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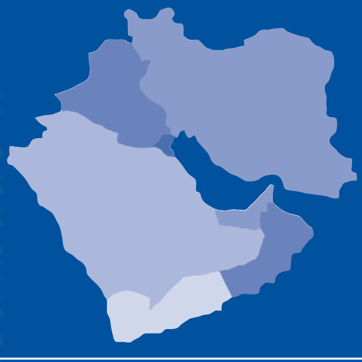

GSN

Companies & People

Qatar Swears In Deputies

The appointment by **Emir Sheikh Hamad Bin Khalifa Al-Thani** on 17 September of Deputies to "assist" Prime Minister **Sheikh Abdallah Bin Khalifa Al-Thani** confirmed who is doing the moving and shaking in Qatar. One of the Gulf's most high-profile – and controversial – politicians, the Emir's close friend Foreign Minister **Sheikh Hamad Bin Jassem Bin Jaber Al-Thani**, was appointed First Deputy Prime Minister. Energy and Industry Minister **Abdallah Bin Hamad Al-Attiyah** became Second Deputy Prime Minister, consolidating the strong alliance between the Attiyahs, who are strongly represented in the bureaucracy, and the Al-Thanis.

The ceremony was attended by **Crown Prince Sheikh Tamim Bin Hamad Al-Thani**, who this summer was named Heir Apparent and then Deputy Commander-in-Chief – which some Doha-watchers believe makes him the *de facto* defence minister *(GSN 716/6)*. In a parallel decree, **Sheikh Mohammad Bin Khalifa Al-Thani** was named Adviser to the Emir with the rank of Deputy PM. There was a change to *Decree Law No (9) of 2000*, under whose revised article six: "The Deputy Premiers will assist the Prime Minister in his functions and they would replace him in his absence, according to their precedence order."

Across The Region

GSN's Analysis

MIDDLE EAST ENERGY

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A 'Provisional' Boost From The Arab League

The security situation in Iraq looks grim and key members of the United Nations Security Council are not rushing to commit the sort of material support for the occupation that the USA and UK would like. Two years after the 11 September 2001 attacks generated a wave of popular sympathy for a traumatised America, the USA's stock in the Arab world has arguably never been lower. The burden of Iraq weighs heavy on the US-led Coalition – but this does not mean the war (one dares not use the word "crusade") is lost. Within the region, the new Interim Governing Council (IGC) can already claim more than a few diplomatic points.

As *GSN* has analysed in detail *(see page 10)*, George W Bush and Tony Blair picked up a challenge articulated by influential US neo-conservatives, several of them with close links to Israel, to get rid of Saddam Hussein's regime, and with the Iraqi dictator's ignominious departure create a more virtuous Middle East in which democracy could flourish and bring peace. This clearly has not yet happened, but the IGC's creation is a big step forward *(GSN 717/10)*.

With several Iraqi ministers showing signs that they will quickly seek autonomy from their Coalition Provisional Authority (CPA) minders, the international donor community might be persuaded that a nascent, legitimate government is taking over – much more quickly than the Americans, jealously guarding their new zone of influence, had planned. Even the Arab states, lambasted in the run-up to the 19-23 September IMF/World Bank Annual Meetings in Dubai for their poor governance record, have been forced to take note.

The IGC wants membership of the League of Arab States and the six-member Gulf Co-operation Council. GCC membership would radically alter the balance of a club dominated by Saudi Arabia, during a period when the Kingdom's relationship with the USA is going through a very difficult phase *(see page 3)*. Participation in Arab League meetings is less problematic, and on 9 September the IGC claimed a significant victory when its Foreign Affairs Minister Hoshyar Zebari sat at an Arab League meeting in Cairo. This followed a "compromise", which granted Zebari provisional recognition for one year. This was backed by Egypt, Jordan, Kuwait, Morocco, Oman and the UAE. It faced some opposition, but such is the punch packed by the US that most dissenting members of the 22-nation grouping held back. Libya boycotted the 9 September meeting, but Libya no longer counts as a significant player. Libyan Leader Muammar Qadhafi is pulling his Jamahiriya (State of the Masses) out of the Arab League, ostensibly over its soft line on the Palestine issue.

The IGC's "provisional" membership will give the Arab League, an organisation ever in need of a real role, a marginal stake in the reconstruction process. Secretary-general Amr Moussa is to monitor progress towards drafting a constitution and electing a government. For his part, Zebari – a Kurd – made all the right noises; he was applauded when he spoke of Iraq's "Arab identity" and commitment to "stand by the Palestinian people and defend their cause, and stand by their legitimate leadership".

This was not the language that many hawks in Washington dreamt of when they talked of bringing free speech to Iraq. But it is the language of confidence-building in the Arab world. Another step will be taken when on 24 September, IGC Oil Minister Ibrahim Bahr Al-Uloum heads an Iraqi delegation to the Organisation of Petroleum Exporting Countries (OPEC) meeting in Vienna. With crude production around 1.3m b/d and exports averaging 709,000 b/d in September, well below pre-war levels, Iraq's reintegration into the cartel will not pose quota problems.

With Iraq unable for now to move the market, the politics are much more sensitive than the economics of the IGC's OPEC membership. Scion of a powerful Shiite dynasty, Uloum's presence in Vienna should help to ease the post-Saddam pain.

Al-Sauds Defend Against Terrorism Charges With Strong Counter-Terrorism Offence

The second anniversary of the 9/11 attacks was guaranteed to draw yet more attention to the issue of **Saudi-US** relations, but contrary to most expectations, the House of Saud maintained a somewhat indignant tone throughout the anniversary period. ***Saudi Aramco*** is loading large amounts of crude for delivery to US buyers, but otherwise these are very difficult times for the Saudi-American relationship.

