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Companies & People

Back From Texas, Berlusconi Sends Donors To Spain

Italian PM Silvio Berlusconi's concerns over his international image forced the 23-24 October Iraq donor conference to be moved to Madrid from its originally proposed location in Rome. One Washington source with knowledge of the decision-making process told *GSN* that Berlusconi was not enthusiastic about hosting a conference seen by some as a fundraiser for the US-led occupation, and was wary of being too closely associated with Washington, during a period when Italy works to repair its frayed relations with Germany and others. Italy, which holds the *European Union* presidency until December, and Spain remain among President George W Bush's only supporters in Western Europe, along with UK Prime Minister Tony Blair. Berlusconi was rewarded with a trip to Bush's Crawford, Texas ranch in July.

After donors met on 3 September in Brussels, EU Commissioner Chris Patten said Europe would provide aid, and that a core group of donors – the *World Bank*, *IMF*, *UNDP*, USA, EU, Japan, Saudi Arabia and the UAE – had agreed the aid-pledging timetable should not be delayed by continued violence in Iraq and reservations about US intentions (See *Iraq Focus*, page 9).

Across The Region

Jamming of pirate radio and television broadcasts into Iran has continued. Interference was originally aimed at calming the inflammatory effects of such media ahead of the 9 July anniversary protests but the struggle over the airwaves goes on. PAGE 4

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A new regulation on foreign investment in Saudi Arabia could hurt the Kingdom's push for investment. Claims it reinforces security are denied by business. PAGE 15

With a new trade deal, Saudi Arabia now stands at the door of the WTO. It remains the only GCC member not also a member of the global trade body. PAGE 15

The IMF/World Bank meetings in Dubai could see progress on aid for Afghanistan and Iraq. PAGE 16

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Iran's tentative steps towards concessions on nuclear inspections and terrorist detainees come after a long summer of pressure building up. Domestic tensions may prove even more difficult to cool than international ones. PAGE 4

IRAQ FOCUS: A comprehensive look at recent developments in Iraq and trends that will determine the country's future, including analysis of the new government, the operations of leading business tribes and reasons why oil production refuses to rise. PAGES 10-14

Israeli delegates at the IMF/World Bank Annual Meetings should have no problem entering Dubai, but their presence is one of several tests confronting the UAE leadership. GSN VIEW, PAGE 2

High oil prices are fuelling growth in Saudi Arabia, but this year's strong external balances disguise deep structural problems, while the domestic political situation is difficult. *GSN* sticks to its downbeat C/2- Risk Rating. RISK MANAGEMENT REPORT, PAGE 18

Syria remains in the sights of US hawks and efforts to reform are mainly blocked by internal faction fights. *GSN* maintains its D/4 Risk Rating. RISK MANAGEMENT REPORT, PAGE 19

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Project finance in the Gulf region has been searching for new forward momentum as underwriting in Abu Dhabi – the region's leader in project finance – runs into problems. PAGE 21

Syria will again offer ten blocks for exploration and development, in a continued attempt to revive its sagging oil production. PAGE 22

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Annual Meetings Pose A Real Test For Dubai

The upcoming joint Annual Meetings of the IMF and World Bank will provide a serious test of Dubai's ambitions to become a global-scale commercial hub and financial centre, and of the UAE's ability to manage complex international political situations. The Annual Meetings are a very big affair indeed; no Arab nation has ever hosted them. Given tight security and the Dubai authorities' usual clever management of international opinion, the traditional formal opening to the global financial year should be another success for the Al-Makhtoums and for the UAE. But there are pitfalls, on the security front but also from that familiar old devil, Middle East politics.

One sideshow will be the faltering Middle East 'roadmap' – not an issue high on the Annual Meetings' agenda, but one which cannot be ignored once in the Gulf. Like most Gulf nations, the UAE maintains no diplomatic or economic ties with Israel; Federal President and Abu Dhabi Ruler Sheikh Zayed Bin Sultan Al-Nahayan has long been a leading critic of the West's Middle East policy.

The UAE has said that any détente can come only after Israel has reached a settlement with Lebanon, the Palestinians and Syria. Thus Israelis are refused entry as a matter of course – which could pose a problem for Israeli ministers and economists, who will be headed for Dubai with a ballooning deficit, a shrinking GDP, and a pack of journalists on their heels.

Fortunately for Israel – which is often referred to by UAE-based newspapers merely as "the entity" – hosting the annual meeting means hosting all those who attend, and with equal grace. Thus Israeli delegates to the meeting, as well as potential protesters, will be specially admitted to Dubai under the official auspices of the meetings.

Rubbing elbows with traditional enemies has never been a problem at previous IMF/WB meets, and this year should prove no exception – despite the fact that there will be plenty of traditional enemies in attendance. Lebanon and Syria are

technically still at war with Israel, while Libya has called the country "fictitious". Bahrain, Kuwait and Yemen maintain no ties.

The peace initiative launched in 2002 by Saudi Arabia's Crown Prince Abdallah and later adopted by the League of Arab States was a significant demonstration of the region's willingness to move towards more normalised relations. But this is unlikely to happen, for all the Bush Administration's belief it can push through its Middle East roadmap.

Oman and Qatar had established trade ties with Israel in the mid-1990s. These looked to drag diplomatic relations along with them until ties were broken at the onset of the revived Palestinian intifadah in 2000. Israel's most important regional partner is Jordan, where trade ties remain relatively strong; Israeli firms with Arab managers fronting them are piling into Amman as a base for exploiting the new Iraqi market controlled by the USA.

As was suggested during the July 2003 World Economic Forum summit in Amman, such links in the region could eventually provide an alternate route to peace. Israelis present in huge numbers at the WEF were pleased to report that "chance meetings" in hotel corridors had allowed them to talk business with a wide range of Gulf Arab political and business leaders, including some of the most senior from the smaller GCC states.

Many in the development community see trade as one of the few tools that could actually move the peace process forward in the Middle East, by appealing to economic and quality-of-life concerns, rather than political ones. It is unlikely, however, that the meetings in Dubai will see any giant steps in that direction. Instead, the Makhtoums could come in for new criticism from the Arab world for hosting an event which is widely seen to push a US approach to the region's future and Israel's role in it – a view which Arab delegates complained ran right through the WEF meeting. This would be unfortunate – and the Dubai spin machine is about to go into overdrive to ensure that no such inconvenience occurs.

Iran Seeks Release Of Pressures Building Over Nuclear Programme, Terrorist Ties

The summer's slow accumulation of pressures on President **Mohammad Khatami** is causing his government to begin sacrificing some of the cards it has kept up its sleeve throughout the year in the standoff with the USA, ostensibly over alleged weapons of mass destruction plans (WMD). The pressures will come to a head this autumn, when Iran will have to make key decisions on issues such as nuclear inspections and trade talks with Europe (*GSN 713/11*).

As expected, Iran has responded to new **International Atomic Energy Agency (IAEA)** findings by hinting that it will consider signing the Additional Protocol of the Non-Proliferation Treaty (NPT) (*GSN 716/2*). Tehran has also suggested that it is ready to hand over a number of **Al-Qaeda** suspects to **Saudi Arabia**, surrendering a few among an extensive inventory of pawns and perhaps a few more valuable pieces.

Among others reported to be under detention in Iran are **Saad Bin Laden**, one of **Osama Bin Laden's** sons; **Saif Al-Adel**, head of Al-Qaeda security, an Egyptian; and Al-Qaeda spokesman **Sulaiman Abu Ghaith**, a Kuwaiti whose nationality was withdrawn after 9/11.

President Khatami and the **Supreme National Security Council** are likely to be deadlocked with the **Al-Quds** branch of the **Islamic Revolutionary Guard Corps** over the numbers and ranks of detainees to release to Saudi Arabia.

Readying these tactical sacrifices is the first concrete step the Iranian government has taken to deflect international criticism over its nuclear programme, and to respond to a growing number of reports that point to ongoing Iranian complicity in trans-national terrorism.

MOVING ON TERRORISM

It was only to be expected that the government would respond to increasing pressure on the nuclear issue as the autumn round of IAEA board meetings began (*see box*). But it was less clear that Tehran expected to deal simultaneously with a barrage of terrorism-related accusations and political moves.

An unwelcome spotlight was thrown on the issue of Al-Qaeda detainees in Iran when the **Beirut Daily Star** unexpectedly ran an authoritative opinion piece on the subject by Saudi security analyst **Nawaf Obaid**. As well as highlighting the likely range of Al-Qaeda figures who may be under detention or taking refuge in

Iran, Obaid dredged up the unwelcome issue of Iranian complicity in the 1996 Khobar Towers bombing in Saudi Arabia.

In the article, Obaid writes: "**Ali Fallahian**, the former Iranian intelligence minister who is believed to have orchestrated the attack, now serves as a top adviser to Khamenei. General **Ahmad Sharifi**, the 'case officer' who oversaw the group that carried out the bombing, is an adviser to the Revolutionary Guards military operations chief. And **Ibrahim al-Mughassil**, the Saudi Shiite who organised the operation from Saudi Arabia's Eastern Province, has found refuge in Iran with his two main accomplices"

Additional pressures on Iran are coming in the form of a simultaneous diplomatic and public relations crisis that began to unfold after Argentinean judge **Juan Jose Galeano** indicted eight current and former Iranian government officials believed to be linked to the 1994 bombing of a Jewish community centre in Buenos Aires.

Questions Arise Over Iran Nuclear Procurement

Leaked excerpts from the **IAEA** report that will be presented at the organisation's 8 September board meeting have confirmed that samples of highly enriched uranium (HEU) were detected on centrifuges inspected by the IAEA at Natanz earlier in the year.

In conjunction with speculation that Iran appeared to have sanitised another facility – the **Kalaye Electric Company** – ahead of IAEA inspection, the issue of HEU samples will comprise the centrepiece of **US** accusations against Iran, and will become the key means by which Washington will try to guide the IAEA board to recommend the issue to the **UN** Security Council.

In advance of this, the Iranian government has begun to muddy the water by casting doubts over the test results and offering the tactical sacrifice of Additional Protocol inspections, which would not prevent Iran from developing a civilian nuclear fuel cycle in plain sight, and then legally withdrawing from the NPT when the time came to make its nuclear breakout (*GSN 711/8*). Iranian officials have stated that the contaminated components were procured abroad, where they were presumably exposed to HEU. This explanation reverses previous statements that the components were indigenously manufactured in Iran using foreign – probably **Pakistani** – blueprints.

The statement is likely to have painful effects for Iran, Pakistan, and the USA if the IAEA insists that Iran provide a full accounting for the sourcing of the centrifuge components. If Pakistan is implicated, the Bush Administration will suffer considerable embarrassment, and questions will be asked about what other components Iran may have received, creating the possibility of uncovering more advanced capabilities than expected.

The bombing killed 85 people and injured 300.

Following an *Interpol* request, UK police arrested former Iranian ambassador **Hadi Soleimanpour** in Durham, where he was a student at the *Middle Eastern and Islamic Studies Centre*. Belgian police prevented another indicted official, **Saeed Baghban**, from leaving the country, though he could not be arrested due to his diplomatic status.

The detentions threaten to damage Iran's relationship with the UK and Belgium ahead of vital Trade and Co-operation Agreement talks with the *European Union* in September. To complicate matters further, *Hisbollah* and the *Israeli Defence Forces* recently clashed in the Israeli-occupied Shebaa Farms area of **Lebanon**, raising the subject of Iranian sponsorship of the Shiite group. Reflecting growing US government concern about Iran, US Energy Secretary **Spencer Abraham** used the occasion of his recent trip to Europe to warn **Dutch** and **Italian** companies to carefully consider the consequences and risks of investing in Iran's large, new Azadegan gas fields.

The confluence of pressures could have unfortunate results for Iran's international relations in coming months.

TROUBLE AT HOME

On the domestic scene, there are signs that internal pressures continue to build. While Iranian policy has shown a modicum of central direction in foreign affairs, the prospects of a safe release of domestic pressures appears more limited as the Khatami government looks increasingly to be on a collision course with hard-line institutions such as the Guardian Council (GC).

Khatami recently saw three key bills blocked by the GC – including legislation to remove the GC's ability to screen presidential candidates, and bills that would have recognised *UN* conventions on torture and women's rights. An unfortunate loss of support came when key Khatami ally Higher Education Minister **Mostafa Moir** finally resigned in protest over the detention of an estimated 4,000 demonstrators in June. Moir had previously sought to resign in June 1999 following student riots.

