls still do not attend school this will be a big step. Acceptance into the scheme will be a powerful signal of donor confidence in the government's ability to effectively develop the national schooling system.

Donors believe now is a good time to press ahead with renewed action to reduce poverty – which is seen as the most effective long-term means of undermining ultra-radical Islamism.

THE USA AND EUROPE DO CARE

While it continues to maintain military support for the government, the USA appears to have concluded that this 'hearts and minds' approach is crucial. US Ambassador **Edmund J Hull** – the State Department's Acting Co-ordinator for Counter-terrorism before replacing **Barbara Bodine** in Sanaa in September 2001 – recently visited Marib, at the heart of a region that has seen numerous attacks on westerners. The *US Agency for International Development* office in Sanaa is being reopened after a seven-year shutdown.

Douglas Heisler, hitherto head of USAID's programme for population, health and nutrition in Asia and the Near East, will be in charge, with an annual budget of \$10m-20m. Marib is likely to be a priority region for spending.

The *European Union* may also become more active. Former European Commissioner **Emma Bonino** is pressing *European Commission* President **Romano Prodi** to go ahead with the opening of a promised delegation in Sanaa.

COURTROOM DRAMA UNDERLINES HARDLINE THREAT

If President Saleh needed any reminder of the continuing resilience of hardline Islamism, he got it when a judge was injured in a hand grenade bombing of a court in Jibla.

On 10 May, the court had sentenced **Abed Abdulrazzak Kamel**, 30, for the December murder of three American missionaries in Jibla's Christian-run hospital. Kamel had confessed to the killings, but he refused to recognise the verdict, insisting he should have been tried by an Islamic court rather than by a secular tribunal.

Police said that Judge **Hizzam Al-Mufaddal** – who was not the judge who sentenced Kamel – was the most seriously injured victim of the 14 May bombing. Three other people were slightly injured.

Associated Press said Yemeni security officials believed Kamel belonged to a "terror cell" linked to *Al-Qaeda*. This group was plotting attacks against at least eight targets, including foreigners and Yemeni politicians, the report said. Local police said audiotapes bearing **Osama Bin Laden's** voice had been found at Kamel's house.

Omanis Line Up For A More Open Election

Five hundred candidates have already been declared for October's elections to the 60-seat Majlis Al-Shura, the first such contest to be held in the Sultanate on a universal franchise. Local media, doubtless prompted by the government, are starting to call on their readers to register to vote.

But local internet chat rooms bubble with demands for the Shura council to be given more powers. At present it does not draft or formally pass legislation, which continues to be signed into law by royal decree. The expectations of educated urban young net users may be greater than those of more compliantly loyal populations in rural areas, but nationwide affection for **Sultan Qaboos Bin Said Bin Taimur** still may not translate into an enthusiastic high turnout on polling day.

Previous polls have been held on a restricted franchise – initially 10% and last time around, in 2000, some 25% of the adult national population. Some observers wonder whether a significantly higher percentage will be achieved this time, even though all men and women of 21 and over will be able to vote; the previous voting age was 24.

The new rules will change the social balance of an electorate in which local notables, well-connected intellectuals, and the professional and business middle class were disproportionately represented. But restrictions on campaigning – by word of mouth and local meetings, with no advertising, posters or parties allowed – are likely to produce a Majlis that, like its predecessors, is concerned mainly with local issues and not shaped by national trends or agendas.

Many Omanis are privately critical of the Sultanate's strongly pro-Western tilt and there is widespread sympathy for pan-Arab and pan-Islamic ideas. The invasion of **Iraq** has aroused interest and feeling, but political Islamism is not emerging as a formalised force – partly because of the tight restrictions on religious charities and the ban on parties, but largely because of the Sultanate's deep-rooted traditions of tolerance and religious pluralism. Although the local Ibadi stream of Islam is predominant, there are no restrictions on the Sunni or Shia communities – nor on Christians or Hindus' freedom of worship.

Some Omanis believe the lowering of the voting age could bolster support for candidates favouring modernising change, at least in urban seats. Each *wilaya* (local government area) will have one member, with two in districts with populations of more than 35,000 people.

Majlis Al-Shura members are limited to two consecutive terms, which means many will have to stand down this year. This will allow in new blood, although it is hard to predict whether the universal franchise will help or hinder prospects for the

election of more women. There are two in the outgoing chamber – **Rahelah Bint Amor Al-Reyami** and **Lojina Bint Mohsen Al-Zaabi**.

Zaabi, still in her 20s and sitting for one of the Muscat seats, is also Director General of her family's business **Mohsen Haider Darwish (MAD)**, which has lucrative **Jaguar**, **Range Rover** and **Land Rover** concessions.

The election of more urban liberal middle class representatives would be a useful support for Sultan Qaboos's cautious modernising agenda – typified by the recent establishment of a Supreme Court. The government appears keen to court parliamentary opinion – and ministers have occasionally suffered painful grillings.

In early May the Cabinet met with the Majlis Al-Shura and the nominated Majlis Al-Dawla so that members of both could raise policy concerns in a more formalised setting.

But the elected assembly remains essentially a consultative and scrutinising body and not a policy-maker. Sultan Qaboos has not indicated whether, at a time of creeping democratisation among **GCC** neighbours, he is prepared to take the further step of increasing its powers. Interior Minister **Sayyid Ali Bin Hamoud Al-Busaidi** stayed well away from the subject when he gave a press conference on the elections.

IT'S THE ECONOMY

The dominant electoral issues will be jobs, incomes and public services in this somewhat de-ideologised political scene, where employment is the greatest challenge.

Without a new job-creating growth spurt, Oman could soon find itself facing serious social problems. Some 67,000 young Omanis will enter the labour force this year. With Omanisation in government services almost complete, many will have to find positions in the private sector.

At least this is less of a wrench than it would be in the **UAE** or **Kuwait**. Relatively late to develop its limited oil assets, Oman was not able to offer an assured comfortable public sector employment berth in the 1970s. Recruitment surged in the 1980s, but in the 1990s the government began to tighten up.

For all the publicity attached to Omanisation, only about 60,000 Omanis work in the private sector – and that total includes those in traditional occupations such as fishing or goat-herding.

Besides attempting to stimulate new activities – such as port expansion at Salalah and Sohar and the development of a refinery and petrochemical plants at Sohar – the government is trying to tackle the jobs problem with compulsory Omanisation for a lengthy list of occupations and vocational training to equip locals for middle-ranking skilled

artisan jobs. Omanisation has the scope to provide significant numbers of jobs for locals, who currently account for barely one-tenth of the estimated 600,000-700,000 private sector workers.

The greatest potential probably lies in training locals. A national *Hospitality Institute* now trains Omanis for a wide range of jobs in the hotel and catering trade. Most staff at the Muscat *Intercontinental* hotel are local.

Having never enjoyed the overweening oil wealth that characterises some of their Gulf neighbours, Omanis appear much readier to take on a wide range of jobs, at modest rates of pay.

The national minimum wage is only OR150 (\$390)/month. In rural areas some families scrape by on OR60. The starting rate for white collar positions, such as bank clerk, is in the OR300-400 range. In the Muscat conurbation, families trying to live on less than that will not have an easy time.

One reason for the heavy focus on training for skilled middle-ranking technician jobs is to offer Omanis a viable income ladder, so that even those who start on the least-skilled rung can realistically aspire to gradual promotion to positions that will assure a reasonable standard of living and a hope of saving for a wedding and other expensive items.

IRAN: Pahlavi Allies Seek To Give 'Young Shah' The Chalabi Treatment

Exiled monarchists have taken heart from **Saddam Hussein's** fall and the Pentagon's sponsorship of Ahmed Chalabi to push the claims of the 42-year-old son of the late **Shah**, who styles himself **Reza Pahlavi of Iran**. In February, *GSN* profiled Pahlavi and the exiles and US neo-conservatives – some with significant ties to **Israel** – who were giving him a push (*GSN 704/12*).