Charm offensives and munificent handouts in the USA failed unceremoniously when they were attempted following 11 September 2001 – most publicly when **Prince Alwaleed Bin Talal Al-Saud**'s $10 million donation was rejected by then New York mayor **Rudolph Giuliani**. Such episodes contributed to a subtle shift in Saudi diplomatic dealings with the US government and public, triggering a process of strategic and emotional disengagement which is still working its way out.

In the 9/11 aftermath, smooth-talking **Prince Bandar Bin Sultan** – doyen and, by all accounts, the most influential of the Washington-based ambassador corps – gradually lost his exclusive portfolio for backdoor Saudi-US relations, allowing Foreign Minister **Prince Saud Al-Faisal** and special envoy **Adel Al-Jubeir** to develop a more candid and visible platform for discussions.

Now, by exploiting the slowly growing crisis of confidence in US government intelligence and Middle East policy, the Al-Sauds may hope to blunt some of the damaging revelations that are likely to surface in coming months.

Saudi Arabia has issued an increasingly strident defence of its conduct since the 9/11 attacks, touching on some raw issues in US policy-making. Saud Al-Faisal recently stated that Islamic militancy was not driven by the Saudi state's social and educational weaknesses, but rather by US policy on the **Israel-Palestine** conflict and **Iraq**.

The Foreign Minister has also publicly challenged the US to provide evidence of ***Wahhabi*** volunteers travelling from Saudi Arabia to Iraq – an assertion that is very likely to be true, but may still be difficult for the USA to prove, although some recent captives are said to be Saudi. British forces in the south have strong suspicions that Saudi Jihadists are coming across the border, but have yet to capture significant numbers.

Saud Al-Faisal also requested that the US declassify the hotly contested 28-page section of Congressional testimony that is widely believed to include detailed allegations of royal complicity in payoffs to ***Al-Qaeda***, and helped make the 9/11 attacks possible *(GSN 716/4; 715/5)*.

Senate Intelligence Committee leaders, its Republican Chairman **Pat Roberts** and its ranking Democrat, **Jay Rockefeller**, on 12 September again rejected calls to make public the report's classified section, saying counter-terrorism efforts could be harmed if the information were released, having taken into account the testimony of ***Federal Bureau of Investigation (FBI)*** Director **Robert Mueller** and Deputy Director of Central Intelligence **John McLaughlin**. They were writing to a high-profile advocate of declassification, Florida Democrat Senator **Bob Graham** – a presidential candidate. Among others in the congressional declassification camp is Senate Banking Committee Chairman **Richard Shelby** *(see box below)*.

Between partner and pariah

Saudi Arabia's rehabilitation as a US partner in the global 'war on terror' has been carefully crafted since the 11 September attacks. This may have persuaded Washington to control mounting American anger targeted on the Kingdom: US investigators complain that issues such as the Saudi refusal to allow them to interview the 15 Saudi 9/11 hijackers' families have been allowed to pass in the cause of rebuilding relations.

The Kingdom's recent breast-beating may threaten this status, especially in light of allegations made against it by US citizens, even though the House of Saud has undeniably turned up the heat on Al-Qaeda and other religious militants.

Indeed, the crackdown on militants is considered to be a mixed blessing by some US counter-terrorism experts. Terrorist cells and their funds are likely to leave Saudi Arabia. But where will they go? And what is being done by the Saudi government to monitor or stop the exodus?

According to Washington-based FBI counter-terrorism expert **Matthew Levitt**, US fears now centre on the elements of the intelligence picture that Saudi Arabia continues to conceal. "When Saudi intelligence shares files with the US, those files have already been carefully sanitised for information that could prove embarrassing to the royal family," Levitt told *GSN*.

Saudi authorities have prevented a handful of possible witnesses from falling into FBI hands. This is believed to have been done to downplay Saudi links to the **Afghan *Taliban***, and remove evidence that the royal family may have funnelled money to Al-Qaeda throughout the late 1990s in return for a

Another Chapter Opens In Terrorist Finance Saga

When he sits down with **Crown Prince Abdallah Bin Abdelaziz** during his Middle East tour, which started in **Israel** on 15 September, **US** Treasury Secretary **John Snow** will hear that **Saudi Arabia** plans further controls on charitable giving. Saudi officials told a US delegation in August that they planned to ban cash contributions in mosques and remove collection boxes from shopping malls. But Western officials complain that Riyadh is taking its time in implementing the new policies. To strengthen the response, the Saudi government has agreed that the Riyadh-based ***Joint Terrorism Task Force***, created in May, will be staffed by more than a dozen ***FBI*** and ***Internal Revenue Service*** agents.

More still may be needed to win over American public opinion. The ongoing trial of alleged terrorist financier **Soliman Biheiri** in Alexandria, Virginia, is expected to bring new material into the public domain. This case has been of especial interest to the *Wall Street Journal*, which has taken a lead in researching terrorist financing – in the process losing reporter **Daniel Pearl**, who was murdered by Jihadists in **Pakistan**. Prosecutors said investors in the **Egyptian**-born Biheiri's failed Islamic finance house ***Beit Al-Mal*** included a Hamas leader **Mousa Abu Marzook**, **Osama Bin Laden**'s nephew **Abdallah Awad Bin Laden** – a former treasurer of the US branch of Saudi charity the ***World Assembly of Muslim Youth (Wamy)***, who is believed to be in Saudi Arabia – and Saudi businessman **Yassin Abdallah Qadi**, listed by the US Treasury as a Specially Designated Global Terrorist (a tag Qadi has contested).