In a sign that Khatami may make a stand in the run-up to elections in 2004 and 2005, the President barred the Interior Ministry from co-operating with "illegal" GC candidate vetting committees set up in 350 Iranian towns and cities.

Six protestors and two policemen died in administrative boundary riots on 16 August.

Despite modest economic improvements, the predominant mood in the Islamic Republic is one of pressure building, and periodically finding release in unstructured and increasingly apolitical violence. For Khatami to push reform ahead – and potentially for the regime to survive – he will have to find other ways of encouraging Iranians to let off steam, and reach a new historic compromise with the conservatives.

Jamming Of Pirate Broadcasts To Iran Continues

Two months after first encountering problems around the anniversary of 1999's bloody student protests in Tehran, expatriate Iranian broadcasters continue to report intermittent problems reaching their audience in the country. Earlier interference had been traced to intentional jamming signals emanating from Havana, **Cuba**, but it remains uncertain where the problems actually originated.

Several television and radio broadcasts originating in North America and beamed to Iran via satellite had been disrupted throughout the first half of July. Technicians at *Loral*, which built the *Telstar* satellites that were affected, traced jamming signals to Cuba. The Cuban government denied any involvement.

The jamming was believed by many broadcasters and US government officials to be the work of government elements in Iran seeking to mitigate any protests planned in conjunction with the 9 July anniversary. Expat broadcasters had hoped their reports might spur larger numbers of Iranians to mount even more widespread, co-ordinated protests.

In addition to US government broadcasts, there are ten or more small radio and television stations that broadcast into Iran, mostly from the Southern California area, where many Iranian expats settled after fleeing the 1979 revolution (*see box*). Most carry news and entertainment from America and the West, and actively promote the overthrow of the Islamic regime and the establishment of democracy and a secular state.

Iranians receive the programmes on clandestine satellite dishes, which are for the most part illegal to possess in Iran. Many of the broadcasts are thought to be quite popular in the country. Some presenters are former Iranian media celebrities, and music from the West is a substantial attraction of the stations – about 70% of Iran's 68.3m population is thought to be under 30.

But it is questionable how many people are actually reached by the broadcasts in a state where media access – whether via radio, television or the Internet – is relatively strictly controlled.

HIGH FIDEL-ITY

US government officials at first pressed Cuban diplomats to locate the source of the jamming, according to reports. But officials have admitted the interference could have come from Cuba without the government's knowledge, perhaps even from the Iranian embassy there.

Ties between Iran and Cuba have been cordial in recent years. Iran has reportedly sold oil to Cuba below market rates, Cuban President **Fidel Castro** visited Tehran in 2001, where he was said to have been well received by Iranian President **Mohammad Khatami**.

Washington launched its own initiatives to coincide with the protests' anniversary. The US government's *Voice of America Television* began a new Persian-language programme on 6 July, *News & Views*, a 30-minute news segment broadcast nightly at 21:30 hours in Tehran.

The service already beams two weekly shows into Iran, both in Farsi. The hour-long news show

Next Chapter airs every Tuesday at 22.30 in Tehran, and the 90-minute call-in show *Roundtable With You* airs Fridays at the same time.

This is part of the **Bush** Administration's campaign to improve the USA's image in the Arab world. But critics have charged that the broadcasts do as much to alienate Iranian audiences as they do to win them over to the ways of the West.

Good Morning, Tehran

More than a dozen independent and government-sponsored radio and television stations beam programming into **Iran** from the **USA**. Below, a select listing of prominent broadcasts, and how to access them.

RADIO

KIRN Radio Iran LA

Broadcasts 24 hours a day, seven days a week

Location: Los Angeles, California

Satellite info: Telstar 12, frequency 12,595 GHz, horizontal polarisation, symbol rate 31,829, FEC 3/4

<http://www.670amkirn.com/>

Radio Farda (US government-funded)

Broadcasts news and entertainment 24 hours a day in Farsi

Satellite info: ArabSat , 26° east, frequency 11,938 GHz, vertical polarisation, symbol rate 27,500, FEC 3/4

AsiaSat 2, 100.5° east, frequency 3,880 GHz, horizontal polarisation, symbol rate 20,400, FEC 1/2

Hotbird 3, 13° east, frequency 12.4845 GHz, vertical polarisation, symbol rate 08,300, FEC 3/4

NileSat, 353° east, frequency 11,843 GHz, horizontal polarisation, symbol rate 27,500, FEC 3/4

Telstar 12, 15° west, frequency 12,617 GHz, horizontal polarisation, symbol rate 06,510, FEC 3/4

Shortwave broadcasts on 1,170 GHz, 1,539 GHz and 1,593 GHz, as well as other frequencies

<http://www.radiofarda.com>

Radio Iran Online

Location: Los Angeles, California

Web-based broadcasts only

<http://www.radioiranonline.com/>

Radio Sawa (US government-funded)

Broadcasts news and entertainment 24 hours a day in Arabic. TV Sawa reportedly planned.

Satellite info: ArabSat, 26° east, frequency 11,938 GHz, vertical polarisation, symbol rate 27,500 GHz, FEC 3/4

Hotbird, 13° east, frequency 12.4845 GHz, vertical polarisation, symbol rate 08,300, FEC 3/4

NileSat, 7° west, frequency 11,843 GHz, horizontal polarisation, symbol rate 27,500v, FEC 3/4

Shortwave broadcasts on 1,548 GHz

<http://www.radiosawa.com/>

Radio Sedaye Iran

Location: Beverly Hills, California

Satellite info: Hotbird, 13° east, frequency 12,597, vertical polarisation, symbol rate 27,500, FEC 3/4. Telstar 12, 15° west, frequency 12,608 GHz, horizontal polarisation, symbol rate 19,522, FEC 2/3

Shortwave broadcasts from Grigoriopol, **Moldova**, and Issoudun, **France** on 11,575 kHz

<http://www.krsi.net/us-en/>

Radio Yaran, from **American Farsi Netlink**

Broadcasts 24 hours a day

Location: Los Angeles, California

Satellite info: Hotbird, frequency 12,596 GHz, vertical polarisation, symbol rate 27,500, FEC 3/4. Telstar 12, frequency 12,577 GHz, horizontal polarisation, symbol rate 13,021, FEC 3/4. Telstar 12, frequency 12,595 GHz, horizontal polarization, symbol rate 06,510, FEC 3/4

Shortwave broadcasts from **Norway** and elsewhere (7,525 and 15,790)

<http://www.afnl.com/>

Voice of America Radio

Shortwave Persian-language broadcasts at 03:00 GMT and 17:00-20:00 GMT on 7,280, 9,780, 17,585 and 17,855, plus frequencies.

Shortwave Kurdish broadcasts at 0400 GMT, 13:00 GMT, 16:00 GMT and 18:00 GMT on 15,130, 15,355, and 15,545 plus other frequencies

<http://www.voa.gov/>

TELEVISION

Azadi TV

Independent broadcasts in Farsi (with 30 minutes daily in English) aimed at promoting democracy, the rule of law, and the establishment of a secular state in Iran. Staff includes expat Iranian broadcasters and commentators **Shahram Homayoun**, **Parviz Ghazi Saeed**, **Fereydoun Tofighi**, and former actor and director **Reza Fazeli**.

Location: Los Angeles, California

Satellite info: Telstar 12, frequency 11,494 GHz, vertical polarisation, symbol rate 17468, FEC 3/4. Telstar 12, frequency 12577, horizontal polarization, symbol rate 13021, FEC 3/4

<http://www.azaditv.com/>

National Iranian Television

Independent broadcasts 24 hours a day in Persian aimed at promoting democracy, a secular state and equality for women in Iran. Founder/president is former Iranian rock star **Zia Atabay**.

Location: North Hollywood, California

Satellite info: Telstar 12, 15° west, frequency 11,494, vertical polarisation, symbol rate 17,464, FEC 3/4

<http://www.nitv.tv/main.htm>

Voice of America Television

Programme: *News & Views*

17:00-17:30 GMT nightly (21:30-22:00 in Iran)

Programme: *Next Chapter*

18:00-19:00 GMT Tuesdays (22:30-23:30 in Iran)

Programme: *Roundtable With You*

18:00-19:30 GMT Fridays (2230-2400 in Iran)

Satellite info: Telstar 12, 15° west, frequency 12,595 GHz, horizontal polarisation, symbol rate 6,510, FEC 3/4

<http://www.voa.gov>

Opposition Charges Stir Bahraini Identity Crisis Over Citizenship, Voting Rights

Deep-rooted arguments over the very nature of Bahraini national identity have been exposed by a fast-developing row over the rules for participation in last year's general election.

At the heart of the affair is the allegation that members of the **Al-Dawasir/Dossary** tribe, resident in **Saudi Arabia**, voted in last year's Bahrain poll. Renewed opposition claims about the granting of Bahraini passports to the Al-Dawasir have been met with the tribe's fierce public assertion of its own claim to Bahraini nationality.

The newspaper *Al-Ayam* – associated with Bahraini Information Minister **Nabeel Al-Hamer** – this week published a lengthy interview with **Sheikh Isa Bin Ali Al-Dossary**, deputy leader of the Al-Dawasir.

He portrayed recent events as the righting of an historic wrong, noting that the tribe had been forced out of Bahrain by the British colonial forces in 1923.

The tribe's historical role as loyal retainers of Bahrain's ruling Al-Khalifa family gives the dispute a particularly acute edge in a country where relations between the government and the majority Shia community have long been bedevilled by a mistrust that has not yet been dispelled by the reforms of recent years.

With the argument over the Al-Dawasir now centre-stage in Manama, it has become even more difficult to envisage an eventual reconciliation between government and opposition. The political stakes have been raised for both sides.

The row has exploded at a delicate time, when **King Hamad Bin Isa Al-Khalifa** is seeking to put the **Iraq** war behind him, consolidate political reform and concentrate on economic challenges such as job creation and maintaining Manama's status as the Gulf's prime banking hub in the face of renewed competition from **Dubai**.

The dispute highlights the seriousness of the differences between the government and those political parties that remain deeply unhappy with the king's approach to democratisation, and which refused to participate in the October 2002 parliamentary election.

HARDER FACTS

Since the aftermath of the May 2002 municipal elections both *Al Wefaq National Islamic Society* – the main Shia group – and the

left/liberal secular opposition parties have been making allegations about the official handling of nationality and voting rights.

They have persistently claimed that the government has awarded Bahraini nationality to foreigners – including **Syrians** recruited to work in the security forces, and members of the Al-Dawasir tribe living in Saudi Arabia; the latter were allegedly bussed over the causeway to Bahrain to vote last year.

For a long time, these allegations were treated warily, even dismissively, by many diplomats and other observers. In the absence of hard detailed evidence, the government tended to downplay the issue.

But the allegations have not gone away. Over the past 15 months, the four parties that allied in boycotting the parliamentary vote – *Wefaq*, the *National Democratic Action Society (NDAS)*, the *Nationalist Group Society (Baathist)* and the *Islamic Action Society (Shirazi Shia)* – have carried out painstaking research, digging up official records and even sending a film crew to the Saudi port city of Dammam to interview members of the Al-Dawasir. They assembled a mass of detailed data and testimony both on the election and the alleged exclusion of Shiites from certain public sector job categories such as police and the military.

The fruits of their research were announced at a big public meeting in Bahrain this summer. The opposition have even made a film showing their interviews in Dammam, in which individuals are seen stating that they are Saudi residents but have been given Bahraini passports and allowed to vote in the 2002 election.

The opposition also repeated its allegations at a conference in London in August, hosted at the Abbey Gardens committee room of the *House of Lords* by the human rights activist **Lord Avebury** (a member of the UK's *Liberal Democrat* opposition party).

Those present included *Wefaq* Vice President **Hassan Al-Mushaima**, **Ali Rabea** of NDAS, and the London-based Dr **Saeed Al-Shehabi** of the *Bahrain Freedom Movement*.

The opposition's decision to air its complaints abroad did not go down well in Manama. The British and the Americans see **King Hamad** as a key regional ally. They have also sought to encourage his democratisation programme

The Al-Dawasir Stake Their Claim In Bahrain

Sheikh Isa Bin Ali Al-Dossary – chosen by his family three years ago to carry out the leadership duties of his 80-year-old father **Sheikh Ali Bin Isa Bin Saleh Al-Hassan Al-Dossary** – claims that at the time of their departure the Al-Dawasir represented 12% of the population of Bahrain.