These included **Michael Ledeen** of the *American Enterprise Institute*, which organised an early May Iran conference in Washington, where neo-cons are warming to the view expressed by the AEI's **Reuel Marc Gerecht** that Reza Pahlavi's stock is rising in Iran. Gerecht favours the threat of force to bring about regime change.

At least one key player in the Administration, Under Secretary of Defence **Douglas Feith**, likes Pahlavi and the idea of putting military pressure on Iran – although not enough to stop him from blocking a plan by Pentagon staffers to draw up a blacklist of non-US firms working in Iran, which created concern a few weeks back (*GSN 707/14*).

Reza Pahlavi has been associated with Kansas *Republican* Senator **Sam Brownback's** Senate amendment to create a \$50m Iranian Democracy Fund. This amendment was defeated in the Senate Foreign Relations Committee but Brownback is trying to attach the amendment to other legislation that might bypass it.

OMAN: Questions Of Succession

It is tempting to see Oman's slow construction of democratic processes as a long-term preparation for the post-**Qaboos** era, gradually devolving power from the monarchy to constitutional institutions. But Muscat observers suggest this may be reading too much into a process of political evolution now evident in a number of the smaller Gulf states.

The Omani succession path is relatively clear. Although the Sultan has no children, there is wide agreement on the two most likely potential successors, and the formal mechanism for selecting a new ruler is expressly laid down. The key names generally regarded as in the frame are two of the Sultan's first cousins – **Sayyid Haithem Bin Tariq** (aged 49) and **Sayyid As'ad Bin Tariq** (48), both sons of the onetime prime minister **Tariq Bin Taimur**. Both used to hold relatively low profile posts, but in 2002 they were moved to more prominent positions with a seat at the Cabinet table, thus giving them a window on the workings of government.

Sayyid Haithem was formerly secretary general of the Foreign Ministry, but his role was vague. He did not appear either to be covering for the Minister Responsible for Foreign Affairs **Yusuf Bin Alawi Bin Abdallah Youssef Bin Alawi** – the official Foreign Affairs Minister is Qaboos himself – or heading up the departmental administration. But now he is Minister of Culture. Sayyid As'ad had been serving as Higher Committee for Conferences Chairman. Now he is Special Representative of the Sultan, deputising in ceremonies when Qaboos is not free to attend; this leaves him usefully placed to maintain contacts around the country and among tribal leaders and other local notables. This job is not the same as Qaboos's deputy – a role filled by a more distant cousin, **Said Fahad**, who chairs Cabinet meetings when the Sultan is away. Neither Haithem nor As'ad has openly indicated how they foresee Oman's future political evolution. Public debate of such subjects remains taboo.

If one of them does succeed this will also neatly bring an important strand of the ruling **Busaidi** family back to the heart of power, thus reducing the scope for argument and division. When in 1970, with **UK** assistance, Qaboos overthrew his traditionalist father **Sultan Said Bin Taimur**, it was Tariq Bin Taimur, brother of the ageing ruler, who was most widely viewed as a likely new head of state. He had been in self-exile for some time, building up a movement that aimed to seize power and, supposedly, create a modern semi-constitutional monarchy. With a **Turkish** mother and a **German** wife, fluent in five languages, he was well-connected among Western diplomats in Beirut and **Kuwait** and rumoured to be contemplating a mercenary coup. The UK-supported Qaboos – who had been trained at **Sandhurst** – staged his putsch before Tariq could move; he went on to appoint him prime minister.

Only royals both of whose parents are Omani can become sultan. This effectively rules out a number of royals who are married to foreigners. Among these are two elder Tariq sons, **Sayyid Talal** – married to a Turk – and **Sayyid Qais Bin Tariq**, whose wife is **American**. Said Fahad, though probably too distant a cousin to be considered for the top job, is married to a **French** woman. One other Tariq son, **Seyyid Shihab** (47), is a possibility in dynastic terms, but given the official succession procedures he effectively has a conflict of interest because he is commander of the three-ship **Royal Navy of Oman (RNO)**. The rules specify that after the Sultan's death a family council should gather to select the successor. However, the procedure also states that if the Busaidis cannot agree, an envelope in which Qaboos has left his own chosen name will be opened by the Security Council. This includes the heads of the military and intelligence services. The family has to be able to trust the Council to correctly reveal and confirm the new ruler's name.

Disquiet On The Media War's Baghdad Front

For the US-led Coalition, successfully shaping Iraqi perceptions has grown vitally important, particularly since other means of influencing the public – by re-establishing security, water and power supply and a welfare state – are taking longer than expected. Iraqi opinion still balances on a knife's edge, with the population undecided about how it views Coalition forces.

During this window of opportunity, public opinion will remain highly susceptible to influence operations that mobilise broadcast media – yet the Coalition has arguably been slower to shape the media environment than indigenous political actors or Iran's state-sponsored media network.

In Baathist Iraq, the ownership and operation of media, particularly broadcast media, was an indication of authority. Clustered under Uday Hussein, state-run media operations provided Saddam's increasingly marginalised elder son with an alternative powerbase of some significance and a means of speaking directly to the country's large and politically important youth.

The state's monopoly was broken only by the external radio broadcasts of exile movements supported by the US, Saudi Arabian, Jordanian and Iranian governments.

The collapse of Baathist control has opened the floodgates to a diversification of internal media and prompted a relocation of many external broadcasting bodies. Political factions and ambitious individuals have rapidly broadened the range of available media, recognising that media profile is synonymous with political power.

All the major factions present in Baghdad have established newspapers, which are quick to set up and can be produced cheaply enough that impoverished Iraqis prefer them to the dribble of expensive imported papers now arriving. From a pre-war level of four dailies and 11 weeklies, there are already one daily and 15 weeklies.

Baghdad residents can choose between *The Future* published by the *Iraqi National Accord (INA)*, the *Iraqi National Congress (INC)*'s *Conference* and the *Iraqi Communist Party's Road to the People*.

The London-based *Al-Hayat* are available but cannot compete with Iraqi paper on price, costing around \$1 compared to indigenous papers that are either free or cost between ID250 (approximately \$0.07) and ID750.

The first post-war daily, *Al-Zaman*, is published by big spending former editor of government paper *Al-Jumhuriyah Saad Bazzaz*, who defected in the 1990s and until recently was put out to pasture in

the US *National Defense University* by the *Central Intelligence Agency (CIA)*.

Broadcast media – where the financial and technical entry requirements are more demanding – are developing. The deposed self-styled mayor of Baghdad **Mohammed Zubeidi** drew his initial legitimacy by establishing the first local radio broadcasts after the government's fall.

In Baghdad, the main Kurdish, Turkmen and Communist parties have established radio stations and even some TV stations. At a regional level, *Al-Najaf TV* was recently established. The recently reconstituted *Mosul TV* proved to be a platform on which local politicians sought to establish their credentials. This prompted the local US commander to deploy a translator and censor to the TV studios to prevent further politicisation of the medium – as occurred in the Balkans.

IRAN AND THE "WAR FOR CONTROL"

The Iranian government hit the ground running by establishing a range of broadcast media operations specifically aimed at shaping opinion in Iraq.

The *Islamic Republic News Agency (IRNA)* supports Ayatollah Mohammed Bakr Al-Hakim's *Supreme Council for Islamic Revolution in Iraq (SCIRI)* radio station, *Voice of the Mujaheddin*, which recently shifted from short- to medium-wave, making the station far harder to jam.

In south-western Khuzestan province, *Islamic Republic of Iran Broadcasting (IRIB)* continues to broadcast three Arabic-language radio stations.

Iran also began broadcasting two new TV stations dedicated to Iraqi viewers – *Sahar TV* and *Al-Alam*. Sahar TV's two channels are satellite only, aimed at promoting the Islamic Republic in the Arab world. Al-Alam is terrestrial and satellite, utilising antennae as close as 90 miles from Baghdad. This popular 24-hour channel rivals *Al-Jazeera Satellite Channel* in its formula – interspersing news with pop music videos – but is far more accessible in Iraq, where satellite dishes are unaffordable.