Other prominent Muslims have already been named in court: ***US Bureau of Immigration and Customs*** senior special agent **David Kane** testified that Biheiri had close ties with the popular Egyptian-born, Qatar-based preacher **Sheikh Yousuf Al-Qaradawi**, who was barred from entering the USA in 1999 *(GSN 708/12)*. Biheiri had identified Qaradawi was a senior ***Al-Ikhwan (Muslim Brotherhood)*** member, Kane said. Increased scrutiny of organisations like Wamy will increase the discomfort of the Saudi establishment: Wamy's president, for example, is Islamic Affairs Minister **Sheikh Saleh Al-Asheikh**.

Considerable attention is being paid in the USA to Gulf support for Hamas – with the wrecking by suicide bombers (rather than the **Israeli** response) of the **Bush** Middle East road map initiative being laid at the Palestinian door. Reflecting the tone, *The New York Times* on 16 September reported that "at least 50% of Hamas's current operating budget of about $10m/yr comes from people in Saudi Arabia." Quoting estimates by US law enforcement officials, diplomats and Israeli officials, it observed that after the 9/11 attacks, "the Saudi portion of Hamas financing grew larger" as donations from the USA, Europe and other Gulf countries dried up. Israeli officials have identified WAMY among leading Hamas donors. The Saudi government denies directly funding any Palestinians other than **Yasser Arafat**'s Authority.

The Senate Banking Committee will this month hold hearings on terrorist financing, which could bring allegations of Saudi acquiescence back to centre stage. Committee Chairman Senator **Richard Shelby** told *The New York Times* that since the Saudis "were attacked on their own soil in May, they have acted more aggressively". But "if the past is any indication… they hope the terrorists will go away. At the end of the day, that doesn't wash."

suspension of attacks in the Kingdom.

Evidence of these activities is becoming a very valuable political and economic commodity, as multi-billion-dollar US class action lawsuits proliferate against individuals associated with the Saudi government *(GSN 712/4)*. As importantly, US officials believe that Saudi filtering of intelligence has caused grave setbacks, forcing the FBI to wait for less capable Saudi agencies to process and sanitise information before passing it on to the USA.

Although clearly intent on cracking down on domestic terrorism – with Interior Minister **Prince Nayef Bin Abdelaziz** leading a sweep that includes the arrests of hardline Wahhabis who had been more often seen as the ambitious Sudeiri prince's allies *(GSN 712/7)* – the House of Saud still appears less determined to prevent its export. Perhaps reflecting wider geopolitical tensions, the Kingdom has not yet launched an extensive border closure campaign on its porous **Iraqi** boundary, stating that the USA should instead take up this responsibility from the Iraqi side.

Nor has the Kingdom yet lived up to its promises in the field of fighting terrorist financing, according to US law enforcement officials canvassed by *GSN*. By December 2002, Saudi Arabia had made major commitments to reduce terrorist financing. Special envoy Al-Jubeir stated that Saudis would be "less naïve" in their charitable giving and that increased auditing of charities would be undertaken by the ***High Commission for Charities***.

Saudi spokesmen touted $5.5 million of frozen funds, the closure of **Bosnian** and **Somali** branches of the controversial ***Al-Hamrain Foundation***, and the identification of over 50 front companies in 25 countries. The central bank, ***Saudi Arabia Monetary Authority (Sama)***, and bank supervisory committees were to closely scrutinise transactions and seek to "know their clients". But according to US officials, the reality does not live up to the rhetoric, even since the May bombings. Saudi Arabia's new ***Financial Intelligence Unit*** has produced no actionable intelligence. A law passed on 29 August will require companies to begin keeping financial records for ten years, but this will not yield much product for years.

Battling domestic terrorism

Riyadh has made much of its invigorated domestic counter-terrorism campaign, which was widely reported to have been accelerated since the three terrorist bombings in Riyadh on 12 May *(GSN 710/3)*. Although a robust response would always have been imperative, the House of Saud responded with unusual rhetorical vigour and openness.

Crown Prince Abdallah Bin Abdelaziz described the terrorists as "criminals and butchers", and promised to "confront and destroy the threat posed by a defiant few and those who support them." His ally Saud Al-Faisal said the attacks had "unified the country's determination to extract the cancer." These statements marked the beginning of a new openness in recognising the terrorist problem faced by the Kingdom; within days, senior Saudi officials, such as Riyadh Governor **Prince Salman Bin Abdelaziz**, displayed their new freedom to publicly discuss the issue, while Saudi newspapers covered counter-terrorism developments in detail and carried pictures of Saudi Al-Qaeda suspects.

Al-Qaeda: A Sophisticated Presence In Arabia

Recent terrorist bombing attacks and government raids have yielded vital and unsettling insights into the capabilities and intentions of Al-Qaeda cells operating in the Kingdom, and perhaps in easily reached neighbouring countries. In operational terms, Al-Qaeda has shown great determination to strike even the most hardened targets, such as Western compounds. The 12 May attacks in Riyadh showed that passive defences – guards, gates and blockades – may not prevent a car bomb attack on a key compound, with terrorists willing and able to breach these defences through preliminary small arms attacks on guard posts.