In defence of their claim to nationality, he points to repeated attempts by the ruling **Al-Khalifas** to secure **British** consent for the tribe's return. He also stresses the contribution made by the Al-Dawasir/Dossary in asserting the Arab identity of Bahrain and in providing documents in support of Bahrain's successful claim to the Hawar islands against **Qatar** at the **International Court of Justice** in The Hague. "Dossarys are citizens of Bahrain by inheritance, father to son," said Sheikh Isa.

But the granting of citizenship to Al-Dawasir living on the Arabian mainland and holding **Saudi** nationality is seen by Bahraini opposition groups as essentially a political manoeuvre designed to bolster the pro-government Sunni vote. The fact that the tribe was historically allied with the Al-Khalifa in an era when the ruling family was subjecting the Shia **Bahamah** to discriminatory taxation and social policies only adds to resentments.

The opposition claims that only 806 of the 2,019 people registered to vote in Zallaq village, for instance, actually lived in Bahrain. It also reports that there were clashes in February in Askar village, where it claims that "politically naturalised" voters now constitute 24% of the electorate. Sheikh Isa responded by pointing out that the winner of the Zallaq constituency, **Abdallah Bin Khalaf Al-Dossary**, was a life-long resident of the village, while neither Dossary candidate had managed to win in Budaiya village. But his remarks did not amount to a denial of the charge that tribal voters were registered.

Like Bahrain's ruling Al-Khalifa family, the Al-Dawasir tribe originated in peninsular Arabia. Pre-oil era Bahrain, with its pearl fishing grounds and substantial role in maritime trade, was a rich prize for regional powers, and passed through various hands. By the late 18th century it was garrisoned by the Persians. The Al-Dawasir gradually moved into Bahrain over a 60-year period and proved to be crucial allies for **Sheikh Ahmed Al-Fatih Al-Khalifa** when he landed in Bahrain from Qatar and expelled the Persians. The Al-Dawasir settled mainly in the villages of Zallaq and Budaiya and on Muharraq island, just north-east of Manama. However, as loyal Sunni supporters of the Al-Khalifa, the tribe found themselves under pressure during the communal tensions in 1922, as the majority Shia Bahamah Arab population of Bahrain protested in favour of an end to discrimination. Encouraged by the British colonial agent, the Al-Khalifa began to implement reforms. But inter-communal tensions persisted, and after renewed clashes in 1923 almost all the Al-Dawasir were expelled to Saudi Arabia.

through public praise rather than carp at any shortcomings.

A barrage of vituperative comment from government parliamentary supporters and pro-government newspapers was the response.

"We refuse the participation of a foreigner in the progression of democracy and parliament," said House of Deputies Speaker **Khalifa Al-Dahrani**. The pro-government **Akhbar Al-Khaleej** newspaper said the London meeting was part of

"dirty politics" by the opposition and that it might "threaten a serious diplomatic rift" between Bahrain and the UK.

The noisy fuss highlights the extent to which the opposition campaign over so-called "political nationality" has struck at a sensitive nerve. *Al-Ayam*, describing the London meeting as a "grave insult" to Bahrainis, pointed out that the opposition politicians were perfectly free to air their views in Bahrain anyway.

Wefaq spokesman **Dr Abdul Jalil Sangace** retorted that human rights was a universal issue that could be discussed anywhere. In fact, the opposition has already held one big meeting in Bahrain and it plans another.

RECRUITMENT OR REINSTATEMENT?

The opposition's core allegation is that the government is engaged in a systematic campaign to increase the proportion of Bahrainis who are Sunni – in the words of Wefaq's Al-Mushaima, "to forcibly turn them into a majority".

According to the opposition, the policy operates on twin tracks. The Al-Dawasir are allegedly awarded passports, although they may continue to live in the Dammam area of Saudi Arabia, just a short drive over the causeway from Bahrain.

Meanwhile, other foreigners are recruited to work for the interior and defence ministries, or the National Guard, and are allegedly granted citizenship despite the ample supply of locals available.

Some 18,000 Bahrainis – 15% of the national labour force – are unemployed. It is charged that the government is still wary of recruiting Shiites into the security forces, from which they were excluded for so many years.

Most of the so-called recruits come from poorer countries like **Baluchistan**, **Yemen** and, notably, the Deir-es-Zur area of north-east **Syria**, the opposition charges. It goes on to describe a network of recruiting agents in locations such as Deir-es-Zur, which is at the heart of a conservative Sunni area in the Euphrates river valley – and a traditional recruiting ground for Syria's own security forces.

Awards of citizenship to the Al-Dawasir has been portrayed by government supporters as the reinstatement of rights removed 80 years ago at the behest of the colonial power, Britain. But the opposition points out that the authorities have failed to seek a national consensus on the issue.

The matter has returned to the agenda during an intensely sensitive time, when King Hamad has been introducing a new democratic system. By definition this means that the right to nationality and to vote is a critical factor, especially in light of Bahrain's political and religious divides.

Kuwait Reformers Gather Summer Support For Autumn Petition

Organisers of a Kuwaiti reform petition leaked last month, in the midst of the summer holidays, are now mobilising support among political groups for a formal launch in late October, to coincide with the full opening of the new parliamentary session.

The draft document supports women's political rights, but its proposals range far beyond this traditional liberal hobby horse to include the legalisation of political parties, reform of education and curbs to fight corruption. Organisers hope to attract the backing of a wide variety of groups, and insist that the petition is not just an attempt by liberals to regain campaigning momentum after heavy losses in the July parliamentary election.

The document has already secured the signature of **Ismail Ashatey**, a former MP who belongs to the *Islamic Constitutional Movement* – the Kuwaiti equivalent of the *Muslim Brotherhood* – and who is the former editor of its magazine *Al-Mushtawa*. Some Shia Islamists are also backing the petition.

One of the document's most important themes will be the need for a new definition of citizenship based on "modern" principles such as long-term residence in the country. This chimes with a resurgence of interest in enhancing the rights of the *bidun* – Arabs who have lived in Kuwait for many years but do not hold nationality. The *bidun* issue (*GSN 715/7*) has dominated summertime debate, amidst signs of a marked shift in attitudes towards a community who had seen their rights eroded over recent years (see box).

FINDING AN AUDIENCE

Preparation of the document is being co-ordinated by Dr **Ali Al-Tarrah**, dean of the college of social sciences at *Kuwait University*. Tarrah told *GSN* he sees a surprisingly wide base of support for the position. He is of course counting on the signatures of prominent liberal women's rights campaigners such as **Iqbal Ahmed** and **Lulwa Al-Mulla**. But he believes that many of the petition's ideas for constitutional reform echo concerns that are widely shared among politicians of many backgrounds, including some Islamists.

The organisers also hope the document will find a receptive audience in government when it is officially presented to the Prime Minister, **Sheikh Sabah Al-Ahmed Al-Jaber Al-Sabah**.

Ahmed Faisal Al-Haji, appointed social affairs and labour minister in Sheikh Sabah's new government, is a known supporter of reform, and had actually signed the petition document shortly before his appointment. Foreign Minister **Sheikh Dr Mohammed Sabah Al-Salem Al-Sabah** is also thought likely to be sympathetic. The July decision of the Emir, **Sheikh Jaber Al-Ahmed Al-Sabah**, to

separate the roles of Crown Prince and premier itself marks a significant modernisation – "a step towards a new Kuwait," in the words of Tarrah (*GSN 715/8*). "We are looking at a time when the prime minister comes from the citizens of Kuwait and not just the Al-Sabah family."

GSN's soundings suggest that among the political middle class, there are many who favour eventually moving towards a party-based governing system, in which the complexion of the government would be

Bidun Gain Backing In Kuwait

Political support is swinging behind the need to improve the rights of Kuwait's 90,000-strong community of *bidun* – Arabs who are long-term residents of the country, many of them born there, but lack nationality and have gradually seen their rights and access to services whittled away. Conservative Salafi Islamists have this summer pressed the case for the *bidun's* rights to services such as education and healthcare. This marks a new trend. In the past it has generally been liberals who would tentatively raise the case for improved treatment of this group.

The new Salafi interest in *bidun* rights may be partly politically motivated. The *bidun* spring mainly from conservative tribal backgrounds and mostly live in outlying, largely tribal areas of Kuwait, such as Jahra and Fahaheel. Those accorded full citizenship rights are unlikely to cast their votes for liberals. The Salafi – one of the few established political factions to gain ground in July's elections – may see them as a useful source of extra electoral support.

Some *bidun* may be from nomadic desert Bedouin families who traditionally spent much of their time in Kuwait, yet for some reason failed to register for citizenship. Many are probably not Bedouin, but they have been long-term residents, frequently carrying out jobs that middle class Kuwaitis might not touch.

Since the 1990-91 **Iraqi** invasion and subsequent liberation – which stirred accusations about illicit population movements across the border – the *bidun* have seen their access to services eroded. But recently there has been a marked shift in attitudes among Kuwaitis generally, with a spreading acknowledgement of the need to resolve the *bidun's* situation. Already, since the mid-1990s, about 15,000 have been accorded citizenship. Several thousand more have qualified and only await formal parliamentary confirmation that they have become citizens.

A small minority of the remaining 90,000 may also secure Kuwaiti nationality under current rules and procedures. But there is growing agreement on the need to improve access to basic services, even for those who will not get citizenship. Campaigners are pressing the government to provide more state school places for *bidun* children or to pay for private schools to educate them.

Many internationally aware Kuwaitis have felt uncomfortable about the unfavourable foreign comment about treatment of the *bidun*. This has slightly tarnished a human rights record that in most respects is far superior to that of most Arab countries – a point made by the newly elected liberal Shia Islamist MP Dr **Youssef Al-Zalzal** in July. But the wider shift in favour of reform – itself reflected in the decision of prime minister **Sheikh Sabah Al-Ahmed Al-Sabah** to cite the *bidun* issue among his ten subjects for priority action – appears to be essentially home-grown.

determined by the balance of forces in parliament. However, such a step may yet be a long way off. The force of tradition also remains a powerful influence, even in today's in Kuwait.

BROAD THEMES, SPECIFIC DEMANDS

Final details of the document are still being negotiated among potential supporters, but the main themes are already clear. Tarrah told *GSN* that the petition will encompass the wider issue of citizenship questions, and will not be content to simply call for action on women's voting rights and lowering of the minimum voting age from 21 to 18. The 1962 constitution, the basis of the current, restricted form of democracy operating in Kuwait, draws a narrow definition of nationality with tight qualifying conditions based on tradition and historical precedent.

The petition will press the case for a modern definition that would extend citizenship to many of the long-term residents currently denied it. This would, Tarrah noted, increase the national population and make it easier to promote 'Kuwaitisation' of employment. The proposed reform would extend beyond the bidun alone.

The petition will also call for the legalisation of political parties. In practise these are already well established, but their capacity to campaign on common policy manifestos is inhibited by a formal ban that obliges all parliamentary candidates to stand solely as individuals.

Modernisation of the school curriculum is another theme of the petition draft. Tarrah argues that the present curriculum reinforces traditional themes, such as tribalism. The proposed change would stress the values of an integrated society and the dignity of all people, notably women and minorities. "We believe that tribalism is one of the problems that is hampering Kuwait," said Tarrah.

The petition will also stress the importance of fresh action to curb corruption. Kuwaitis frequently complain that this has become much more widespread, at all levels, in recent years.

LEAKING THE DRAFT

The petition first came to public attention on August 10. News of the document in preparation was leaked to the press at a point when the organisers were far from ready to launch it officially. Mid-August would certainly not have been their chosen moment.

Although public life did not entirely stop for the summer this year – Prime Minister Sheikh Sabah scrapped the holiday plans of his new post-election cabinet in favour of getting down to work – the new parliament had started its vacation, after a brief opening session, when the petition draft first came to public attention. Many Kuwaiti citizens who delayed their vacation departure until after the vote in July had by then left the country.

The leak of the petition got a brief flurry of media coverage, but produced no government response.

Organisers hope the final document will have much more impact.

Even by early August the draft had already secured more than 50 signatures from prominent political activists, business-people and intellectuals. Many more names are hoped for, together with the formal support of various political factions and interest groups.

UAE Shuts Zayed Centre In Pre-Dubai 2003 Crackdown

On the eve of its hosting the annual meetings of the *International Monetary Fund* and *World Bank* – one of the most inclusive and multi-national events in the world – the UAE has apparently shut down an influential Abu Dhabi-based think tank that had been charged with promoting anti-semitism. The UAE has simultaneously stepped up its monitoring of Islamic clerics, mosques and other institutions, in a move that indicates the authorities' desire to counter perceptions of the Emirates as a centre of anti-Western sentiment.