The political tone of Iranian broadcasts into Iraq focuses on opposition to US "occupation", using the slogan "war for control" to describe Operation Iraqi Freedom.

COALITION ATTEMPTS TO "WIN THE INFORMATION WAR"

Although the USA had over a decade of experience of broadcasting radio messages into Iraq and the issue of "winning the information war" was a known focus of US Office of the Secretary of Defence (OSD) activity, coalition attempts to shape the media environment have been slower

than fast-developing indigenous and Iranian broadcasts – although specialists have been brought in to help reverse the trend.

Aside from US Army newsletters, the Coalition is only now establishing a 50,000 copy daily newspaper, *Al-Sabah*. Like most newspapers, this will only be available in Baghdad.

The USA effort remains divided along bureaucratic lines. The Pentagon's *Office of Reconstruction and Humanitarian Assistance (ORHA)*'s Indigenous Media Project is one part of the effort. Key figures include ORHA Co-ordinator **Robert Reilly**, formerly of *Voice of America (VOA)* and *Radio Free Iraq's* **Ahmed Al-Rikabi**.

On 17 April, ORHA established the *Iraq Media Network*, which will oversee the shift from airborne transmission of broadcasts (from EC-130E Commando Solo aircraft that are being recalled to the USA from Camp Snoop in Qatar) to ground-based broadcasts using truck-mounted Special Operations Media Systems (SOMS-B).

Ongoing broadcasts will include *Information Radio*, *Voice of New Iraq Radio*, plus a new TV station replacing *Towards Freedom TV*, the CIA-run television station transmitted by Commando Solo over Iraq's Channel 3 frequency during and after the war.

The UK has established *Nahrain TV* in Basra.

These stations will now begin to transition from part-time military-run psychological operations channels to full-time sources of entertainment and news that can sustain popular attention.

A parallel effort continues at the State Department, which has recalled some of its staff from ORHA projects to rejoin the two State Department-run radio stations servicing Iraq – VOA's *Radio Sawwa* and the *US Information Agency's Radio Free Iraq*, which will transmit for 12 hours per day from its new Baghdad offices.

Among former opposition groups and their sponsoring intelligence services, the Sunni officer-led INA continues with three stations – *Radio Sumer* (formerly *Radio Tikrit*), *Two Rivers Radio* and *Al-Mustaqbal (The Future)* – in co-operation with the CIA and Jordanian intelligence (see box).

Voice of the Iraqi People, run from Jeddah by Iraqi expatriates and the *Saudi General Intelligence Directorate*, has promoted Saudi policy over more than a decade of operation.

Ahmed Chalabi's INC, still waiting for \$4m of withheld State Department funding requested to relaunch *Radio Hurriyah*, continues to lack a dedicated radio or TV service. It is believed to be waiting for a licensing body to be established to gain direct access to broadcast media.

Chalabi's faction cannot use CIA-run facilities in Jordan – where Chalabi's relations with the government continue to deteriorate – or the 50kW Harris transmitter co-run by the CIA and VOA in **Kuwait**. Although offered the use of SOMS-B equipment by Chalabi's allies in the Pentagon, the

INC is seeking to increase its independence from the OSD.

Indeed, the key drawback to the ORHA, State Department and opposition broadcast media is that they are seen to be heavy-handed organs of the USA and other foreign powers; that they are not commercially viable 24-hour operations; and that they have failed to anticipate and satisfy the linguistic and cultural requirements of Iraqis.

ORHA has been accused of linguistic clumsiness and insensitivity in its decision-making. It has come into conflict with Rikabi over the new US-run TV's first broadcasts; the channel is seeking to maintain relatively neutral reporting in the same way as *Radio Free Iraq*.

In comparison, local media – including Iran's savvy broadcasts – provide an attractive means for local and foreign groupings to unobtrusively promote their policies and shape public opinion. The USA and its allies need to act quickly to speed up their efforts to fill the information vacuum, and to regulate rather than censor Iraq's media.

Internal and external political groupings must be guaranteed access to broadcast media and assistance with establishing print media, while a communications regulation agency is seen as an urgent necessity.

Covert Radio Stations

Before, during and after Operation Iraqi Freedom, the *CIA* and *Iraqi National Congress* changed the profiles of a number of radio stations broadcasting into Iraq. These included:

- **Sawt Tahrir Al-Iraq (Voice of the Liberation of Iraq)** was established shortly before the war and broadcast from Sulaymaniyah, where it ran alongside the *Patriotic Union of Kurdistan (PUK)*'s *Voice of the People of Kurdistan* radio. During the war, the station used an old CIA ruse by portraying itself as the broadcast of an indigenous guerrilla movement. It was renamed as **Sawt Al-Tahaluf Al-Duwali Li Tahrir Al-Iraq (Voice of International Coalition for the Liberation of Iraq Radio)** on 21 April and began broadcasting on FM and MW, in addition to SW. By 1 May it left the airwaves for good.

- **Wadi Al-Rafidain (Two Rivers Radio)** was set up by the *INA* shortly before the war, starting in Amman, **Jordan**. It thereafter broadcast from **Kuwait** via a 50kW Harris transmitter administered by the CIA. The station continues to broadcast.

- **Al-Mustaqbal (The Future)**: after the war, the INA was offered use of a SOMS-B broadcasting platform by the Pentagon, but refused. Programming is fed to the Kuwaiti CIA transmitter via satellite from Amman.

- **Radio Sumer** was previously *Radio Tikrit* (until 21 April) and before that *Voice of the Brave Armed Forces* (until January 2003). When the station left the airwaves and returned as *Radio Tikrit*, it initially took a pro-Baathist position before appearing to defect, turning against the regime. This classic false flag operation was followed by another reinvention as *Radio Sumer* – which has broadened its audience to include non-Sunnis and supports a message of national integration. The station is covertly supported by US defence contractor **SAIC** and uplinks through **World Radio Network**, a satellite uplink provider in London.

Business Trends

IRAN: French Car Venture

Iran Khodro Automobile Manufacturing Group plans a new joint production venture with French car-maker *Peugeot Citroën*, Managing Director *Manuchehr Manteqi* confirmed.

The project, which will target export markets as well as home demand, is one of several being pursued by Iran Khodro in a drive to raise its technical standards and bolster output. The enterprise is in talks with at least two other leading foreign vehicle groups.

Manteqi has stressed the importance of improving manufacturing quality and reducing costs as the group adjusts to the demands of an increasingly liberalised and competitive market.

French Trade Minister *François Loos* has been visiting Iran to promote the deal and other business prospects. He noted that Iran Khodro had already reached international production standards for its annual output of more than 300,000 cars. This is expected to jump to 450,000 vehicles this year.

The company's chief economic adviser *Hossein Pourzandi* pointed out that this higher output will open the way to economies of scale. In the year to 20 March, output rose 12%, driving up the company's *Tehran Stock Exchange* share price.

For Peugeot, Iran is a potentially valuable market, with its 65m population. The French company has a long track record of producing cars that can cope with uncertain road conditions.

IRAQ: Security Matters

Security remains an issue in the oil industry, as in other sectors of Iraqi society and the economy. The *US Army Corps of Engineers (USACE)* has said looting, while not stopping oil production, "is causing us to slow down on infrastructure matters", in the words of the Restore Iraqi Oil (RIO) programme's Brigadier General *Robert*

Crear. The US Army has sought to reinstate former Oil Sector Police to protect facilities.

In its first subcontracts placed with UK-based firms, *Bechtel* awarded a contract to *Olive Security* to protect personnel during the pre-positioning and fact-finding phases of its contract. Olive has an existing agreement with Bechtel and the subcontract was not awarded competitively.

ArmorGroup Services (Jersey) won a competitive bid let by Bechtel to provide advisory services on unexploded ordnance.