Thirty-seven body armour vests were discovered during a recent raid, suggesting the robust assault capabilities of underground cells, and cornered terrorists have engaged in heavy fire fights with the security services. Terrorist cells are also clearly eyeing airport security as a lucrative mass-casualty target. Recent raids have discovered large caches of heavy weapons – including almost a hundred RPGs, 20t of conventional explosives, and 1t of RDX plastic explosives – which can be replenished via the **Iraqi** or **Yemeni** borders. Counter-intelligence equipment – including surveillance cameras, high-quality false passports, and "clean" cell-phone chips – highlight the sophistication of Al-Qaeda cells in Saudi Arabia, as well as outside, where **Ramzi Bin Al-Shibh** and **Khaled Sheikh Mohamed**, for example, were seized surrounded by cellphones and laptops.

Speaking off the record, FBI officials told *GSN* that this new activism could be traced to the "red lines" that Al-Qaeda crossed when it undertook attacks within the Kingdom, and when – as captured files and interrogations have disclosed – it planned to directly attack the royal family. The House of Saud has never been slow to look to its own defences, and recent counter-terrorism statements and media activities indicate that the princes intend to make the drive to oust Al-Qaeda elements a national effort.

The domestic counter-terrorism campaign is an extension of a broader crackdown that has been developing in strength since 9/11. Before the May attacks, the ***Saudi General Intelligence Directorate (GID)*** questioned over 1,000 identified 'Afghanis' – Saudi citizens who fought the **Soviet Union** in Afghanistan – and arrested 300 individuals.

Terrorist suspects figured amongst 214 Saudis that Riyadh placed on ***Interpol***'s arrest watch list. Saudi Arabia managed to extradite a **Sudanese** suspect from Khartoum in connection with the firing of a surface-to-air missile at a US aircraft near Prince Sultan Air Base last year. Three raids broke up Al-Qaeda cells, resulting in the death of East African embassy bombings planner **Abdelrahim Al-Nashiri** and a heavy firefight on 6 May.

Government counter-terrorism operations since the Riyadh bombings have expanded on these established fields of activity. A national intelligence-gathering effort can now exploit informants as never before, capitalising on the government's relatively candid admissions on the terrorist threat. Public appeals have included information requests on specific individuals of interest and a general request that families report missing sons that may have been recruited by Al-Qaeda.

On 15 August, Saudi government spokesmen stated that 12,000 Saudi citizens would be questioned in the coming months – a massive increase in the disruptive public "footprint" of the government drive. In over 100 operations launched since 12 May, 11 suspected terrorists were killed – including Al-Qaeda fund-raiser **Yousef Saleh Al-Ayeeri** – plus 130 arrested, and major arms caches uncovered, at a cost of a reported 11 fatalities suffered by the security services.

Though largely successful, the security activities have highlighted the sophistication of the terrorist threat facing the Kingdom, and have done little to reassure Western governments or businesses.

Raids carried out on 10-12 August uncovered details of terrorist reconnoitring of Riyadh's King Khalid International Airport, causing ***British Airways*** to suspend operations to the country on 13 August. The perception, if not the reality, of Saudi Arabia's terrorist problem is likely to get worse before it gets better.

Crackdown On The Saudi Ulema

One notable element of the post-Riyadh bombing crackdown has been the co-opting and coercion of the religious establishment (Ulema). The co-option process has been under way for some time *(GSN 686/6)*. Coercion has moved up the agenda as Interior Minister **Prince Nayef Bin Abdelaziz** and other members of the security establishment have refocused their attention on mosque and medrasa-level threats.

Prior to the May attacks, the government had threatened the religious licences of around 1,000 ulema, and questioned 250 concerning their religious views and rhetoric.

Following the Riyadh bombings, **King Fahd** addressed comments to the Ulema, explicitly outlining the royal family's concerns about extreme Wahhabi teachings. He stated: "Ignorance has penetrated some of the nation's youth and tempted terrorist networks to use them for aims which only serve the nation's enemies and harm Islam and Muslims."

Following the King's comments, some 300 clerics were removed from their mosques to undergo investigation, and around 1,500 were warned that their religious qualifications were being reassessed. Three clerics – **Ali Fahd Al-Khudair**, **Ahmed Hamoud Mufreh Al-Khaledi** and **Nasir Ahmed Al-Fuhaid** – were arrested after allegedly calling for support for the Riyadh attackers.

Observers within Saudi Arabia have reported a sudden moderation in the content of extremist establishments such as Jeddah's Juffali mosque – although whether that moderation is temporary or longer lasting remains to be seen.

Saudi Wahhabis Stimulate Publishing Boom

The **US** press remains fascinated by accounts of Saudi complicity in financing Islamic terrorist groups – from unwitting donations by **Prince Bandar Bin Sultan**'s wife **Princess Haifa Al-Faisal** *(GSN 699/3)*, to **Italian** wiretaps in which ***Al-Qaeda*** fund-raisers were told "Saudi Arabia's money is your money", to *Newsweek*'s recent feature story on Saudi funding of the ***Taliban***.

A whole new industry involving books outlining the 'Saudi threat' has emerged from luminaries such as former **Israeli** ambassador and op-ed star **Dore Gold** (*Hatred's Kingdom*, ***Regnery***), ex-***CIA*** operative **Robert Baer** (*Sleeping With The Devil*, ***Crown***) and journalist and 'inter-faith campaigner' **Stephen Schwartz** (*The Two Faces Of Islam*, ***Doubleday***). This literature focuses on the aggressive side of Wahhabism and makes the link between the decades-old ***Al-Ikwhan (Muslim Brotherhood)***, its supporters in Saudi Arabia and the Jihadist groups whose most high-profile contemporary expression is **Osama Bin Laden** and **Egyptian** Muslim Brother **Ayman Al-Zawahiri**'s ***Al-Qaeda***. This trend will continue, with reports that the Kingdom is planning to go nuclear appearing in newspapers as *GSN* went to press.