The UAE seemingly closed the Zayed International Centre for Co-ordination and Follow-up (ZICCF) in mid-August. Named after UAE President **Sheikh Zayed Bin Sultan Al-Nahayan**, the ZICCF's primary sponsor is the *League of Arab States* – though the UAE holds effective power over the Centre's assets and activities.

One UAE official reportedly declared the Centre would be closed and its financing ended, although he pointed out that a final decision would be left to the Arab League. Exactly what has become of the centre is not clear. Its Web site bears the message: "This site has been stopped". While the ZICCF has been reported closed by several sources, some staff claim they are merely on vacation.

The ZICCF came to international attention in Q2 03, after a graduate student at *Harvard University* demanded that Harvard Divinity School should return a \$2.5m gift made by Sheikh Zayed in July 2000. The student, 23-year-old **Rachel Fish**, charged that the ZICCF played host to holocaust deniers and other anti-semitic speakers.

Arab League spokesman **Hesham Yousuf** denied such accusations, and in the week after the centre's apparent closure, he said he had yet to receive notification of the event from the UAE. The UAE has been host and financier to the centre – whose official mission is the promotion of solidarity and co-operation in the Arab world – since its establishment in 1999.

The Islamic Waqf Ministry recently announced that authorities will be monitoring Friday sermons, and officials are reportedly working to set up a government panel that would hand down guidelines governing the content of such sermons.

Bombing Campaign Widens Political Vacuum, Tests New Cabinet's Credibility

Iraq's new cabinet is emerging as a crucial test of the hitherto largely symbolic Interim Governing Council's capacity to assume the power and decision-making role now vested in the US-run *Coalition Provisional Authority*.

The immediate impact of the ministerial appointments was underwhelming. But if the team can be seen to deliver results, in improved services and a growing Iraqi voice in shaping policy, the mood may start to change. If not, disillusion will deepen further, especially if the new ministers come to be seen as no more than front men for the US occupation administration.

Against the background of the Najaf mosque bombing that killed about 100 people, including the Shia *Supreme Council for Islamic Revolution In Iraq (Sciri)* leader Ayatollah Mohammad Bakr Al-Hakim, the nomination of a 25-member team of mainly second-ranking technocrats was always going to make a pale impression.

The immediate impression has not been helped by the decision of the political big names to stay out of the cabinet, perhaps to avert too direct an association with the CPA. However, over time, it is the new cabinet's ability to bring about real improvements in the living conditions endured by ordinary Iraqis which will count.

Meanwhile, the Najaf bombing, coming just days after the earlier attack on the *United Nations'* Canal Hotel headquarters in Baghdad – which claimed the life of Special Representative Sergio Vieira de Mello and 22 others – has intensified the pressure on the Governing Council to demonstrate that it can provide real national political leadership. Many Iraqis are disillusioned.

Unfortunately for the new ministers and the Council members, many of the key decisions that will affect their capacity to act are in the hands of others. In the short term at least, the prospects for improved security lie with the occupying forces.

The question of overall political authority for the reconstruction of the Iraqi state is the subject of hard-fought wrangling at the UN Security Council, with the likes of France and Russia pressing for a much stronger UN role while Pentagon hardliners seek to retain as much control as possible in Washington.

The outcome of this diplomatic struggle will have a significant impact both on the military aspects of peace-keeping and the readiness of many countries to supply troops and on the organisation and financing of reconstruction.

Many potential troop contributors and aid donors will be much more forthcoming if there is clear UN institutional "cover" for their involvement.

PRACTICAL RESPONSIBILITY

Meanwhile, the new ministerial appointees must take over the leadership of their departments and start to assume the practical responsibility of day-to-day decision-making and government.

Each new minister will have a CPA adviser, but they will be formally answerable to the Governing Council rather than US Civilian Administrator L Paul Bremer III. It now remains to be seen how far, in practice, the ministers will be able to make appointments and policy choices and take on expenditure commitments.

The critical question remains: will the real bosses be the ministers and the Council or will decisive authority remain with the CPA?

The Governing Council has been hamstrung by its shortage of staff, money and administrative support, and partly by the inherent difficulties of making policy through a body whose membership was chosen to represent different regional, religious and ethnic interests rather than along conventional political/ideological lines.

Real control of the administration has remained firmly in the hands of the CPA; ministries have been working under the authority's leadership. But many observers feel the authority remains detached from the reality of everyday Iraq.

"There is a feeling that the CPA is in a world of its own," says Exeter University's Dr Gareth Stansfield, a close observer of the post-war scene. But if the ministers are to prove more effective in engaging with the practicalities they need to be rapidly empowered with real responsibility and the money to achieve things. Stansfield argued that the Council could make real progress if it concentrated on key services such as water and electricity.

If it is to achieve greater political authority, the Council will need some basic resources of its own. Members have been travelling around the Middle East and further afield to garner support, but they have conducted these trips largely as individuals, arranged and funded through their respective political movements. The Council does not have a substantial budget or administrative machine of its own to handle the arrangements or prepare position papers.

In theory, at least, the appointment of the new interim cabinet could transform this situation. The

ministers will take over leadership of their respective departments. Gradually, as they make their own appointments and policy decisions, they could begin to take over the real governing role from the CPA and, in doing so, bring it under the authority of the Council.

The new appointees do seem determined to exercise real power. The Governing Council is physically isolated from the CPA and up to now it has therefore has been unable to exercise a meaningful influence over the actions of the technocrats who have been running ministries, under effective Coalition tutelage.

But that should change, with the new ministers based in the departments that they are running and reporting to the Council. "There's no point in nominating a cabinet without any authority," new Water Minister **Latif Rashid** of the **Patriotic Union of Kurdistan (PUK)**, told *Iraq Focus*. He envisaged a gradual transfer of power from the CPA to the new cabinet.

WINNING THE INITIATIVE

The installation of the new ministers and their subsequent one- or two year tenure before a new constitution is put in place and a new government is elected, represents a serious test for the emergent Iraqi elite.

If ministers show themselves to be efficient and able to take independent decisions, even where these may conflict with CPA preferences, the authority of the both the cabinet and the Council will be visibly enhanced.

That will strengthen the standing of these transitional institutions and help them to withstand the challenge of hard-line opponents, notably supporters of the old **Saddam Hussein** regime or radical Islamists such as the young Shia cleric **Moqtada Al-Sadr**.

But if the ministers turn out to be incompetent, or their effectiveness is sapped by corruption and factional squabbling, or if they come to be perceived as no more than cyphers for Bremer's CPA and American power, then the credibility of both the cabinet and the Governing Council will be correspondingly undermined.

To avert this risk, ministers will need to establish a measure of political authority and secure essential practical resources, notably the right to appoint their own choice of specialist advisers and the capacity to sign contracts and agreements and authorise expenditure. "There's no point in having a government unless it has the tools to do the job," said Rashid.

The installation of the new cabinet could also help to defuse the arguments over the extent to which the UN's role should be enhanced. Many of

the tasks currently handled by the CPA, and which many foreign governments feel should be handed to the UN, could actually be transferred gradually to the new cabinet if it proves itself capable.

This would spare the Pentagon the humiliation of surrendering to the UN those tasks for which the Coalition administration has proven ill-equipped. Moreover, it seems that the new ministers themselves would prefer to be taking on these roles, rather than simply seeing them passed from one international power, the CPA, to another, the UN.

"In Iraq we would not like to see executive power given to the UN. We want it to be given to the cabinet," Rashid explained.

The UN should be able to adapt to that situation. After all, in many countries it provides advice, technical support and aid money to the national governments exercising sovereign authority.

There will certainly be limits to what the interim Iraqi institutions can achieve: the Council

does not yet command universal recognition and has yet to fully establish its credibility as an institution independent of US power. Although its members are drawn from a wide range of Iraqi religious, regional and political interest groups, there are radicals such as **Moqtada Al-Sadr** who dispute its legitimacy.

DEMOCRATIC IMPERATIVES

Under the prevailing dispensation, the Council lacks any democratic standing, and that may constrain its readiness to take major policy decisions on fundamental issues of principle. "If Iraq is going to be democratic and have a constitution, we have to wait until parliament is elected," said Rashid. Certain issues will have to be decided by representatives who have been democratically chosen.

But Rashid hopes the interim cabinet and Council will have the freedom to take important economic policy decisions – such as the award of telecommunications licences or contracts for the development of power stations.

A Council delegation has already been touring the Middle East, pressing Iraq's case for admission to the **League of Arab States** and the **Gulf Cooperation Council (GCC)**. Participation in Arab League meetings – which now looks on the cards – would enhance its credibility. Membership of the GCC is probably further off, because of the need to adjust to the council's existing economic cooperation accords, such as its common customs tariff and open regional trade arrangements.

Whether the Council and cabinet's authority will extend to the highly sensitive question of allocating major oil concessions – the foundation of Iraq's potential wealth and a key national

IRAQ FOCUS

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resource – is unclear. But Iraqis already seem determined to assume control of their own constitutional arrangements.

As we report in this issue of *Iraq Focus*, the CPA has developed some detailed ideas on new judicial arrangements and legislation. Yet the Council is keen to take control of the constitutional process; it has appointed a special committee to draft a new constitution. Rashid insisted that CPA ideas on legislative matters will be treated just as suggestions. But a note of caution must be exercised here: we are watching the emergence of ambitions in an institution that is only just being created. We now have to see whether it will manage to develop the moral and practical authority to fulfil them and begin the slow process of restoring sovereignty to Iraq.

DIVIDED, IRAQ COULD SLIDE TOWARDS DISASTER

Behind the united national symbolism of the Council and the Cabinet are the realities of politics. The emerging leadership are well aware that if they do not present a coherent front at the

crisis time, Iraq could slide towards disaster.

But they nevertheless have their own party and religious interests to defend – and an eye to the forthcoming elections. There will be losers as well as winners once democracy does eventually arrive.

It is early days, but clues to potential alliances are surfacing. For some years Sciri, the major Shia group that was headed by the late Ayatollah Hakim, has been developing regular contacts with the two main Kurdish factions – **Jalal Talabani's PUK** and **Massoud Barzani's Kurdistan Democratic Party (KDP)**.

During Hakim's years of exile Sciri maintained an office in free **Kurdistan** – a facility that allowed it to keep an overt public toehold within Iraq, even if not in its heartland of support in the centre and south of the country. The Kurds and Sciri shared a wariness of **Ahmed Chalabi's Iraqi National Congress (INC)** – seen as a US tool and lacking in their own locally recruited military strength.

Some might see the secular INC as a potential ally for Iraq's Sunnis, who enjoyed a dominant role

The Cabinet

Membership of the new cabinet has been divided up on ethnic and political faction lines, mirroring the breakdown of the Governing Council. There is, however, no prime minister – which clearly leaves the political figurehead role with the rotating chairmanship of the Governing Council, held by **Ahmed Chalabi**.

Interior	Nori Al-Badran	Shia
Foreign Affairs	Hoshiyar Zebari	Kurd
Justice	Hashim Abdul-Rahman Al-Shibli	Sunni
Human Rights	Abdelbasit Turki	Sunni
Finance	Kamil Mubdhir Al-Gailani	Sunni
Oil	Ibrahim Mohamed Bahr Al-Uloum	Shia
Trade	Ali Abdelamir Allawi	Shia
Agriculture	Abdelameer Rahima Al-Abboud	Shia
Industry, Minerals	Mohammed Tawfik Raheem	Kurd
Health	Khudayer Abbas	Shia
Education	Alaudin Abdul Shaeab Al-Alwan	Shia
Higher Education	Zeyad Abdul-Razzaq Mohammed Aswad	Sunni
Culture	Mofeed Mohammed Jawad Al-Jazaeri	Shia
Sport, Youth	Ali Faik Al-Ghaban	Shia
Work, Social Affairs	Sami Izara Al-Majoun	Shia
Immigration, Refugees	Mohammed Jassem Khudair	Shia
Planning	Mahdi Al-Hafidh	Shia
Public Works	Nesreen Mustafa Sidiq Berwari	Kurd
Construction, Housing	Bayan Baqir Solagh	Shia
Electricity	Ayham Al-Samarai	Sunni
Water Resources	Abdelatif Rasheed	Kurd
Transport	Behnam Zayya Polis	Christian
Communications	Haider El-Ebadi	Shia
Science, Technology	Rashad Mandan Omar	Turkoman
Environment	Abdelrahman Sudiq Kareem	Kurd

Large Family Businesses Prosper Under CPA

Longstanding tribal business dynasties, such as the **Al-Bunniya**, **Al-Janabi**, **Al-Kubaseen** and **Al-Hateen**, are already engaging in lucrative contracts with the **Coalition Provisional Authority** and international corporations. But some of those now flourishing in the post-**Saddam** environment also did well in the pre-war era, benefiting from connections to the Hussein regime and the rent-seeking opportunities created by the distortions of the siege economy produced by **UN** sanctions.