The US Department of Defence awarded *DynCorp International* a \$50m contract to provide 1,000 experienced advisers to help train and work with local criminal justice bodies.

ITALIAN PLAY

Silvio Berlusconi's government is dispatching an official Italian delegation of at least 25 members, to arrive in Baghdad by the end of this month, to assess prospects. Like other governments the Italians have been talking to *USAID* and other US bodies about priorities. One of these sectors is private prison management, the Italians were told.

UAE: Annual Meetings Agenda

Imagination and consultation will be needed as UAE officials prepare to present the concerns of Arab and other developing countries at the end-September *International Monetary Fund/World Bank* Annual Meetings in Dubai.

One of the globe's richest oil producers will need to consult widely if it is to credibly represent the developing nation views in four months time.

Dubai 2003 General Co-ordinator *Ibrahim Belseleh* has said peaceful demonstrations will be allowed. Under the Annual Meetings spotlight, Arabs governments may find themselves pressed on sensitive governance issues, as well as questions of aid.

QATAR: Law Firm Moves In

Simmons & Simmons has announced plans to open a Qatar office in September, the international law firm's second outpost in the region. Its *Abu Dhabi* practice opened in 1994.

Senior partner *Charles Pollock* will head up a Doha-based team expected to build on the firm's existing relations in the country, particularly in the energy, projects, corporate and construction sectors. *Simmons & Simmons* says that as well as private clients it has advised on "significant" corporate, financial markets, property and litigation matters for Qatari governmental bodies. Until now this work has been serviced largely by its London office.

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*.

NCB: Out With The Bin Mahfouz, In With The Bean Counters

In Washington, it's back to open season on the Saudis. The 13 May Riyadh compound attacks refocused US attention on the Kingdom and the Al-Sauds' tricky relationship with the Jihadi strain of Islamism. The timing could not have been worse for Saudi policy makers of a reformist bent.

Reformists may fear that a revival of Beltway Saudi bashing will take the gloss of less high-profile efforts to crack down on the alleged former redoubts of *Al-Qaeda* financing. National Commercial Bank (NCB) is a case in point. Having laid down a marker for change with the successful public offering of shares in *Saudi Telecom* last December, the authorities have spent much of this year gearing up to float a chunk of its recently expanded interest in NCB.

NCB has spent the past four years being carefully nurtured as a symbol of the new model Kingdom, transformed from the mismanaged basket case it became under the ownership of the discredited **Khalid Bin Mahfouz**, when it also stood accused of acting as a conduit for funds destined to reach charitable institutions linked to **Osama Bin Laden**.

Now NCB is a highly profitable institution with a domestic franchise that is the envy of other Saudi banks. Net income in 2002 was up by a healthy 26% to SR2.4bn.

The authorities have pulled out all the stops to rid NCB of its less savoury associations. Late last year the **Public Investment Fund (PIF)** paid out \$1.8bn – around 2.5 times the estimated book value – to some of the remaining Bin Mahfouz family shareholders for a further 29.3% of NCB's equity. The government had taken a 50% stake from Bin Mahfouz in 1999.

The transaction presages NCB's eventual privatisation. Finance Minister **Ibrahim Al-Assaf** is promising that the PIF – which holds all but 10% of the state's 80% stake in NCB – will sell some of the shares in a public subscription on the *Saudi Stock Exchange (SSE)*. Plans to sell a sizeable NCB stake on the market are now well advanced, with a likely initial public offering (IPO) earmarked for either H2 03 or H1 04.

The authorities' impetus to clean up NCB is linked to the spectre of law suits hanging over the Arab world's largest bank, most prominently in the class action of 9/11 victims' relatives which named NCB as a financier of terrorism – a charge strongly refuted by the bank.

Al-Muwaffaq Foundation, linked to Khalid Bin Mahfouz (and other Jeddah businessmen including **Yassin Abdallah Qadi**) was named by the US Treasury Department as having Al-Qaeda ties.

Regulatory authorities throughout the region are busy closing down former avenues of terrorist financing, pushing all the right buttons in Basel and Washington. Riyadh is in no position to sit on its hands when the US authorities, armed with the *Patriot Act*, are in a mood to root out presumed financiers of international Islamism (*GSN 697/14*).

But NCB is ripe for a sell-off on its own terms, underscored by the Saudi authorities' stated commitment to selling off the family silver. After years of lethargy, the late 2002 Saudi Telecom IPO has raised the temperature of reform in the Kingdom. Saudi Arabia's first private sector debt instrument was issued in April and the long-awaited *Capital Market Law*, now approved by the *Majlis Al-Shura*, could hit the statute books some time this year. This will furnish the regulatory framework that will hasten the privatisation of a range of other state-owned assets.

Some of these sales may take more time, such as flag carrier *Saudi Arabian Airlines*, which is struggling under a burden of debt and a public service mandate that few strategic investors would want to take on.

In contrast, NCB looks a more tempting prospect for investors considering a punt on the SSE. The management team of Chairman and Managing Director **Abdallah Bahamdan** and General Manager **Abdelhadi Shayif** has brought order to the balance sheet and helped NCB's return to profitability. Having been hit by more than \$1bn of non-performing loans, a painful one-off provisioning hit of \$1.8bn early in Bahamdan's reign largely wiped the slate clean. Subsequent performance has seen NCB maintain its strong domestic position and establish a market lead in Sharia-compliant retail products.

Like Saudi Telecom, NCB could prove to be another liquid stock that attracts investors to the market. But if it also heralds the Kingdom's wider commitment to transparency and reform, then all the better for Riyadh's battered public image.

UAE: Dubai Bond Finally Launches

After persistent delays, a five-year Dh1.5bn bond intended to help finance the end-September *IMF/World Bank* Annual Meetings in Dubai is finally launching, underwritten by five banks – *Emirates International Bank, HSBC, National Bank of Abu Dhabi, National Bank of Dubai* and *Standard Chartered Bank*. But pricing and marketing issues remain to be finalised in a bond intended to stimulate local investor interest.

GSN Risk Grade – D/3: US administrators confronted by huge political risks, complex financing

Political And Social Development

Overview: The security situation remains tense, with the new Civil Administrator L Paul Bremer likely to allow US troops to fire more regularly on looters and other 'criminal' elements in the coming weeks. A harder line on security threatens new clashes with the population, with Shiite groups in particular mobilising to fill the political vacuum following Saddam Hussein's fall in mid-April. The Pentagon will continue to push the claims of Ahmed Chalabi and his Iraqi National Congress (INC) – and its greatest fear must be that the new pluralism opens the way to power for leaders less disposed to the West.

Political splits, social pressures: Divide and rule will be the order of the day, with signs of a Shiite mass movement developing countered by divisions between supporters of key leaders such as the recently returned Supreme Council for Islamic Revolution in Iraq (Sciri) leader Ayatollah Mohammed Bakr Al-Hakim and rivals such as Muktada Al-Sadr. Rivalries will be reflected in efforts to build a representative interim government and an enduring pluralistic political system, also involving the Kurds, who have been strengthened by the conflict and expect substantial autonomy, if not independence. Meanwhile social pressures are rising: the World Health Organisation has warned of a cholera epidemic in the south.

New resolution: Discussions are well under way on a new UN resolution proposed by the USA, UK and Spain that would end sanctions, phase out the oil-for-food programme, see the Coalition forces in charge of Iraq for the next 12 months and set up a US/UK-run Iraqi Assistance Fund (IAF) to administer oil revenues. It calls for UN Secretary General Kofi Annan to appoint a Special Co-ordinator for Iraq, to work with the Coalition to help co-ordinate humanitarian aid and work. This is not the central role many would like to see for the UN.

Weight of evidence: Coalition forces remain under pressure to show concrete evidence of Iraqi weapons of mass destruction; the US team leading the search is reportedly to pull out in June if no evidence is found. Evidence of huge human rights abuses have been found, but officially this was not the *casus belli* for the invasion – and lack of substantial WMD proof could prove a major political issue, especially in Europe, that undermines the Coalition's hold on the moral high ground.