Gerald Posner's *Why America Slep*t, has grabbed headlines by claiming that former Saudi ***General Intelligence Directorate*** chief, now Ambassador to the **UK**, **Prince Turki Al-Faisal** "paid bribes" to Bin Laden on behalf of the Saudi government. Prince Turki has denied the allegations and is consulting lawyers. Posner also claimed that three Saudi princes, who all died within a week in July 2002 ***(GSN 692/5)***, were involved in terrorist financing with links to arrested Al-Qaeda operative **Abu Zubaidah** – gaining further publicity for claims that are impossible to corroborate.

This new interest (or at least renewed interest, given the ink spilled on potboilers about the Gulf 'oil sheikhs' in the 1970s) has contributed to a sour post-9/11 environment, compromising Saudi Arabia's standing as a US ally in the war on terrorism. Truly nothing in Saudi-US relations can be the same again after those planes packed with young Saudis hit the twin towers.

US Reassesses Iraqi Resistance After Poor Response To Troop Requests

US requests for more countries to send troop contingents to Iraq have been met with little sympathy at the ***United Nations***, where Washington is insisting that all security operations remain under US command. With the US now scaling back its troop requests, clamping down on Iraqi resistance will only become a more demanding task for coalition forces, some of which have been in Iraq for more than six months – not that long in terms of past wars, but longer than they may have been prepared for.

To optimise the use of its forces, Washington may try to focus on identifying more precisely the origins of the continuing resistance in Iraq. The continued threat has also posed problems as international business concerns move into the country. But, Washington insiders and Coalition Provisional Authority (CPA) decision-makers tell GSN, trends are beginning to emerge. Some of them may have disturbing implications for those considering doing business in the country.

The large numbers of low-profile attacks, claimed and unclaimed, taking place in Iraq every week has prevented a clear picture of the Iraqi resistance effort from taking shape so far. The nightmare scenario for the CPA is a national-level resistance effort – still a distant prospect, though it remains important to monitor the level of organisation, capabilities, and operational flexibility of resistance groupings for signs of change. That may make it easier to tell if resistance is increasing, stabilising, or decreasing over time. To help answer such questions, the ***Federal Bureau of Investigation (FBI)*** opened a massive investigation into possible connections between the three large-scale bombings in August.

US government and CPA sources in Washington and Iraq have identified several pertinent trends, highlighting the indicators that could give pause. **Jeffrey White** – a former US intelligence official – recently wrote that resistance to the occupation could occur at four levels: individual, local, regional, and national.

• INDIVIDUAL: The lone gunman exemplifies individual resistance. This is the Iraqi who takes up arms on an individual basis for his or her own reasons and strikes out at the occupation. To date, over 30 attacks by individuals have been reported involving small arms and rocket-powered grenades. It is impossible to know whether these are motivated only be personal anger or are connected to a broader level of resistance.

Iraq Threat Pointers

GSN canvassed a range of **US** and CPA decision-makers in an effort to identify indicators that could help tip readers to any future decline in Iraq's security environment. Those polled cautioned observers to watch for evidence of the following:

- Larger resistance combat groups of ten-plus attackers. Given coalition forces' superior mobility and firepower, they are unlikely to emerge, except under conditions of widespread civil war.
- Regional resistance elements that move widely within a region to conduct their operations. Other than terrorist groups, resistance still seems to be locally based.
- Higher organisation and articulation of resistance activities – with different groups playing different roles (training groups, bomb-making groups, fund-raising groups, operational cells).
- Higher purpose or planning beyond inflicting casualties, disrupting reconstruction, and maintaining active resistance.
- A clear resistance ideology.
- Sunni and Shiite co-operation in resistance activities, indicating the emergence of a true national-level revolt on a scale similar to the 1920 uprising.

• **Local:** Most resistance appears to be at the local level by small groups, numbering between two and 10 resistors, who merge back into local communities after attacking. In a 20 July statement, CPA administrator **L Paul Bremer III** noted, "What we're seeing is highly professional but very small, sort of squad-level attacks, five or six people at a time attacking us."

• **Regional:** Here there is only limited evidence, essentially involving ***Hizb Al-Awda (Party of the Return)***, which is said to be operating in multiple locales in Sunni areas. Limited reporting puts cells from this group in Baghdad, Basra, and Mosul and indicates it operates in Tikrit and Falluja.

• **National:** There is no evidence of any national-level resistance movement. This is hardly surprising given the major fault lines in Iraq between Kurds, Sunnis, and Shiites. According to internal US government assessments issued by the US Defence Intelligence Agency and described to GSN, it is possible that at least Sunni resistance was organised at the national level before the regime's defeat, and is now being conducted on a decentralised basis.

Scale Of resistance

The high incidence of attacks in Iraq would suggest that there are large numbers of resistors in the country, but according to intelligence assessments, the numbers involved are more likely to be relatively small, representing a tiny proportion of the general population.

The highest number estimated by the US government has been 9,000, but this figure is rapidly being rationalised and reduced. US intelligence officials told *GSN*, the Administration was now estimating the average size of resistance cells as being ten individuals. Taking into account the 34 localities and ten Baghdad districts where attacks have occurred, the minimum number calculated is 440 active resistors, plus a broad and ill-defined but larger number of active collaborators and passive sympathisers.