Among today's big business names, the Al-Bunniya family stands out as particularly well-positioned to win and orchestrate new contracts, although the full extent of their operations is hard to pin down. Al-Bunniya companies have developed a good relationship with the Coalition Provisional Authority and emerged as a major sub-contractor for **Bechtel**. **Iraqi/British** business sources report that the family has signed a contract with a UK-based security company and vice-chairman **Mustafa Al-Bunniya** will speak twice at a conference on doing business in Iraq that **IBC** is organising in London in mid-October. The family owns most of the country's meat-packing and poultry factories. It also appears capable of leveraging its own assets to raise significant amounts of capital in US dollars. This puts the Al-Bunnias in a class of their own, ahead of other Iraqi business dynasties.

"If the other tribal families need to raise money, they have to go outside Iraq to the **United Arab Emirates** or to family members living abroad. They are smaller players than al-Bunniya," an Iraqi foreign affairs official told *IF*. Even so, several other families are forces to be reckoned with. The Al-Janabi, for example, are major importers of electronic goods, which are on display throughout Baghdad. They have a number of **Panasonic** and LG shops.

But for many Iraqis, the success of some tribal business families today is an unsavoury reminder of the past. An Iraqi administrator complained to *IF* about one family well known to have done well under Saddam. They had, he said, "made a lot of money from the suffering of the Iraqi people, raised the prices and took advantage of their business connections to **Uday Hussein**." They had bought their success by giving Uday – Saddam's older son, killed with his brother **Qusay** on 22 July – a percentage of all new contracts.

out of all proportion to their numbers under **Saddam Hussein** but are now in a position of reduced influence. However, the prospects for developing such a partnership could be hampered by Chalabi's oft-declared antipathy for those with connections to the old **Baathist** establishment.

After the UN bombing, Chalabi was quick to blame Hussein loyalists, although theories about the possible involvement of foreign Islamist radicals were also circulating and no concrete proof of responsibility had been found.

KEY MINISTERS

Nori Al-Badran, of the **CIA**-backed **Iraqi National Accord (INA)**, may well have toughest job in the new cabinet. As interior minister, responsible for a police force now restored to a strength of 30,000, he faces the challenge of delivering civil law and order – in partnership with the occupation forces, of course – in a country that has endured two massive terrorist attacks in as many weeks, and where armed resistance and gangster criminality are rife. He will be responsible for organising the promised new 70,000-strong Interior Ministry security force, recruited largely from former soldiers.

Meanwhile, Finance Minister **Kamil Mubdhir Al-Gailani** has to start implementing short-term budgets drafted by the CPA while he waits to see whether the UN negotiations over Iraq's status will

allow foreign governments and international institutions to commit the funds required to pay for long term reconstruction. He can only hope a diplomatic deal is struck in time for the main donor conference, scheduled for 23-24 October in Madrid, although early September donor talks in Brussels may have given him early clues.

The appointment that garnered most foreign media attention was understandably the surprise selection of **Ibrahim Mohammed Bahr Al-Uloum** for the Oil portfolio. All bets had been on **Thamer Ghadhban**, head of the national oil company, who has steered the ministry through the past four difficult months. But it seems Ghadhban suffered from the reluctance of the Pentagon-backed INC to see the key job remain in the hands of someone who had been a senior official under the old regime however technically competent.

Bahr Al-Uloum was a useful compromise choice – US-trained, with a doctorate in petroleum engineering from the **University of New Mexico** but with balancing family ties to Shia religious circles. His father, **Mohammed Bahr Al-Uloum**, is a leading cleric who this week suspended his membership of the Governing Council in protest at US security failures related to the Najaf bombing.

The government's sole woman minister is Public Works Minister **Nesreen Berwari**.

Security nightmare, power shortfalls hamper oil production

The **Iraqi Ministry of Oil (MOO)** and the **US Army Corps of Engineers (USACE)** have struggled to return oil production to the 3m b/d pre-war level. The main obstacle so far has been security, with sabotage and looting an ongoing and difficult affair to counter, and electricity supply shortages.

Broadly, the **US Coalition Provisional Authority** and MOO maintain the same message about oil production and security. The recovery of oil production to sustainable levels relies mainly on political stability and security. "The prime factor is really security," **Thamer Ghadhban** told *IF* in Baghdad just prior to his surprise departure from MOO (see above).

US Chief Civil Administrator **Paul Bremer** and other CPA officials argue that the infrastructure is an easy target for the resistance campaign to disrupt efforts to rebuild the country. There are over 7,000km of crude, gasoline and product pipelines, as well as 16,000km of electricity transmission lines throughout Iraq.

In the Sunni Triangle, where there is little public support for the US-led coalition and attacks against US forces are a regular occurrence, there is no incentive to protect the pipelines.

Consequently, said Bremer, "It is not an insignificant job to guard those areas." Electricity generation is the other major problem, disrupting production and shipments from the Persian Gulf loading terminal Mina Al-Bakr.

Production dropped in the southern Basra oil fields from roughly 800,000 b/d to 200,000 b/d over the course of two days in August because of electricity shortages.

"We view electricity supplies as a major hindrance to production and our efforts to export," a senior official at the **State Oil Marketing Organisation (Somo)** said.

Canvassed in MOO's corridors in late August, ministry officials and senior US advisor **Gary Vogler** retained their positive outlook, but expressed caution. "Any day is a good day without sabotage," a senior ministry official told *IF*. "Things could change quickly."

The problems have made it challenging to achieve sustainable crude oil production in the short-term, although a plan has been set for target goals. Current oil production, on MOO's optimistic count, is cited at 1.5m b/d. But this potential output level is in fact exposed to disruption from acts of sabotage and electricity supply failures.

Southern production historically outpaces the north, with around 900,000 b/d being produced in the 1.5m b/d capacity Basra oil fields. The northern Kirkuk fields hit around 500,000 b/d and have a capacity of 800,000 b/d, but production in the north is constrained by poor pre-war pipeline maintenance and a bottleneck at the Al-Fathah Bridge, which was damaged by coalition bombing during the war and is now identified by the USACE spokesman in Kuwait **Steven Wright** as a “major priority” to be addressed.

Ghadhban put an interesting spin on production. He explained that by the end of July crude export production ranged between 800,000-1.5m b/d, depending largely on loading at Mina al-Bakr. Continuous loading onto oil tankers brought output close to the 1.5m b/d mark – but the figure fell to 800,000 b/d when there was no loading. Then the surplus was allocated to electricity generation plants in the south and to the production of gasoline products at the Basra Refinery, which has struggled to supply local demand because of electricity outages.

Production in the north goes mainly to domestic consumption, though on 13 August Iraq started moving crude oil through the 900km pipeline stretching from Kirkuk to the Turkish Mediterranean port of Çeyhan – only to see a suspected act of sabotage two days later stop the flow northwards to storage areas where managers had planned to store oil for future export plans under long-term contracts.

Although the US-led coalition offered no information on who conducted the attack, saying the explosion was under investigation, it appears that the attackers had detailed knowledge of the oil infrastructure. The pipeline was buried at least 1 metre under the ground, according to Vogler.

MOO and USACE have set a production target timeline under the Restore Iraq Oil programme. The plan sets out the following timetable for sustainable oil production:

- 1.5m b/d by October 2003
- 2m b/d by December 2003

Products shortfalls continue

In general, the supply of gasoline products, such as diesel, falls well short of demand, with truck tankers bringing diesel and gasoline from **Turkey, Jordan and Saudi Arabia**. Along Highway One north of Baghdad, Turkish tanker trucks are seen making the dangerous trip down from Kirkuk.

Baghdad International Airport (still a major strategic hub for the Americans) relies entirely on Turkish diesel imports for all of its needs. It receives around 150,000 litres per week to run a 5MW generator supplied by emergency power supply specialist **Cummins** in the wake of **Saddam Hussein's** fall.

MOO is supposed to provide 72,000 litres/w to the airport, according to a US contractor working to rebuild the airport. “Since we started rehabilitating the airport, we have received no diesel,” the contractor said. “They simply don’t have it.”

- 2.8m b/d by March 2004
- 3m b/d by April 2004.

The \$1.6 billion plan has one qualification though. As Ghadhban put it, “The success of implementing such a plan is totally dependent on political stability and security.”

GENERATING TENSIONS

It is not only the oil infrastructure that struggles against sabotage and looting. The CPA has retreated on its target date for returning power generation to pre-war levels. The Electricity Department’s **Kareem Hassan** and Bremer both publicly forecast that pre-war generation levels of 4,400MW would be achieved by end-July. But generation is now running at 3,000-3,400MW on a good day.

Subsequently Hassan and US senior advisor to the Electricity Ministry **Peter Gibson** revised the target date to end-August – but at the end of the month generation was still well off the target.

Bremer is now saying the coalition plans to restore generation to pre-war levels by end-September – repeating the mantra that “We believe we can do that, assuming we do not have more major acts of sabotage.”

THE USUAL SUSPECTS

Who is responsible for this gloomy situation? Viewed from a sweltering Baghdad there is no simple answer. While the US-led coalition likes to blame pro-Saddam Hussein elements, Fedayeen militia and other extremists for the destruction of infrastructure, that is not in fact the whole story. Other factors also come into play.

After one attack on a fuel oil pipeline stretching west from the northern town of Baiji, the local police chief dismissed claims that pro-Saddam **Baathists** were responsible and stated the town’s inhabitants had carried out the attack.

“They are frustrated with the US presence here,” deputy police chief Mohammed Ibrahim, said. He added that the US was doing little to protect infrastructure, or to provide much-needed work opportunities to Baiji’s residents.

There is also some speculation that tribes sabotage pipelines because the coalition has been slow to hire them to protect the infrastructure.

Under Saddam, tribes were paid handsome sums for their services, and if that was not enough they were coerced into action. One tribal chief from south of Baghdad explained that he had gone to the US authorities to offer his services, not only for protecting the oil infrastructure but for maintaining security on the road systems. But, he said, “they keep turning me away.”

As a result, many Iraqis have abandoned earlier tolerant attitudes towards the coalition, shifting towards a more radical view, even in the corridors of state-owned oil companies. “The Americans had our support in the beginning,” a senior oil official said. Now, he argued, this has faded, fuelling support for attacks on infrastructure.

Riyadh Hits Investors With Discouraging Edict

On the heels of a new capital markets law that should ease the process of investing in the Kingdom, Saudi Arabia has placed a new roadblock in the path of foreign investors. In July, GSN has learned, the Ministry of Commerce, under a directive of the Ministry of Interior, issued a new regulation requiring that any foreign entity seeking to open a new branch or LLC in the Kingdom must appoint as general manager either a Saudi national or an expatriate who already holds Saudi residency.

The move is seen as a major disincentive to setting up shop in the Kingdom. According to one Riyadh lawyer with knowledge of the foreign investment community there, the new procedures are already crippling the processing of commercial registration applications.

"For most big players coming here for the first time, they want to appoint someone they are confident in as their own 'eyes and ears on the ground' as general manager. They don't want to appoint someone they don't know, even for a temporary period while they work out a method of finding a replacement," he told GSN.

ALL IN THE NAME OF SECURITY

The new regulations were ushered in under the rubric of heightened security, the Kingdom's new watchword. But their effect – intentional or not – has threatened to reverse reformists' efforts to tap greater flows of foreign direct investment.

With another obstacle placed in the path of foreign investors at a time of heightened political risk, the Saudi authorities seem to be evolving a new, distinctly Saudi variant of the two-step: one step forwards, two steps back.

Saudi Arabian General Investment Authority (SAGIA) chief **Prince Abdallah Bin Faisal Bin Turki** now faces an uphill task to endow the Kingdom's foreign investment drive with sufficient credibility to make a difference to its finances.

That the new regulation originates in security concerns will make it far more difficult for SAGIA to argue against – even though foreign general managers would seem to pose few terrorist or security risks.

"SAGIA is effectively wringing its hands, saying, 'Yes, we're frustrated too', but admitting there's nothing it can do about it as it's to do with security. And no one's in a position to second-guess security," said the Riyadh lawyer. The Ministry of Interior is apparently increasingly concerned about the intentions of foreign business managers relocating to Saudi Arabia. But rather than improve the vetting procedures at the visa level, as senior legal advisers recommend, Riyadh is using a

sledgehammer to crack the nut.