Economic Outlook

Overview: It is still too early to obtain an authoritative estimate the cost of reconstruction; working figures of around \$100bn over 20 years have been cited. Oil revenues and aid are expected to see Iraq through the 2003-04 period, but there are myriad pressing basic reconstruction issues that must be resolved. Huge investment and time are required for the oil sector to recover and expand. Additional financing could come from releasing Iraqi funds held in UN escrow accounts.

Financial restructuring: Priorities include unification of Iraq's dual exchange rates, restoration of the banking system, and tackling inflation (60% pre-war). A fully dollarised economy has been mooted and, apparently, rejected. A consultant – possibly BearingPoint (ex-KPMG Consulting) – is expected to lead the USAID-funded rebuilding of the monetary system. Later contracts will go to recreate Central Bank of Iraq, the Baghdad Stock Exchange and other financial institutions.

Oil industry: Worst-case scenarios were not realised and output is expected to recover more quickly than anticipated, although a return to 1990 output levels of 3.5m b/d is expected to take at least two years, with output of over 6m b/d only in a decade. Some estimates place rehabilitation costs at \$20bn. Control of Iraqi oil is a thorny, unresolved issue. Former Shell Oil chief executive Philip Carroll heads a Coalition Oil Advisory Team with a team drawn from former Iraqi officials.

Debt and compensation: A lot of creditors wrote off their Iraqi debts during the last decade, but a major restructuring will follow. Rough estimates place the debt at between \$100bn and \$200bn. The Paris Club of official creditors is expected to play a prominent role in negotiations – with a substantial "haircut" (debt reduction) expected – starting with studies and information sharing with other key players such as the IMF, which is expected to send a team to look at Iraq's balance of payments situation. The last IMF Article IV consultation was in 1980. Iraq has only around \$72m arrears to the IMF. For countries like Kuwait and Saudi Arabia there is also the issue of 1990-91 Gulf war compensation payments; the present repayment mechanisms are due to expire with the UN Oil-for-Food Programme. Kuwait, owed around \$25bn, is quietly lobbying key players on the issue.

IRAQ: Key Projects

OIL SECTOR REHABILITATION: US Army Corps of Engineers (USACE) overseeing process. First phase work to be managed by Kellogg Brown & Root, with work to be competitively tendered. Some joint ventures already formed to bid for work including US' Fluor Corporation with the UK's Amec.

WEST QURNA OIL FIELD: Russia's Lukoil has 68.5% stake in the second stage development of the giant field, potentially at the centre of a major row if the Bush Administration insists the contract (which terminates in 2020) is not valid. Other partners include Zarubezhneft, Machinoimport and the Iraqi Oil Ministry.

UMM QASR PORT: Main USAID contractor Bechtel awarded a dredging subcontract to Great Lakes Dredge & Dock Co. to allow access for larger vessels and increase humanitarian aid flows.

HEALTH SERVICES: Abt Associates has initial \$10m USAID contract to support sector rehabilitation.

LAW ENFORCEMENT: DynCorp International has a \$50m contract from the US Department of Defence (*see page 12*).

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.

IRAQ: Selected Economic Indicators

(\$ m unless otherwise stated)	1998	1999	2000	2001
Domestic economy & finance				
GDP (ID bn)	1,391.8	1,925.0	2,290.8	–
Total consumption (ID bn)	1,133.6	1,561.8	1,768.2	–
External situation				
Current account balance	–	2,018	–	1,031
Exports fob	7,417	12,750	20,603	15,905
of which: oil	7,063	12,143	19,622	15,148
Crude exports ('000 b/d)	1,795	2,203	2,243	2,030
Imports	3,991	6,886	11,153	11,000
Trade balance	3,426	5,864	9,450	4,905
Current account/GDP (%)	–	9	–	4
<i>Source: Arab Monetary Fund (domestic); World Bank (external).</i>				

GSN Risk Grade — B-/2: Political risks remain, but Saddam's fall means an upgrade

Political And Social Development

Overview: It can still be a dangerous neighbourhood, but Saddam Hussein's fall means a substantial improvement in the political risk outlook – upgraded to B- on GSN's Risk Grade scale. Kuwait came out of the war almost unscathed; only one Iraqi missile hit Kuwait City causing relatively minor damage. A new relationship with Iraq beckons although a number of issues have to be addressed. Deputy Prime Minister and Foreign Minister Sheikh Sabah Al-Ahmed Al-Sabah continues to lead the country due to the poor health of Emir Sheikh Jaber Al-Ahmed and Crown Prince Sheikh Saad Al-Abdallah.

Parliament: The National Assembly has a backlog of work to get through before its session closes on 4 June in preparation for the July elections, notably finalisation of the budget. With time at a premium, deputies are trying to avoid confrontation. A planned grilling of Deputy Prime Minister and Defence Minister Sheikh Jaber Al-Mubarak over the admissions procedures at Ali Al-Sabah military college was averted after MPs unusually lobbied against it. Ahead of elections a proposal to punish vote-buying has been submitted to Parliament. Electoral malpractices have been rife in past elections.

Security: With the war over, Kuwait is returning to a degree of normality, although recent attacks against Western interests in Saudi Arabia and the continued presence of US forces mean that security will remain tight. The trial of Sami Al-Mutairi, accused of shooting two US civilian contractors in January, has been postponed until early June. Some countries have started to pull out units stationed in Kuwait, notably the Gulf Cooperation Council's Peninsula Shield force and German and Czech/Slovak nuclear, chemical and biological units.

External factors: Post-Saddam relations with Iraq will be very important, notably to develop infrastructure links along the Kuwait/Iraq/Iran coast (see box). Closer relations with Iran are a priority. Fresh allegations surrounding possible links between Kuwaiti Islamic charities and terrorist groups may sour some relations; the Kuwait Social Reform Society and Lajnah Al-Dawaa Al-Islamiya have been banned in Russia and Pakistan respectively. Relations with Lebanon have been patched up after a row stemming from the emergency Arab League summit in February.

Economic Outlook

Overview: The Kuwait Stock Exchange (KSE) is booming with new-found optimism following the demise of Saddam's regime. Kuwait is expected to benefit from a new economic relationship with Iraq; Kuwaiti deep water ports will play a crucial role in reconstruction and opening up trade; Iraqi reconstruction is expected to have a positive impact on the economy. The macro position remains strong, with fiscal and current account surpluses, and low inflation. In the longer term, non-oil sector growth needs to be addressed; the IMF warns that failure to do so could impact on unemployment. Parliament is a significant hurdle to market reform.

Investment: The KSE has boomed since its brief period of inactivity during hostilities to "protect the interests of dealers and investors". Around KD12bn has been invested in the last few weeks, with the main KSE index rising from 2754.7 points on 29 March to 3510.8 on 3 May, surpassing its all time peak of 2,823.4 in November 1997. This contrasts to 2002, when the index fell below 2,000 points. Analysts have warned that the market may face a sharp correction later in 2003.

Financing: High oil prices have led to strong oil revenues which have been channelled into public (notably Kuwait Investment Authority) and private investment. Payments conditions are good, including for trade. Slightly more than half of all shipments are on open account; the rest are covered with letters of credit and payments are deposited locally promptly. Concerns have been expressed about state fraud and bad loans in the banking sector. A watering down of the sector's watchdog capabilities has been suggested as a contributory factor with experienced expatriates replaced by young, inexperienced nationals.

Liberalisation: A new four-year plan, privatisation bill, subsidy cuts, service fee increases and sales tax have been mooted as goals for H2 03/Q1 04. Progress may depend on the new Parliament's composition: the National Assembly has consistently held up reformist legislation and it may continue to do so after the July polls. Regulatory reforms that do not require parliamentary approval have been prioritised, including independent regulatory bodies for public utilities, transport and telecoms, to be followed by the power sector.