The implication of current estimates about the likely small size of the resistance is disturbing for those considering entry into Iraq's emerging markets. If such a small number of resistors can maintain the operational tempo witnessed since the end of major hostilities in late April and execute large-scale bombings, the CPA stands little chance of appreciably reducing Iraq's political violence risk profile in the near-term.

Recruitment And motives

Coalition authorities attribute the great majority of resistance operations to what the CPA has called "regime dead-enders." These include tens of thousands of members of the ***Saddam Fedayeen***, ***Special Republican Guard***, ***Republican Guard***, security service, and ***Baath*** party officials.

It is indeed likely that these elements are providing the core of resistance. Whether any of them answer to **Saddam Hussein** is unknown, although some resistance elements have attempted to project the idea that he is alive and in command. The periodic messages attributed to him and rumours about his activities probably help to keep up Baathist morale, and may aid in the recruitment of former regime associates.

Recruitment of new resistors will be based on three factors: the incidence of friction and related fatalities caused by coalition activities in Iraqi communities; the tone of religious direction in the country; and the influx of foreign volunteers into Iraq.

Iraqis in villages and towns, angered by invasive coalition operations represent a deep well of potential resistors and active collaborators. The resistance of some locals is apparently religiously motivated. Baghdad's Abu Hanifa and Umm al-Qura mosques have already emerged as centres of anti-coalition preaching and activities. Mosques enjoy a large measure of protection from coalition operations because of their religious status, and they are logical locations for resistance activity, especially Islamist-based resistance. There are indications that the 1 July explosion at the Hasan mosque in Falluja – which killed the mosque's Imam – may have resulted as the result of an accidental detonation during a bomb-making class overseen by the cleric.

Tribal resistance has been local in character and not structured along clan lines, involving actions in the multiple regions spanned by the tribes in question.

Various types of outsiders make up another component of the recruiting pool. These are individuals who have entered Iraq to fight against the coalition for a variety of reasons. Some are apparently wartime volunteers who have remained. Others are said to be terrorists seeking opportunities to strike at the United States. Still

Potential Shiite Resistance

As the major political beneficiaries of the war, the Shiites had little reason to move early in the occupation to oppose the CPA. Their response so far has been one of watchful waiting, co-operating on some issues and withholding co-operation on others, while preparing for future political battles, both at the local level and within the Shiite community.

Shiite politics is overwhelmingly religious in nature, and led by clerics; no significant secular Shiite movement has emerged. Overall, the Shiites are probably a greater potential danger to the coalition and any transitional government than the Sunnis. Many of the Shiites already have the experience of professional resistors.

Marc Reuel Gerecht, former head of ***Central Intelligence Agency*** operations in **Iran**, told *GSN* that groups such as ***Daawa*** have "amassed outstanding capability to operate covertly. Unlike the [Iranian-backed] Badr forces, they operated under the nose of the ***Baathist*** security structure for decades". If their political needs are not met, at least some Shiite elements are likely to move to resistance. If so, they would pose a major threat.

others are mercenaries attracted by the payment of bounties for killing Americans.

These outsiders probably number in the tens rather than the hundreds, since large groups of outsiders would not be able to blend into the Iraqi population and could be readily identified by coalition informers.

EVOLVING ORGANISATION

In mid-April, resistance was primarily driven by isolated elements of the regime and the spontaneous hostile actions of individuals. After that, motivation arguably became more complex. As one senior ***Defence Intelligence Agency*** analyst told *GSN*, key drivers included the regrouping of regime loyalists; the recognition by the Sunnis of their position as political losers; the emergence of Sunni religious-based resistance ("the Wahhabi factor"); a response to occupation actions seen as insensitive, provocative, or careless; monetary reward (the reported payment of bounties for killing Americans); and virulent anti-Americanism, inculcated over decades.

Beyond the desire to be rid of the occupation, some attacks may reflect a desire to restore Iraqi honour following Iraq's disastrous military defeat.

Given the range of likely motives, simple one-cause explanations for resistance – e.g., "regime dead-enders" – are now questionable, and they will become increasingly so with the passage of time. New resistance groups announce their existence almost weekly, with over 20 factions now identified. At present, only Hizb Al-Awda has pretensions of being a credible resistance group. The CPA is raising a bewildering number of militias to guard borders, infrastructure such as pipelines and power lines, other fixed facilities, and mayoral offices. Some have cast this as the "Lebanonisation" of the country – with the US, oddly, in the role of **Syria**.

In general, the resistance succeeds simply by surviving and staying active. Coalition operations, including large-scale intelligence-based operations such as *Peninsula Strike*, *Desert Scorpion*, *Sidewinder*, and *Soda Mountain*, will have temporary disruptive effects on resistance, but they will not end it. Resistance incidents recur after operations are concluded or move on.

US and coalition forces have begun to use more selective intelligence-led operations that reduce the need for raw numbers of troops and appear to offer better results. An unintended consequence of these operations may be to weed out the less capable resistors, while providing the more capable ones with valuable experience in evading and adapting to coalition actions. With such a diverse range of motivations driving Iraqi resistance, there is no quick or easy solution or counter-measure to the high and rising political violence risk profile of the country.

In Saudi Kingdom, Signs Of Warmth Between Sunni and Shia

Signs have appeared that indicate the recent Najaf bombing – which killed some 100 **Iraqis**, including Shiite cleric **Ayatollah Mohammed Baqer Al-Hakim**, and which may have been the work of hard-line Sunni extremists – may contribute to the strengthening of relations between the two main branches of Islam in the Gulf, particularly in Saudi Arabia.