The measure was pushed through in the normally quiet summer months. With many Saudis only now returning to their businesses, the day-to-day ramifications of the new requirements will only start to become clear in coming weeks and months. It is possible that the ministry may reconsider, but legal experts fear they will not.

"It's thrown a monkey wrench into a lot of pending applications, with people spending more time and money for legal advice," said the Riyadh lawyer. "Companies may get around it by engaging in subterfuge – such as appointing someone who's still on the ground and then doing a transfer out – but why should they have to? It doesn't make sense."

Saudi Arabia Stands At The WTO's Door

A trade deal between Saudi Arabia and the **European Union**, signed on 31 August, means the Kingdom is now apparently only steps away from membership in the World Trade Organisation (WTO). Following years of tortured negotiations, WTO membership could come as early as next year, according to the EU – some of whose members, including **France**, have been studiously courting Riyadh in recent months, as the Kingdom's relations with the **USA** have been steadily deteriorating.

The trade deal reduces tariffs on imported industrial and agricultural products, ends the practice of selling gas more cheaply in the domestic market than abroad, and signals the Kingdom's intent to open its markets to international trade. Riyadh is also in the process of translating as many of its laws as possible into English. Saudi Arabia remains the only **Gulf Co-operation Council** economy that is not a member of the WTO.

European and American businesses are eager to get their hands on more than \$35bn of investment that soon will be needed in the Kingdom to overhaul services and infrastructure such as the Kingdom's health, utility and telecommunications systems.

Gulf Currency Box

	\$	£	€
Bahrain	0.3770	0.6020	0.4269
Iran	8230.0	12,968.2	8984.61
Iraq	0.3110	0.4998	0.3559
Jordan	0.7090	1.1393	0.8113
Kuwait	0.2998	0.4818	0.3431
Oman	0.3850	0.6188	0.4243
Qatar	3.6400	5.8491	4.1654
Saudi Arabia	3.7502	6.0262	4.2915
Syria	46.000	73.9174	52.6378
UAE	3.6730	5.9021	4.2032
Yemen	178.005	286.036	203.691

Source: Financial Times.

Dubai Hosts A Global Event With Regional Ramifications

In the next fortnight bankers and finance officials from around the world will attend the Annual General Meetings (AGMs) of the **World Bank** and **International Monetary Fund (IMF)**, to be held in Dubai on 18-24 September. Although not on the official agenda, several moves are set to develop on the sidelines that could make a difference to regional finances, especially in the conflict-torn countries of **Afghanistan** and **Iraq**.

The AGMs will be the biggest international financial event ever to be held in the Arab world, but intra-regional tensions and concerns over security could keep attendance down at a time when Dubai is hoping to draw as much favourable attention to itself as possible.

The IMF's seminar programme will feature several topics of interest to the region – including water security, Islamic finance and fiscal management in oil-exporting countries – but the meeting agenda itself will not be Gulf- or Middle East-specific, except in one or two particulars.

High on the official agenda will be the continued search for strategies to meet the so-called Millennium Development Goals of halving global poverty between 1990 and 2015, raising standards of living and improving economic development. Side issues will deal with the aftermath of **US** and **UK** military action in the region.

Among concrete action to be taken at the AGMs (notorious for their surfeit of hot air), a donor's meeting to discuss financing for Afghanistan's economic and social needs is slated to be held in Dubai. Although the IMF does not anticipate completing its Article IV assessment of Afghanistan's economic condition until after the Dubai meetings, a Fund official told *GSN* that official delegations would be presented with an interim report, presumably in an attempt to get more aid flowing as quickly as possible. Since 26 February, when it settled \$11.1m in arrears, Kabul has been current in its IMF obligations.

The **UAE** is presenting the meetings as confirmation of its role as a significant global financial power. To consolidate this, the **UAE** agreed to an Article IV assessment of its economic performance, which was completed in March. The accompanying public report ends decades of relative obfuscation in the area of the emirates' public finances (*GSN* 706/13).

SPEAKING FOR IRAQ

Though it won't be part of the formal agenda, attention will focus on **Iraq**, with much intense work now under way within the Bank and Fund to assess the country's needs and begin the process of institution-building that will allow it to rejoin the global economy. World Bank and IMF staff have been temporarily withdrawn from the country

after the bombing of the UN headquarters at the Canal Hotel, where the Bretton Woods institutions were also based. Work continues in Washington and Amman, **Jordan**. At the same time, US law firm of **Squire, Sanders & Dempsey** – a firm with ties to the **Bush** Administration – was hired to consult on privatisations and help structure government economic agencies. It remains to be seen how Squire, Sanders' work will dovetail with that of the multilaterals presumably addressing the same issues. A donors' meeting is planned for late October, when the IMF's initial needs assessment will be presented.

Iraq is still a member of the IMF, and has regularly attended AGMs, even in the **USA**, though with only a one- or two-person delegation in many years. The Iraqi governor at the IMF is still listed on the Fund's website as **Baathist** finance minister **Hikmet Al-Azawi**, who was taken into custody by Coalition forces on 18 April.

Iraq's votes on the IMF's executive board are cast with 12 other Gulf Arab states who together account for only 2.95% of total votes. Executive Director for the group is a powerful IMF veteran, **Egyptian** economist **Abdul Shakour Shaalan**.

The IMF's board of governors – the Fund's ranking decision-making body – is traditionally populated by finance ministers and central bank governors. The new Iraqi Finance Minister **Mutherr Shawqat**, a Sunni Muslim associated with **Ahmed Chalabi's Iraqi National Congress**.

FALLOUT FROM REGIONAL TENSIONS

The IMF/World Bank Annual Meetings have never been held in an Arab/Islamic city, but IMF officials are quick to point out that the choice had nothing to do with events since the 11 September 2001 attacks on the **USA**, given that the location was arranged in early 1999.

The meetings normally draw more than 10,000 delegates, plus hordes of press and non-governmental organisation representatives. But early indications are that some heavy hitters in the Arab world may stay away, feeling that the event promotes a **US-centric** approach and could push pro-**Israeli** political and business interests.

Arab disillusionment with multilateral development policy is running high after the June **World Economic Forum (WEF)** summit in Amman, **Jordan**. Many Arab bankers and officials *GSN* has spoken to came away from that meeting feeling that the WEF had become little more than a forum for American views on development and a place to push American political interests in the Gulf and Middle East region.

One factor adding to questions over attendance at Dubai is the ostentatious light in which the ruling **Al-Makhtoum** family is viewed by many

Arabs. *GSN* has also heard that Dubai 2003's hard-working general co-ordinator **Ibrahim Belseleh** has met resistance from others on the organising committee, whose heavyweight members include chairman **Sheikh Hamdan Bin Rashid Al-Makhtoum**, Deputy Ruler of Dubai and the UAE's Finance and Industry Minister; *Emaar Properties'* **Mohammed Ali Alabbar**, economic guru to Dubai Crown Prince **Sheikh Mohammed Bin Rashid Al-Makhtoum**; and Director-general of the *Dubai Department of Economic Development* **Mohammed Al-Gergawi**. Sources say Belseleh has clashed with Alabbar and Gergawi on occasions.

Some – but by no means huge numbers – of Westerners are staying away because of security concerns – although, barring disasters, actual problems are likely to be minimal. Among the concerns are missile strikes, 'dirty' bombs and fears that a passenger jet could be attacked in similar fashion to the failed rocket launches against planes in **Saudi Arabia** and **Kenya** (some rockets from the same manufacturer's run, sold to *Al-Qaeda* representatives, are still missing).

Some have cited concerns about security

involved in an event of such scale. More than 5,000 people are involved in setting up and carrying out the logistics of the operation, according to Dubai 2003. Three times as many delegates could attend.

Past multilateral meetings have been marred by huge protests involving anti-globalisation activists, which have from time to time resulted in a small number of deaths. Peaceful demonstrations at pre-arranged locations under police supervision will be allowed, but Dubai 2003 security chief Lieutenant-General **Abdelaziz Al-Banay** has said his officers will use "firm and professional means" to crack down on anyone involved in "acts of riot or violence" or anyone "trying to create an unhealthy climate" at the meetings.

Protests in Dubai will likely be minor. "We've seen a significant downturn in demonstrations in the last couple of years," one Western source involved in the meetings told *GSN*. Dubai also follows close on the heels of the **World Trade Organisation's** Ministerial Conference in Cancun, **Mexico**, on 10-14 September, potentially a more attractive target for protests.

Saudi-Moroccan Friction

Continued from page 24

independence movement. Following an unexpected setback in the *UN Security Council* in July, when the USA pushed a resolution drawn up by UN Special Envoy and Republican grandee **James Baker III** that Morocco believed was prejudicial to its interest, Moroccan diplomats including key external affairs fixer Secretary of State for Foreign Affairs **Taieb Fassi-Fihri** are working to regain the initiative for Rabat.

In the complex wheeler-dealing to come, many Moroccans believe Rabat will try to win back US support by agreeing to normalise relations with **Israel**. The Israeli and Moroccan foreign ministers met in London in late July and another meeting is planned; Israeli Foreign Ministry Secretary-general **Shalom Cohen** has secretly visited Rabat several times. On top of their bilateral spat, recognition of Israel could play badly in Riyadh if it does not fit into the framework set by Crown Prince Abdallah.

Where the so-called war on terror is concerned, Morocco has so far performed well. It is widely believed that the US authorities have sent some third-country *Al-Qaeda* suspects to Morocco for additional interrogation by Moroccan authorities. The *Central Intelligence Agency* has channelled some information obtained from Moroccans held at Guantanamo Bay to Rabat. But successive US administrations have shown apparent dislike for Mohammed. The 40-year-old King is not yet – and may never become – the master of diplomacy that his father, the late **King Hassan II**, emerged to become; and he seems unhealthily enthusiastic about the *European Union* for some American tastes.

American and some opinion formers in France have made little secret of their preference for the King's US-based cousin, **Moulay Hicham Ben Abdallah**. Hicham

has support in the Gulf, too; he is son of Hassan's younger brother, **Moulay Abdallah**, who died in 1983. Many interesting links are thrown up by Hicham's mother **Lamia Al-Solh**, daughter of **Lebanon's** first premier **Riad Al-Solh**, who was assassinated in 1952. One of Lalla Lamia's sisters, **Mouna Al-Solh**, married the prominent Saudi "Liberal Prince" **Talal Bin Abdelaziz** and is mother of billionaire **Prince Al-Waleed Bin Talal** – Moulay Hicham's cousin. Close observers of the self-styled "Red Prince" say that Hicham plays the impoverished, poor cousin for the Western media while maintaining a deep involvement in Arab business deals, some of them with unhappy consequences.

Hicham has positioned himself as an intellectual alternative to Mohammed – even if his credentials for ruling (and intellectual leadership) wear somewhat thin when placed under scrutiny. Hicham – the 38-year-old second in line of succession after the King's younger brother **Moulay Rachid** – in 2002 "escaped" to the USA, where he has long lived, claiming he was a refugee from "police harassment". Hicham claimed his main tormentor was **Laânigri** – promoted this summer to head Morocco's police services, in a new security line-up that also includes the King's old school friend, Secretary of State for the Interior **Fouad Ali El-Hima**.

Hicham's clashes with his cousins have not helped the course of Saudi-Moroccan relations. Meanwhile **Laânigri's** star has risen under Mohammed. He is a former head of UAE President **Sheikh Zayed Bin Sultan Al-Nahayan's** personal bodyguard – a service long provided by the Moroccan monarch to Morocco's favourite Gulf ruler. Construction of the **Sheikh Zayed Hospital** in Rabat has won many friends – whereas other Gulf princes' oppulent lifestyle has alienated swathes of local opinion.

GSN Risk Grade — C/2-: Oil-fuelled growth helps to mask deep structural problems

Political And Social Development

Overview: A widespread crackdown on radical Islamic militants continues; Jihadi support is believed to be particularly strong in the far north, the south-west and conservative parts of Najd. Against a background of growing poverty and unemployment, conservative/liberal rivalries within the ruling Al-Saud family remain under the spotlight, although the summer heat has meant that security issues aside, the domestic political scene has been relatively quiet.

Government: The latest reshuffle brought in a few modernisers, but sent out few other positive signals; a Shiite cabinet minister wasn't named to avoid antagonising Wahhabi opinion. New faces included Hijazi businessman Abdallah Bin Ahmed Zainal, while several ministries were restructured. Crown Prince Abdallah's Charter for Arab Reform could launch internal reforms; the prospect of elections has been mooted first at municipal level, followed by the 120-member Majlis Al-Shura. Al-Saud divisions continue to act as a brake on reforms.