NEW START WITH IRAQ: Kuwait "will do everything possible to help the Iraqi people," says Emir Shaikh Jaber Al-Ahmed al-Sabah. It is at the forefront of humanitarian efforts and there is speculation that it might join a UN-led peacekeeping force. Issues remain, however, notably the fate of Kuwaitis missing from the 1990-91 invasion and Iraqi compensation payments. Kuwait is still owed some \$25bn.

KUWAIT: Selected Economic Indicators

(Kuwaiti dinars billion)	2000	2001	2002 [†]	2003 [†]
Domestic economy & finance				
Real GDP growth (%)	1.9	-1.0	1.4	1.2
Consumer prices*	1.8	1.7	2.4	2.5
General govt. balance (% of GDP)	31.8	17.6	13.8	9.1
General govt. debt (% of GDP)	38.6	37.4	34.5	31.4
External situation				
Current account balance (\$ billion)	14.7	8.6	6.5	5.8
Current account balance (% of GDP)	40.8	26.1	19.2	16.5
Gross external debt (\$ billion)	14.9	16.4	17.0	16.9

[†] = forecast. * Annual average (% change)

Source: Fitch, Central Bank of Kuwait, IMF.

KUWAIT: Key Projects

PROJECT KUWAIT: The \$7bn scheme to develop oil fields near the Iraqi border is blocked in the National Assembly, but parliamentary elections may have an influence. The project is an integral part of plans to raise oil capacity to 4m b/d (from 2.4m-2.7m b/d).

AHMADI OIL STORAGE AND EXPORT PROJECT: Award awaited for EPC contract; Kvaerner E&C is low bidder (\$780m). Completion is expected by end-2005.

GAS PIPELINES: Finalisation is awaited for two gas import pipelines, one from Iran to supply 15m ft³/d over 25 years and one supplying an initial 750m ft³/d volume (rising to 1.4bn ft³) of Qatari North Field gas to local power stations from 2005-06. The Qatari gas pipeline still requires formal approval to pass through Saudi waters.

OLEFINS II: Petrochemical Industries Co. and Dow Chemical Co. announced plans for a new ethylene and derivatives complex at Shuaiba in May. It will have an 850,000 t/yr ethane cracker and 600,000 t/yr ethylene oxide/ethylene glycol plant, for start-up in 2007. A 300,000 t/yr ethylbenzene/styrene unit is planned using ethylene from Olefins II and benzene from PIC's aromatics facility.

MIDDLE EAST ENERGY

POLICY, RISK AND PROJECTS IN THE GULF AND LEVANT

KUWAIT: Gradual production slide ahead of OPEC cut

Like other senior *OPEC* ministers, Kuwait's Acting Oil Minister **Sheikh Ahmed Fahed Al-Sabah** expects a further production cut at the planned 11 June meeting in Doha, and has confirmed that Kuwait is gradually scaling back output from its war contingency 2.4m b/d maximum – well above its 1.96m b/d quota (2.04m b/d from 1 June under *OPEC*'s April decision). He also suggested the northern oil fields Project Kuwait could soon move ahead, telling the *Kuwait News Agency (Kuna)* that “the [Supreme] Petroleum Council has approved weeks ago the ‘economic plan’ of the project. It will be referred to the concerned companies soon.” How Project Kuwait would be pushed through the National Assembly was not explained.

INTERNATIONAL ENERGY FORUM: Walther to run IEF

Norway's Ambassador to **Austria**, former *International Energy Agency* Chair **Arne Walther**, was elected Secretary-general of the IEF by the Riyadh-based group's 15-member executive committee. They met in **Saudi Arabia** on 11 May to chose a secretary general from among three candidates – from Norway, **Mexico** and **Italy** – and a budget for the IEF Secretariat. The creation of a permanent secretariat for the informal grouping of some 50 oil producer and consumer nations was proposed by Crown Prince Abdallah Bin Abdelaziz in November 2000; it was ratified in Osaka last September.

KUWAIT: Al-Zour power

Siemens Power Generation has signed a \$418m EPC contract for a 1,000MW gas-fired plant. Completion is scheduled for mid-2005.

OMAN: Willbros for gasline

Occidental has awarded a \$20m contract to US pipeline specialist Willbros to link its Block 9 concession – being developed with **Mitsui** – to Oman's gas grid (*GSN 709/16*).

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USA Plays UN Card In Pitch For Iraq Oil Control

Even Iraqis who supported Saddam's overthrow are concerned that the new US/UK/Spanish resolution is a cover for controlling oil revenues.

The apparent disarray surrounding the USA's post-war reconstruction efforts cannot mask Washington's accelerated push to take control of Iraqi oil. This has not gone unnoticed by a growing number of Iraqis, even some who supported the overthrow of **Saddam Hussein's** regime.

The US-sponsored draft UN Security Council resolution, though cloaked as a concession aimed at ending sanctions, laid bare the **Bush Administration's** strategy. Having perfected the art of tightening the screws on Saddam's Iraq through the repeated use of UN resolutions, Washington is sticking to tried and tested methods to enshrine its occupation in the post-Saddam era.

Some Iraqis fear the proposed Iraqi Assistance Fund (IAF) is envisaged as the current account for the occupying forces. There is also growing unease at the US use of “open-ended” resolutions, backed up by the power of Security Council veto.

According to the key article in the resolution: “All proceeds from [export sales of petroleum, petroleum products and natural gas from Iraq] shall be deposited in the Iraqi Assistance Fund until such time as a new Iraqi government is properly constituted and capable of discharging its responsibilities.”

Any cash left in the UN Oil-

for-Food Programme (OFF) account – due for renewal on 3 June but which the USA intends to wind down over a four-month period – would be ploughed into the IAF.

The occupying powers' control of the Fund, which is “to be disbursed at the direction of the Authority [the USA and UK] in consultation with the Iraqi Interim Authority”, will be granted for an initial 12-month period in line with the overall exercise of responsibilities. But it is “to continue thereafter as necessary unless the Security Council decides otherwise”. As the USA and UK have vetoes, they can easily prevent this.

Vague wording surrounding the conditions for ending the Fund appears to leave it to the Authority to decide whether the new government is capable of discharging its responsibilities.

Many Iraqis would have preferred a simplified form, ending the IAF when a government is properly elected by the Iraqi people.

“We've all been here before. There is great concern about this resolution, both in the wider world and among Iraqis who until now have supported the US,” said **Julian Lee**, an analyst at the London-based *Centre for Global Energy Studies* – one of whose executive directors, **Mohammed Ali Zainy**, returned to Baghdad as a senior advisor to the US *Office of Reconstruction*

and Humanitarian Affairs (ORHA). “Many Iraqis will be looking for some concept of an end to the occupation rather than something that is open-ended,” said Lee.

Opposition to the IAF goes beyond its perceived role in transforming Iraq into a form of self-serve gas pump for occupation forces. Even the language used in naming the Fund appears designed to obfuscate. “It’s not assistance,” one prominent Iraqi-born commentator told *GSN*. “It’s Iraqi oil money that is being spent. The word assistance is unnecessary and it gives the impression that the world is giving Iraq money when it is not.”

IMMUNITY AND COMPENSATION

The UN resolution was significantly altered in the run-up to its presentation to the Security Council on 11 May. Notable was the late inclusion of a clause making all oil and gas revenues and assets immune from outside financial claims.

But sources canvassed by *GSN* suggested that Iraqis were unlikely to be impressed by the USA’s reassurances that all future oil sales would be immune from legal challenge, thereby insulating revenues from compensation claims or creditors. A number of lawsuits are lining up in the USA, as well as outstanding claims over the 1990 invasion of **Kuwait** (*GSN 708/24*).

The draft resolution’s stipulation that 5% of revenues would continue to be used to pay restitution for the 1990 invasion of Kuwait will further antagonise Iraqis, who are generally of the opinion that the estimated \$40bn paid out so far is adequate compensation for an invasion carried out on behalf of a regime that has now been ousted.