Salman Al-Awda, one of the Kingdom's best known conservative Wahhabi clerics, published a condemnation of the attack on his widely read Web site. **King Fahd** sent a telegram of condolence to Hakim's brother – although he annoyed some Shiites by omitting the title Ayatollah.

These signals are less surprising now than they would have been two years ago, when conservatives led by interior minister **Prince Nayef** were still prosecuting a decade-long crackdown against the Shiite community – who account for some 15-20% of the total Saudi population.

But the significance of recent developments, especially Al-Awda's comments, should not be downplayed. The cleric is one of several who was fiercely critical of the Al-Sauds in the early 1990s

Overtures towards the Shia have been a notable feature of **Crown Prince Abdallah**'s reform drive, particularly in recent months. Meetings between Shia and Sunni clerics were a key element in the "national dialogue" he launched early this summer.

Meanwhile, limited changes have been made to the language of school textbooks. Hitherto, these expressed a vehement intolerance of forms of Islam other than the conservative Wahhabism which is the faith of the ruling Al-Sauds and the Najdi heartland around Riyadh.

Against this background of tentative detente, it is unsurprising that Shia leaders in the kingdom felt able to issue a statement of solidarity with their Iraqi "brethren" after the Najaf attack.

But Shia opinions are divided over the real significance of government moves. There is a fair degree of scepticism and many feel the reforms fall well short of the steps towards democracy and Islamic pluralism that they aspire to. Overtures towards the Iraqi Shia community by Al-Awda and King Fahd may point to a more substantial warming.

Within the ruling establishment, the arguments for a more pluralistic attitude to the different streams of Islam have yet to secure a convincing victory. Shiite practises do not yet enjoy equal recognition, surviving in a twilight zone of technically illegal tolerance. Conditions are even more difficult for the Ismailis of Najran in the south.

There is no firm information on who carried out the Najaf attack, and die-hard **Saddam Hussein** loyalists remain the most likely suspects. But the involvement of Saudi radicals, whether attached to ***Al-Qaeda*** or not, is regarded as a serious possibility.

The Saudi government has little capacity to influence the Kingdom's hard-line Sunni extremists – the Jihadis – who are engaged in armed militant activity and may be seeping over the border into Iraq. In poorer northern areas such as Al-Jawf, there is significant popular support for the militants.

A softening of attitudes towards the Shia among Saudi political leaders and mainstream clerics may not deter militant attacks on Iraqi Shiites, but it would help defuse tensions within Saudi Arabia itself, reducing the risk of a drift towards increased violence.

Bahrain, Qatar Return To Familiar Tensions

Reports that Qatari forces have seized eight Bahraini fishing dhows that strayed across the bilateral maritime border are a reminder of the continuing edginess in relations between the two countries, in spite of the 2001 resolution of the Hawar Islands dispute.

That settlement may even have contributed to the latest incident. The Bahraini fishermen complained that no markers had been placed in the sea to indicate where the agreed boundary lies.

The Hawar settlement – which awarded the main island to Bahrain but confirming some zones as Qatari territory – cleared the decks for a new era of bilateral co-operation. Only two and a half years ago, Bahrain and Qatar were enthusiastically setting out plans for a causeway road link and joint economic projects. As countries that are pioneering democratic reform they had a lot in common.

But today, the impetus behind the causeway project, whose rationale was always as political as it was economic, seems to have been lost. The effusive diplomatic warmth of 2001 is little more than a memory, and prospects for a return to that atmosphere seem dim.

Routine regional inter-governmental links do remain in place. For example, the governor of the ***Bahrain Monetary Agency***, **Sheikh Ahmed Bin Mohammed Al-Khalifa**, flew to Doha this week for the annual conference of Arab central bankers. But direct bilateral dealings are relatively limited.

Banned in Bahrain

Coverage of Bahrain by the Doha-based satellite TV station ***Al-Jazeera*** is an important factor in the persistent chill. Bahrain is certainly not the only government in the region to have been upset by the independent-minded broadcaster. **Saudi Arabia** and **Kuwait** regard the station with wariness too.

But while the Saudis were upset by coverage of Al-Saud family history, what riled Bahrain was Al-Jazeera's reporting of much more recent events. The station broadcast footage of the big pro-**Palestinian** demonstrations which rocked Manama in 2002 – one protester died in an incident at the **US** embassy. Soon after, information minister **Nabeel Al-Hamer** accused Al-Jazeera of being "penetrated by zionists".

Subsequently, its journalists were refused permission to visit Bahrain to cover the May 2002 local elections, despite the fact that its news programmes would have secured Bahrain's democratic experiment the maximum possible coverage in the Arab-speaking world.

Whenever it is pressed about such rows, Al-Jazeera always insists that its coverage is totally independent and that editorial decisions are made without any interference by the Qatar government or the ruling **Al-Thani** family.

However, in Bahrain and some other Gulf countries Al-Jazeera is widely regarded as under indirect Qatari government control. It was set up with $150m in seed money from the emir, **Sheikh Hamad Bin Khalifa Al-Thani**. The foreign minister, **Sheikh Hamad Bin Jassem Bin Jaber Al-Thani** remains a major shareholder. The station's more controversial editorial decisions are therefore often viewed in the region as being in some way a reflection of government attitudes.

Al-Hamer's accusations of "Zionist" influence provided a convenient justification for a ban on the station that might have been seen as censorship.