Internal security: The 12 May Riyadh suicide bombings forced the authorities to face up to some of the Kingdom's problems. International media focus has helped dictate the approach, with the authorities coupling a security crackdown against Islamic militants with pressure on tribal and religious leaders to ensure that they are 'on message.' In late August, the Kingdom's highest religious authority, the senior Ulema commission, denounced terrorism and its sympathisers and criticised misinterpretation of Jihad. Saudi Arabia has been working closely with the Yemeni authorities to crackdown on the activities of militants along the mutual border region.

External relations: The Saudi authorities and the USA have locked horns over the issue of Islamic militants crossing into Iraq to wage guerrilla warfare against Coalition troops. The Bush Administration's decision to classify parts of a Congressional report on 9/11, which might implicate the Saudi government, has caused tension. Despite these points bilateral co-operation continues, notably in the fight against terrorist financing. Seven Western men held charged with involvement in an alcohol smuggling turf war have been released to help relations with the UK, although the Saudis refuse to retract their version of events.

Economic Outlook

Overview: High oil prices are expected to result in a healthy budget surplus. Saudi American Bank (Samba) predicts real GDP growth of 6.8% in 2003. Despite regional insecurity and internal security problems, the Saudi Stock Market (SSM) has performed well reaching an all time high of over 4,000 points in late August. Favourable oil prices, however, mask long-term underlying problems: debt levels are still too high (\$630bn expected at year-end) while unemployment pressures remain unchecked and population growth of 4-4.4% is a concern.

Budget: High oil prices mean a predicted reversal in fortunes for FY03. Samba predicts a \$6.3bn budget surplus, based on a \$26/bbl average oil price, compared to a forecast \$10.4bn deficit, based on \$17.5/bbl oil. Oil revenues should reach \$85bn, with a \$20bn current account surplus. Ratings agencies have responded accordingly. Standard & Poor's issued a debut long-term foreign currency sovereign rating of A and a local currency rating of A+ in mid-July, while Moody's has raised its foreign currency sovereign to Baa2.

Financial regulation: An anti-money laundering law was approved in August requiring financial institutions to maintain records for a minimum of ten years and to take responsibility for any abuses. A special financial investigation unit will be formed to help police the new law. The penalties are maximum 15-year jail sentences and fines of up to \$1.86m. The OECD's Financial Action Task Force is expected to undertake a 'mutual evaluation' of Saudi Arabia in Q4 03/Q1 04. Saudi intelligence services have formed a joint team with the US' FBI to tackle terrorist financing; this will include basing 15 US officers in the Kingdom. The creation of a new body to oversee Islamic charities and the Supreme Saudi Relief and Charity Foundation have been approved.

Liberalisation: A trade agreement has been signed with the EU, paving the way for World Trade Organisation membership, despite outstanding cultural and policy differences. The next stage will be the conclusion of bilateral negotiations with the USA, which it is hoped will be achieved by end-year. The Supreme Economic Council has plans to open more sectors to foreign investment. These include some telecoms services, insurance, educational services and publishing.

SAUDI ARABIA: Key Projects

Gas Projects Initiative: The scheme has been broken up, with Shell signing an agreement to develop the upstream gas reserves that formed part of Core Venture Three. A joint venture will be formed with Total and Saudi Aramco. Upstream elements of Core Venture One will be offered under a licensing round planned for January 2004. The three gas blocks are in the Rub Al-Khali region. Negotiations with an ExxonMobil-led consortium for the \$15bn Core Venture One South Ghawar project fell through earlier in the year after "final terms" were refused. The \$5bn Core Venture Two Red Sea project, also led by ExxonMobil (with Marathon and Occidental), had previously been postponed.

Power sector: Around 30 companies are understood to have expressed interest in the Kingdom's first independent water and power project, a 700MW plant to be built at Shouaiba. A request for proposals to prequalified companies is expected by end-year. Other IWPPs are expected to follow at Shuqaiq, Ras Al-Zour and Jubail. Siemens signed final project agreements in July for the \$170m Sadaf IPP. Saudi Aramco is evaluating bids for four IPPs totalling 800MW at Juaymah, Ras Tanura, Shedgum and Uthmaniyah. A 1,500MW stage two expansion of an existing power plant at Shouaiba is being tendered, with bids expected late September.

GSM Licence: A second GSM mobile telecoms licence is expected to be tendered by end-year for an award in 2004. The new operator is timetabled to launch services by 2005.

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.

SAUDI ARABIA: Selected Economic Indicators (\$ billion)

	1999	2000	2001	2002
Nominal GDP	161.0	188.4	186.2	182.8
Nominal GDP growth rate (%)	10.4	17.1	-1.2	-0.5
Real GDP growth rate (%)	-0.8	4.9	1.2	0.7
Current account	0.4	15.6	14.5	10.5
Central gov. domestic debt	44.4	43.8	45.6	48.8
as % of GDP	119.0	87.0	90.0	95.0
Oil price Saudi avge (\$/bbl)	17.45	27.0	21.5	21.8
Official Foreign Assets	69.4	73.5	82.6	78.5
Cost of living (% change)	-1.2	-1.0	-0.8	-0.4

Source: Saudi American Bank, Ministry of Planning, Central Department of Statistics, Saudi Arabian Monetary Authority, IMF

GSN Risk Grade – D/4: US tensions force Assad to reform, but the pace of change is slow

Political And Social Development

Overview: There is a certain amount of domestic political uncertainty with President Bashar Al-Assad planning a cabinet reshuffle. A new cabinet is expected to boost reform prospects but the reactionary Arab Baath Socialist Party establishment can still be expected to bring its influence to bear. The political manoeuvring surrounding the last reshuffle meant it took around two months from announcement of change to the cabinet's final line-up. The government is also coming under renewed US pressure over its co-operation in fighting terrorism.

Government: Speculation is rife that Prime Minister Mohammed Mustapha Miro will be the leading casualty in the upcoming reshuffle. Candidates for Prime Minister should Miro be axed include Education Minister Hassan Rishah, former World Bank official Ghassan Al-Rifai and private sector heavyweights such as Damascus Chamber of Commerce Secretary General Dr Abdul Rahman Attar. Foreign Ministry spokesman Boutheina Shaabane also seems set for higher office. There have been indications that Assad may appoint a non-Baathist or even a non-Muslim. Institutional changes are also expected including the merger of the ministries of electricity and oil into the Ministry of Energy, the creation of a new Treasury Ministry and a revamped Ministry of Commerce.

The US threat: While the perceived threat of military action has receded the prospect of crippling US economic sanctions remains real. Opposition to the proposed Syria Accountability Act from US President George W Bush's administration is said to be declining. The bombing of the UN compound in Baghdad has not helped and has prompted the USA to revisit the subject of terrorist groups working out of Syria; it has asked for better co-operation from the Syrian authorities. Hizbollah is an issue (see below). Despite stubborn Syrian rhetoric a degree of compromise can be expected in an attempt to avoid sanctions.

Middle East peace: The US is also putting pressure on Syria to help rein in Hizbollah; US Assistant Secretary of State William Burns recently visited Syria to discuss the matter. With the 'road map' for peace in a fragile state Syria will continue to be engaged in firm diplomatic talk by the US and other Western powers such as France and the UK to help avoid a proxy conflict ensuing involving Hizbollah in Lebanon.

Economic Outlook

Overview: Economic reform is victim to power struggles between rival factions. An expected cabinet reshuffle may help. But while the business class, which often suffered under Hafez Al-Assad, feel more confident, Syria remains stifled by bureaucracy and there is a distinct lack of international appetite for project risk. The government wants to revitalise efforts to join the World Trade Organisation and EU Euro-Mediterranean Partnership but needs more dynamism than is apparent it is current seven-year reform programme.

Banking sector: Financial services are under-developed and in the process of being opened up to private investment, with foreign banks permitted to take up to 49% equity in joint ventures. In June, three banks with foreign equity were provisionally accepted, subject to Central Bank ratification. These look set to join Jordan's Housing Bank and two Lebanese banks Banque du Liban et d'Outre Mer (in a JV with the World Bank's IFC) and Banque Européene pour le Moyen-Orient (in a JV with Banque Saudi Fransi).

Liberalisation: Reformists are pushing ahead with projects that might improve the investment environment, from oil exploration and production contracts to plans for IT parks and other technology initiatives in zones away from traditional Baath Party influence. An initiative for a one-stop shop investment authority was expected to be launched during H2 03 but may be delayed by political manoeuvring. Assad's informal advisors include businessmen, and he has placed some liberals in government.

Oil sector: Production is around 580,000 b/d. Shell is a major player and underlined its presence in July with a four-year contract alongside Petro-Canada to deepen and widen the Thayem oil field, with a target of increasing output by 30,000 b/d to 250,000 b/d. Ten oil blocks, offered as part of a previous licensing round, are expected to be offered again soon, but significant interest may be hard won. A number of contracts were signed in Q1 03. Exploration deals were signed with Shell (Block 2), Stratic Energy (Block 17), HBS International's Egyptian arm (Block 22), IPR International and ONGC Videsh (Block 24), and Ocean Energy, which was subsequently taken over by Devon Energy (Block 26).

RETURN FROM EXILE: Human rights activist Haiytham Manna has returned to Syria after 25 years in exile with the apparent blessing of President Assad. Human rights have improved since Assad took power in 2000 – including the release of a number of political prisoners – but arbitrary actions by a variety of mukhabarats and Baath Party grandees remain a problem. Manna said the government had not explained its reasons for allowing him to return and it remains to be seen whether a secret gagging agreement was struck.

SYRIA: Key Projects

Homs refinery modernisation: An award is waited for an EPC contract to upgrade crude distillation units. FEED work is under way for two other packages, for which EPC tenders are expected 2004/2005.

Power sector: Syria plans to install some 3,000MW of new capacity by 2010. A tender for the 750MW Deir Ali combined cycle plant is expected in Q3 03; Kuljian Engineering Corporation and PB Power submitted consultancy bids. A 750MW plant is also planned in Deir Ezor, with a tender expected by end-year. But there are questions over investor interest. The distribution network is in poor condition, with one-quarter of generated capacity estimated to be lost. Tender are out for the conversion and expansion of three plants to combined cycle operation: the 200MW Tishreen, and 300MW Nasiriyeh and Zeizoun plants. Tishreen has been delayed after a previous tender was cancelled as too costly. The Nasiriyeh unit is being retendered after lack of interest from a 2002 tender.

Transmission upgrade: The European Investment Bank and Arab donors have committed some \$265m to expand and upgrade the network by 2005. This should boost Syria's prospects of participating in a future region-wide electricity grid with Egypt, Jordan and Turkey.

Tartous port development: The EIB is providing €50m (\$59m) for work that includes rehabilitating one quay and the main breakwater, dredging, and building two new quays to handle additional traffic, including passenger and cargo terminals.

SYRIA: Economic Indicators

(\$m unless stated)

	1999	2000	2001	2002	2003 ^f
GDP	15,600	17,300	18,400	18,900	19,500
Growth (%) [*]	-2.0	2.5	1.7	1.8	2.3
Population (m)	15.9	16.3	16.7	17.1	17.5
Inflation (%) [*]	-2.1	-0.6	0.4	0.9	1.6
Imports [*]	3,600	3,700	4,300	4,500	4,600
Exports [*]	3,800	5,100	5,000	5,800	4,900
Current account/GDP (%)	0.6	5.8	1.2	3.4	-0.9
Capital investment ^{**}	36.0	59.0	122.4	-	-

^f Forecast.

Sources: Syrian government; Coface, Guide Risque Pays^{*}; Investment Bureau of Syria^{**}.

MIDDLE EAST ENERGY

POLICY, RISK AND PROJECTS IN THE GULF AND LEVANT

CHINA: Warm welcome for Iran oil

China could provide an expanded market for Iranian gas exports, if recent talks between Iranian and Chinese officials are any indication. According to the *Islamic Republic News Agency (IRNA)*, Iran's Deputy Oil Minister **Mehdi Hosseini**, on a recent trip to China, met with the heads of *China National Petroleum Corporation* and refiner *Sinopet* to discuss expanding joint oil and gas projects. Chinese officials were reportedly eager to strike deals with Iran in all areas, to fuel growing demand as the Chinese economy continues to heat up. China already imports about 240,000 b/d from Iran, according to IRNA.