Continuing to divert a portion of the proceeds to Kuwait – even though the new dispensation is well down on the 25% allocation enshrined in the existing OFP – imbues a permanence to the arrangement that sits uneasily with the occupying forces’ oft-stated intention of leaving Iraq at the earliest opportunity.

The IAF will be held at **Central Bank of Iraq**, currently managed by former US Deputy Treasury Secretary **Peter McPherson**. The Fund’s advisory board is to include officials from the **International Monetary Fund**, **World Bank** and UN – although the wider resolution precludes any political or strategic economic role for the latter.

With no representation at the UN, recalcitrant Iraqis will have to rely **Russia** and **France** to do their bidding for them in the Security Council.

Paris’ policy shift towards one of engagement with the USA and UK suggests it will not significantly challenge the status quo. French UN Ambassador **Jean-Marc de la Sablière** focused on the need to ensure transparency in oil sales, with an enhanced role for the UN in this process.

Moscow appears more assertive in seeking to wrest authority for oil exports away from the USA and into the office of the UN Secretary General.

Russia’s behaviour towards the proposed UN

resolution will be influenced by a range of factors, most of them governed by self-interest. “Clearly the role of Russian oil companies both in the short-term and long-term is going to be one of the key issues. Some kind of assurance on Iraq’s debts is another,” said the CGES’s Lee. “How these things play out through the period of political horse-trading between the major powers will determine Russia’s response.”

EXPORT TIMETABLE

The mood among Iraqi oil industry executives will not have been improved by news that full oil exports are unlikely to return until July or more probably August, even presupposing an agreement is reached at the UN in June and that **OPEC** sanctions new Iraqi output when it meets in **Qatar** on 11 June.

Re-establishing the **State Oil Marketing Organisation (Somo)** to negotiate sales contracts is proving difficult given the lack of communications facilities inside Iraq – prompting a suggestion that the company be temporarily based in Europe to get it back up and running.

The failure to appoint the full membership of the Oil Advisory Board (OAB) by mid-May has invited suggestions that the USA was failing to recruit enough high calibre Iraqi officials to staff the interim oil authority’s policy-making arm.

But equally, the delay is in keeping with the general chaos surrounding the USA’s early state-building efforts in the country. Despite obvious tensions, it may still be too early to speak of a rift emerging between indigenous oil officials and cherry-picked Iraqi exiles who have been brought in to oversee the oil sector’s revival.

A new oil minister is not expected to be appointed until early June, but the skeleton of the new Oil Ministry is coming into position. Ex-**Shell Oil** chief executive officer and **Fluor Daniel** president **Philip Carroll** and former Somo chief **Fadhil Othman**, who has been living in **Turkey**, are in place as head and deputy CEO of the OAB.

The OAB’s two other members are the CGES’s Zainy and another former senior industry official, **Hashim Al-Khersan**, currently based in **Tunisia** with US independent **Pioneer Natural Resources**. Zainy, who fled Iraq in 1982, is reported to have a key role in appointing officials through his ORHA connection, in liaison with the Pentagon.

Former **ExxonMobil** official **Gary Vogler** is ORHA’s Oil Advisor. Until a new Oil Ministry is established, **Thamir Ghabdhan**, a UK-educated former director of planning at the old ministry, will act as CEO of the Interim Management Committee for the Iraqi Oil Ministry. Ghabdhan, a technocrat Sunni who in 2001 was appointed director-general of planning, carved a name for himself in the early days following the US occupation, when he led efforts to assess the condition of oil infrastructure.

Among other key appointments:

- Somo will be headed by the effective incumbent,

KUWAIT: Strategic Rethink About Gas Imports

Speaking on 10 May during a tour of the southern oil fields, Acting Oil Minister **Sheikh Ahmed Fahed Al-Sabah** told the *Kuwait News Agency* that the government was examining potential imports of natural gas from Iraq's South Rumailah field, which is relatively close and technically feasible, with a pipeline running to Saudi Arabia which has been closed since 1990 and passes through Kuwaiti territory. Kuwait had been planning piped imports from Qatar and Iran, but these talks had stalled, Sheikh Ahmed was quoted saying. He plans to visit Qatar and Iran in June to discuss obstacles to their gas import agreements, which Kuwait needs to run power and petrochemical plants in a more environmentally acceptable way. The Qatar deal has been stalled by Saudi Arabia's reluctance to allow the pipeline to pass through its territory, due to bilateral problems between Riyadh and Doha.

QATAR: Plenty Of Gas

Industry sources have played down fears that the frequently quoted Qatari reserve figure for the North Field of more than 900trn ft³ is exaggerated insisting that the figure accurately reflects Qatar's North Field portion of the giant gas structure and will not be affected by development of Iran's South Pars field. Qatar's present raft of downstream gas-related projects are estimated to account for only 27% of the North Field's reserves, leaving plenty of scope for further expansion. With these projects taken into account, North Field reserves are sufficient to last for approximately 125 years. According to Western diplomatic sources Qatar and Iran have a good working relationship in the Gulf offshore even though they are developing opposite sides of effectively the same gas structure.

Director-general **Ali Hassan**;

- **Northern Oil Company (NOC)** will be headed by one of its former executives, **Adel Qazzaz**; and
- **Southern Oil Company** head will be **Jabbar Laibi**, a former senior SOC executive.

Not all those approached signed up for an administration of questionable legitimacy. These include another CGES stalwart, **Fadhil Chalabi** – former Iraqi Director of Oil Affairs and a nephew of Iraqi National Congress leader Ahmed Chalabi – who served on the State Department's pre-war Future of Iraq working group (like Zainy).

PRIVATISATION PUSH FOR INOC

A wholesale privatisation of the Iraqi oil industry is gaining favour among policy advisers, if a leaked report by the State Department-backed Oil and Energy Working Group is anything to go by.

The report argued that low production yields were typical of centralised national oil companies such as **Iraq National Oil Company**. "If ... the monopoly status of the [national oil company] NOC constrains the return on the people's wealth by, as monopolies do, constraining output, which in turn limits the urgently needed capital investment, we have an obligation in formulating our policy recommendations to address the future status of such monopoly," it said.

Group member **Fadhil Chalabi** told a London conference in March that reform of the oil industry structure was urgently required, as "keeping the present structure would hinder expansion plans, especially in view of the dire need for a huge

injection of foreign currency for the country's economic construction". He urged the formation of an independent, self-managed entity, 25-40% of whose shares should be sold through circulation on stock markets.

The working group said denationalisation and demopolisation of NOCs was a "well established trend". It refuted suggestions that Iraq's low output was primarily due to war and sanctions.

SAUDI ARABIA: Naimi Pushes For Core Venture Closure

Oil Minister **Ali Al-Naimi** is looking to wrap up deals with the international oil companies (IOCs) participating in the gas initiatives project (GIP) by end-May – or scrap the agreements and rebid the core ventures anew (*GSN 709/17*).

As he enters his third term, the minister's renewed focus on kick-starting the \$20bn GIP was outlined in a letter leaked to the press dated 6 May. This was sent to the chief executives of six IOCs associated with CV1 and CV3. Naimi invited the CEOs to a meeting in Riyadh, which was to have taken place around the middle of May. But the 13 May Riyadh terrorist attacks are likely to have put paid to this plan.

More fundamental to the IOCs' continued interest in the scheme, Naimi does not appear to be in a mood to budge over the terms for the core ventures. "We remain hopeful that the projects... can be implemented based on the framework of the government's final offer of 5 September 2002," he was quoted as saying. Naimi's push for closure on the core venture deals is unlikely to persuade IOCs to sign up to terms that they have previously rejected. One participant in CV3 told *MEE* there was "nothing to report" on the initiative.

Naimi's surprise survival in the 30 April cabinet reshuffle suggests widespread consensus among the Saudi hierarchy that the terms on offer are a "take it or leave it" deal.

"Although there is agreement that Saudi Arabia needs foreign investment in this area, there is also agreement that the terms demanded by the oil companies are not acceptable," said **Oxford Institute for Energy Studies** Director **Robert Mabro**. "This agreement goes well beyond Naimi – at least 90% of the Council of Ministers believe the oil companies' terms are not commercially acceptable."

Naimi was at the centre of a bout of speculation that his alleged obstruction of the GIP was the *casus belli* for his possible removal as Oil Minister. As it turned out, the 68-year old **Saudi Aramco** veteran appears more on-message with official thinking than some of the GIP's key backers.

If, as anticipated, the IOCs do not accept existing terms – initially rejected for offering insufficient internal rates of return and inadequate access to gas reserves – the government is expected to move quickly to relaunch the projects.

INSTITUTIONS

Abt Associates	14
Al-Alam/Al-Azzaman/Al-Hayat	10
Al-Islah	6
Al-Jazeera Satellite Channel/Al-Najaf TV	10
Al-Muwaffaq Foundation	13
Al-Mustaqbal	11
Al-Qaeda	3, 7, 13
Al-Sabah	11
Al-Watan	5
American Enterprise Institute	9
Arab League	15
ArmorGroup Services (Jersey)	12
Baath Party	2, 6, 10
Badr Corps	20
BearingPoint/Bechtel	14
Central Bank of Iraq	14, 17
Central Intelligence Agency (CIA)	10-11
Centre for Global Energy Studies	16
Coalition for Reform	7
Commission on International Religious Freedom	5
Committee for the Defence of Legitimate Rights	5
Committee for the Propagation of Virtue and the Prevention of Vice	5
Dow Chemical Company	15
DynCorp International	12, 14
Emirates International Bank	13
European Commission/European Union	7
ExxonMobil/Fluor Daniel	17
GCC	8, 15
General People's Congress (GPC)	6
Great Lakes Dredge & Dock Co.	14
HSBC	13
International Energy Forum (IEF)	16
International Monetary Fund (IMF)	12-15, 17
Intercontinental	9
Iran Khrodro Automobile Manufacturing Group	12
Iraq Media Network	11
Iraqi Communist Party/Iraqi National Accor	10
Iraqi National Congress (INC)	10, 14
IRNA/IRIB	10
Kellogg Brown & Root	14
Kurdistan Democratic Party of Iran (KDP-I)	20
Kuwait Investment Authority	15
Kuwait News Agency	16, 18
Kuwait Social Reform Society	15
Kuwait Stock Exchange (KSE)	15
Kvaerner E&C	15
Land Rover	8
Lukoil/Machinoimport	14
Mitsui	16
Mohsen Haider Darwish (MAD)	8
Mojaheddin-e Khalq Organisation (MKO)	20
Movement for Islamic Reform in Arabia	5
National Bank of Abu Dhabi	13
National Bank of Dubai	13
National Democratic Institute	6
Northern Oil Company (NOC)	18
Occidental	16
OPEC	16-17
ORHA	2, 11, 16
Oxford Institute for Energy Studies	18
Petrochemical Industries Company	15
Pioneer Natural Resources	17
Public Investment Fund (PIF)	13
Radio Free Iraq	11
Sahar TV	10
Saudi Aramco	18
Saudi General Intelligence Directorate	11
SCIRI	10, 14, 20
Shell Oil	14, 17
Siemens Power Generation	16
Simmons & Simmons	12
Southern Oil Company	18
State Oil Marketing Organisation (Somo)	17
Supreme Petroleum Council	16
United Nations (UN)	14, 16-17
US Agency for International Development	7, 14
US Army Corps of Engineers (USACE)	14
US Central Command (Centcom)	20
US Information Agency	11
Voice of America (VOA)	11
Voice of the Mujaheddin	10
World Bank	7, 17
World Health Organisation	14
Willbros	16
Yemeni Socialist Party (YSP)	6
Zarubehzneft	14

PEOPLE AND PLACES

Abdelkader, Abdelghani/Ahmar, S. Abdallah Al-	7
Assaf, Ibrahim Al-	13
Awaji, Mohsen Al-/Awda, Salman Al-	5
Bagammal, Abdelqader Abdelrahman	6
Bazzaz, Saad	10
Bin Laden, Osama	7, 13
Bonino, Emma	7
Bodine, Barbara	1, 2, 7
Bremer, L Paul	1, 2, 14
Brownback, Sam	9
BUSAIDI, Sayyid Ali Bin Hamoud Al-	8
S. Qais Bin Tariq/S. Talal Tariq B.T	9
S. Shihab Tariq B.T/Sultan Said B.T.	9
Sultan Qaboos Bin Said	8
Carroll, Philip	17
Chalabi, Ahmed	9, 11, 14
Chalabi, Fadhil	18
Crear, Robert	12
Dahlan, Abdallah Sadiq	5
Djibouti	3
Dubai	12, 13
Dunford, David	2, 20
Fagih, Saad Al-	5
Fahad, Said/Feith, Douglas	9
France	3, 17
Garner, Jay	1, 2
Gerecht, Reuel Marc	9
Ghabdhan, Thamir	17
Hakim, Ayatollah Mohammed Bakr Al-	10, 14, 20
Hamid, Dr Abdel Al-	5
Hassan, Ali	18
Heisler, Douglas/Hull, Edmund J	7
Iran	9-12, 15, 18, 20
Iraq	2-3, 5, 8, 10, 12-18
Israel	3, 9
Jannati, Ahmad	20
Jehani, Khaled	3
Jordan, Robert	3
Jubair, Adel Al-	4
Kamel, Abed Abdulrazzak	7
Kharrazi, Kamal	20
Khersan, Hashim Al-	17
Kuwait	8-9, 11, 14-18
Laibi, Jabbar	18
Lajnah al-Dawah al-Islamia/Lebanon	15
Ledeem, Michael	9
Lee, Julian	16-17
Limbirt, John	2
Loos, François	12
Mabro, Robert	18
Mahfouz, Khalid Bin	13
Maliki, Hassan Farhan Al-	5
Manteqi, Manuchehr	12
Maswari, Hussein Al-	6
Mazini, Hamza Qablan	5
McKiernan, David	2
McPherson, Peter	7
Mufaddal, Hizzam Al-	7
Mutairi, Sami Al-	15
Naimi, Ali Al-	18
Nashiri, Abdelrahman Al-	3
Niqaidan, Mansoor Al-	5
Oman	8-9, 20
Omar, Jarallah	7
Othman, Fadhil	17
Pahlavi, Reza, of Iran	9
Prodi, Romano/Qahtan, Mohammed	7
Qadi, Yassin Abdallah	13
Qatar	11-12, 17-18
Qazzaz, Adel	18
Rafsanjani, Ali Akbar Hashemi	20
Rawhani, Abdelwahab Al-	6
Reilly, Robert/Rikabi, Ahmed Al-	11
Reyami, Rahelah Bint Amor Al-	8
AL-SABAH, CP Sheikh Saad Al-Abdallah	15
Sheikh Ahmed Fahed	16, 18
S. Jaber Al-Ahmed/S. Jaber Al-Mubarak	15
Sheikh Sabah Al-Ahmed	15
Sablère, Jean-Marc de la	17
Saddam Hussein	9-10, 14-16, 20
Sadr, Moktada Al-	14
Salami, Alawi Salih Al-	7
Saleh, Ali Abdallah	6
AL-SAUD, CP Abdallah Bin Abdelaziz	16
Saudi Arabia	2, 10, 14, 16, 18
Spain	14, 16
UAE	8, 12, 13
UK	2, 7, 9, 11, 14, 16-17, 20
USA	6, 9-11, 14-17, 20
Vogler, Gary	17
Walther, Arne	16
Yemen	6-7
Zaabi, Lojina Bint Mohsen Al-	8
Zainy, Mohammed Ali	16-17

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