IRAN: New South Pars phases up for bid

Two more phases of Iran's South Pars project are to be bid by the end of this year, with a possible extension of the deadline into early 2004. *National Iranian Oil Company* has issued an invitation to prequalified companies to bid on the development of South Pars phases 15 and 16 in an engineering, procurement and construction contract. The phases are to produce 50m m³/d of gas for the domestic market and 1m t/yr of liquefied petroleum gas and 80,000 b/d of condensates for export. Also to come from the phases are 1m tonnes/year of ethane for local petrochemical projects.

OMAN: Pipeline projects, financing push on

Pipeline projects in Oman are moving ahead, with bids being readied for a 48-inch loop line for the liquefaction facilities being built by *Qalhat LNG* in Sur. Financing is progressing on *Oman Refinery Company's* Sohar-Muscat pipeline. Technical bids on the \$300m loop-line project are due by 20 September, and commercial offers are due before the end of the year. Financial advisors on the Sohar-Muscat pipeline are about to be selected. Candidates reportedly include *ANZ Investment Bank*, *Arab Petroleum Investments Corporation* and *BNP Paribas*. An award is expected by end-September.

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Saudi Taps Could Unleash Lower Oil Prices

The current high oil prices can't last forever. But rather than allow non-OPEC producers to soak up market share, one strategem Saudi Arabia might consider is an engineered price collapse.

Oil markets remained tight through much of 2003, due to interruptions in **Venezuelan** and **Nigerian** exports and **Iraqi** production running far lower than expected. The OPEC basket price averaged \$28/bbl in H1, keeping Gulf budgets flush and ensuring a war dividend that more than compensated for egos bruised by the coalition military presence in the region.

But these robust price conditions look to have a limited shelf life. The same high prices that line OPEC coffers are both attracting non-OPEC producers, who have begun biting into market share, and choking off demand growth. Most analysts now envision the global call on OPEC oil declining, with annual demand growth in the Gulf region dropping to 1.1m b/d in both 2003 and 2004, after average annual demand growth of 2m b/d during the 1990s.

The *Centre for Global Energy Studies (CGES)* predicts **Iraq's** woes will keep oil markets tight this winter, with the OPEC basket staying above \$29/bbl unless other OPEC members boost output. Previously, the CGES has talked up Iraq's production potential. Now it says the country is "likely to remain an uncertain source of supply for many months".

Thrust once more into the role of swing producer, Saudi Arabia now faces a stark choice. It may want to continue

adjusting output to keep prices above \$25/bbl – but this might allow non-OPEC suppliers to pour oil profits into their own hydrocarbons sectors, and challenge the cartel for further market share. On the other hand, some analysts suggest, the Kingdom might want to use its weight to force a price collapse that would protect its market share and wipe out non-cartel suppliers at a stroke.

THE SEARCH FOR SADDAM'S OIL

The strong crude prices and robust output enjoyed by major Gulf OPEC producers this year is in large part attributable to the toppling of Saddam Hussein, if not in ways that either OPEC or the new masters of Iraq had intended. The half-hearted revival of Iraqi production capacity – thwarted by a mixture of sabotage, looting and poor reservoir management – left a gaping hole in the global supply picture that OPEC heavyweights Saudi Arabia and **Kuwait** have been more than happy to fill.

With Iraqi production during August still less than half its pre-war level, estimates from Iraq are proving unreliable guides to the actual output picture (see *Centrepiece*). The frequent pronouncements of former acting oil minister **Thamer Ghadhban** – now replaced by **Ibrahim Mohammed Bahr Al-Uloum**, the Governing Council's appointee – have begun to

resemble former information minister **Mohammed Saieed Al-Sahaf's** wartime boasts of the imminent vanquishing of the US invaders.

According to a sceptical *Deutsche Bank* report issued in August, actual capacity was well below the official level of 1m b/d. The bank's analysts reckoned realistic production was 500,000-700,000 b/d.

BESET FROM WITHOUT AND WITHIN

Besides non-OPEC suppliers, another threat to Saudi market share could come from within the cartel itself, where rampant capacity growth is already causing urgent problems. "Non-OPEC output is growing, particularly from **Russia** and **Angola**," said Deutsche Bank's Chief Oil Analyst **Adam Sieminski**. "But if at the same time you have growth in production capacity in places like **Algeria**, **Nigeria** and **Venezuela**, there just wouldn't be enough room for all the oil relative to demand."

PFC Energy Chief Economist **Fareed Mohammedi** told a London conference in July that the Kingdom would consider a price collapse to cull high-cost production world-wide. He intimated this could be achieved crudely by releasing the taps, but others say Riyadh wouldn't even have to go that far. Sieminski says Saudi Arabia could keep producing at a steady level, say 7m b/d, and still see prices likely fall. The Saudis would pursue this option if demand growth was slow, there was no co-operation from other OPEC producers, and the non-OPEC supply kept growing, according to Sieminski. "All they have to do is not decrease production," he said.

The Kingdom's production rose significantly in the first half of 2003, mostly to replace lost Iraqi, Venezuelan and Nigerian volumes. *International Energy Agency* data reveals output hit a high of 9.41m b/d in April, falling back to 8.68m b/d by July. Output is likely to revert to nearer its 8.26m b/d OPEC quota by Q4 of this year, though the probability of further Iraqi outages could also see Riyadh releasing the taps once more.

Riyadh's swinging has had other benefits. The policy has enabled the Kingdom to demonstrate to the US its credentials as a stable supplier at a time of heightened strain on US-Saudi relations. Since the May 2003 Riyadh bombings, the government has been especially anxious to prove it is business as usual on the oil export front.

GUARDING EXPORTS

What may spur Riyadh into implementing a possible price collapse is a more worrying prospect: signs of rampant Russian crude export growth to US markets.

Russian producers appear to be increasingly targeting the USA as a destination for their crude exports. These reached 424,000 b/d in June, a three-fold increase on May's 142,000 b/d and the highest volume so far recorded, according to the US *Energy Information Administration (EIA)*.

In contrast, US imports of Saudi crude slipped to 1.92m b/d in June, down from 2.23m b/d in May, the EIA says.

Intra-OPEC politics will also come to the fore in Q4. During the Iraq invasion, Saudi Arabia boosted market share in European, US and Far East markets at the expense of other cartel players. But a revival of Iraqi exports later in 2003 could force Riyadh to cede quota, undermining Saudi efforts to maintain market share.

So far, these scenarios remain only distant possibilities. With prices well above the \$25/bbl level and volumes high, Riyadh can afford to be relaxed about the likes of Russia for the moment. But the probability of high non-OPEC supply growth in 2004 amid relatively stagnant global demand growth will test the Saudis' mettle. A price crash, though bad for the exchequer in the short-term, could once again make the Kingdom the market kingpin that Saudi policy-makers deem its divine right.

Project Finance Seeks Post-Iraq Momentum Abu Dhabi Deal

Hiccups in debt underwriting for the Umm Al-Nar independent power and water project (IWPP) in **Abu Dhabi** have inspired a round of navel-gazing in what has been the world's most active project finance market since the late 1990s emerging market crisis.

As memories of the Iraq war fade, the market hopes to regain momentum via the *Sohar Refinery Company (SRC)* project, whose 14-year, \$647m commercial debt package is expected to go to syndication in late September or early October. **Qatar's** oil and gas sectors are expected to remain a magnet for financiers as a brace of huge projects come to market in 2004, but before this, **Saudi Arabia** will lay out its stall more clearly for the ongoing Shuaiba IWPP privatisation, for which the bidding terms on a \$1bn-plus project are due for release in October by the newly-formed *Saudi Electricity and Water Corporation (SEWC)*.

The process should bring new insights into overseas risk perceptions of the region. "I've a sense that there is some unease in the market about Saudi Arabia in terms of its political stability," said one banker involved in the regional syndications market. "If people are nervous, they simply won't go there."

Limited interest from regional and international banks meant that the \$855m Umm Al-Nar deal was still finalising syndication as GSN went to press, despite closing its primary underwriting commitments on 4 July. The syndication was due to close in mid-August, but by early September had reportedly raised commitments from just three additional banks to the original 13-strong arranger group.

The book-runners were unavailable for comment, but GSN was told by several bankers

involved in the market that many past players have now reached their ceilings on Abu Dhabi risk, or see too high a concentration of offtaker risk on the *Abu Dhabi Water and Electricity Authority*. This has potential capacity implications for the country's proposal for a fifth IWPP at Mirfa.

The global power sector continues to pose financing challenges in the post-*Enron* climate, which has slashed the numbers of potential private developers and lessened their creditworthiness. Some banks now prefer to sit out syndications, believing that the lead arrangers will inevitably be "long" in their debt holding, allowing opportunities for purchasing significantly smaller secondary market tickets at arranging level margins.

Abu Dhabi has blazed a trail for Middle East transactions, having stacked up some \$5.99bn in financing since its initial Taweelah A-2 project, and has hammered out a template involving 20-year tenors and tight pricing.

"We wonder if the days of the 20-year power deal may be in the past. Maybe the next deal will see things getting wound back," said **Paul Finn**, head of project finance syndications at *BNP Paribas*, lead arranger for the RasGas2 deal in Qatar and an arranger at SRC. "You cannot help but think that the market must react to gravity sooner or later."

LOCAL LIQUIDITY

Bankers stressed that perhaps the most significant market dynamic is now the immense amount of money which has moved back to Gulf banks in recent years. "There is a very high level of local and regional liquidity. These banks are very cash-rich and looking for investment opportunities," said **Stéphane Renard**, a director in the loan syndication team at *SG Corporate & Investment Banking*, a lead arranger in the SRC deal.

Another western European banker said that these banks have been disappointed at the lack of high-profile Middle East financings in 2003. "The Iraq war distracted attention, and there is not too much coming along in the rest of the year. A regional bank came to see us last week, saying that they are extremely liquid because the anticipated level of financings has not come through, and are looking to buy good quality project assets in the secondary market," he said.

Regional banking liquidity is such that new GCC-based lenders may break into the top-tier level traditionally held by *Arab Banking Corporation*, *Gulf International Bank* and *Apicorp* – especially as the first of these has virtually quit the market due to US exposure that has turned sour, the banker added. This would maintain a counter-balancing process following a steady depletion of the corpus of international banks participating in the market, especially several leading US and German banks.

SEWC's privatisation plans in Saudi Arabia – and *Saudi Aramco*'s proposals to develop 800MW

of IPP capacity – have shed a new financing spotlight on the Kingdom, whose sole power transaction to date is the captive IPP plant developed in Jubail by the *Saudi Petrochemical Company (Sadaf)*. This tapped \$169.5m in July from a multi-tranche facility lead arranged by *Crédit Agricole Indosuez* and its local affiliate, *Banque Saudi Fransi*.

But recent events have thrown new light on Saudi political risk. One banker said the aggressive lending spreads typical of past deals in the Saudi domestic banking market "would not compensate international banks for Saudi country risk".

SYRIA: New Round, Old Faces

Stung by a miserable response to a 12-block licensing round which closed in June, Damascus is preparing to offer ten blocks for exploration and development by end-September. The acreage to be waved before foreign companies is understood to cover blocks 3, 4, 5, 7, 9, 11, 14, 16, 18 and 21.

Syria's Petroleum and Mineral Resources Minister **Ibrahim Haddad** told *GSN* that unfortunate timing in the previous licensing round, which coincided with the war on Iraq and its immediate aftermath, was to blame for just three offers coming in. "We think that regional circumstances, including war in Iraq, didn't provide the appropriate atmosphere for more companies to be present. But soon we will announce exploration blocks, hoping the number will be good," he said.

How new and attractive these blocks will prove remains to be seen. The new, fourth exploration round will comprise only unbid assets held over from the last round. Most blocks are in the central and northern part of the country, considered greater risks. Given the barren track record of the *Syrian Petroleum Company (SPC)* in licensing rounds, potential operators may prefer the route of bilateral negotiations. *Royal Dutch/Shell* and *Petro-Canada* sealed a four-year deal with SPC to deepen and broaden exploration and production in the jointly held Thayyem field, but via individual negotiation rather than the open bidding process.

Syria has been under growing economic pressure to revive its oil production, which could soon drop below the 500,000 b/d mark (*GSN 713/17*). SPC is expected to begin negotiations with interested bidders for block 27, from the third licensing round, during September. The block is near the Iraqi border, but hopes of joint Syrian-Iraqi acreage being touted look premature. "In current circumstances, a joint Syrian-Iraqi exploration area looks difficult. But maybe in the future," said Haddad.

But Haddad said offers are under study from three companies in the Palmyra area, and the announcement of a winner is imminent.

INA is exploring the central Palmyra area, and has discovered three wells there.

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