Qatar's cultivation of contacts with **Israel**, which for some time was allowed to maintain a trade office in Doha, has also given other countries a reason for making the Zionism claim against Al-Jazeera, especially as Sheikh Hamad Bin Jassem is closely associated with the policy.

Business as usual?

The present coolness may in some respects represent a return to normal. The two countries had established full diplomatic relations only a year earlier. The ambitious causeway plan – which would represent a hefty investment and encounter difficult environmental challenges – was primarily a political venture.

Although the plan offers some economic advantages, with increased opportunities for Qataris to visit Manama for weekends, it is certainly not an investment imperative comparable with the existing road link between Bahrain and Saudi Arabia. What Bahrain needs most is jobs, and Qatar does not represent a large enough services market to generate much extra employment in Manama's banks, hotels and retail centres.

Superficially, the two countries share much on the political front, both with youngish rulers pursuing programmes of democratisation. But the actual dynamics of the domestic political situations differ widely. Bahrain has long been a highly politicised society with powerful political groups and long-established campaigning traditions. In Qatar, Sheikh Hamad has been able to introduce his elections plan into a setting where partisan traditions are not as developed.

Bilateral co-operation between Bahrain and Qatar is now likely to evolve at a much slower pace. But the growth may be more deep-rooted and "organic" because of that, moved forward by the demands of genuine business opportunities

Fearing Demise, Neo-Cons Press Influence In Iraq

With Iraq and the war on terror dominating the strategic agenda for US President **George W Bush**, neo-conservatives have come into their own as key players in the US administration and cheerleaders for its controversial handling of the post-Saddam era. But elements outside government will influence US policy as well, and could prove important as presidential elections draw near.

The decision to confront and overthrow the **Hussein** regime is widely seen as epitomising the neo-con approach to international affairs. But with Bush's popularity waning as the campaigning season for the November 2004 presidential elections approaches, neo-cons fearing they may be shoved from the limelight are preparing to push their agenda harder than ever while their associates still hold the reins of power.

Specifically, Washington neo-cons *(see box)* may now concentrate their efforts on pressing for a rapid liberalisation of the Iraqi economy through privatisation and foreign investment. But they are also likely to argue that US aid to the Iraq government and to non-governmental organisations (NGOs) should be made conditional on support for Washington's worldview on contentious issues such as trade and the ***International Criminal Court***. Intimately plugged in to the network of Beltway industrial lobbyists, many neo-cons will be well positioned to champion US business interests in Iraq.

Seeking influence on the way out

To guard against any waning of influence, future neo-con lobbying is likely to concentrate on rapid consolidation and exploitation of existing policy gains. The November 2004 US presidential elections could mark a watershed for the neo-cons. If the Bush team loses, they will of course effectively be locked out of government again. But White House insiders tell GSN that even if George W. wins a second term, a second Bush administration would be unlikely to accord the neo-cons another stint at the top table.

With fights between Secretary of Defence Donald Rumsfeld and Secretary of State Colin Powell spilling down into relatively junior decisions, the effect has been to convince crystal-ball gazers within the Beltway that a major reshuffle is coming within the administration. Though much of the effort is focused on picking a team for a possible second Bush administration, there is speculation that one or more senior figures may be pushed out in the period between the first weekend of September (Labour Day weekend) – when the 2004 campaigning season begins – and Christmas. This period is traditionally when US administrations clean house.

Powell and his deputy **Richard Armitage** have already intimated that they will not seek to retain their positions in a new administration but are likely to stay until the end of this one if asked. National Security Advisor **Condoleezza Rice** is strongly rumoured to be considering a move to chair the ***National Football League (NFL)***, a position that she is known to covet. **Rumsfeld** is unlikely to get a second term, and may even be

The Players, From The Inside Out

Neo-cons within the **Bush** administration – like Vice President **Dick Cheney** and Secretary of Defence **Donald Rumsfeld** – are linked closely to a sub-stratum of "outsider-insiders" in Washington think-tanks. Among these, Project for a New American Century (PNAC) – a modern-day font of neo-con thought – and the closely associated ***American Enterprise Institute (AEI)*** are central institutions.

Besides boasting connections to **Lewis "Scooter" Libby**, Cheney's chief of staff and a longstanding advocate of pre-emptive American action against perceived external threats, PNAC is directly associated with two other influential Washington conservative voices. In his book *Of Paradise and Power: America and Europe in the New World Order*, PNAC member **Robert Kagan** (who is married to Cheney's national security advisor **Victoria Nuland**) recently scored the very rare success of writing a book that White House policy-makers actually read – attributed by many to the book's brevity (112 pages) as well as its unilateralist message.

The other, more influential figure associated with PNAC is **Bill Kristol**, editor of the influential *Weekly Standard,* and chief of staff – some would say intellectual minder – to **Dan Quayle,** the first **President Bush**'s vice president. Kristol is credited with keeping the neo-con flame burning in DC throughout the **Clinton** era.

AEI, meanwhile, is synonymous with the figure of **Richard Perle**, the highest-profile neo-con in Washington. Perle was a powerful **Reagan**-era Assistant Secretary of Defense, and his influence over key Pentagon and State Department hawks remains considerable – so much so that Rumsfeld, his deputy **Paul Wolfowitz**, Undersecretary for Policy **Douglas Feith**, and State Department Undersecretary for Non-proliferation **John Bolton** are sometimes referred to as the "string of Perles".

The ***Heritage Foundation*** and ***Hudson Institute*** are also effective neo-con lobbyists. The latter institution hosts **Senor Fellow** and Rumsfeld associate **Norman Podhoretz**, who is also the father-in-law to **Elliott Abrams**, National Security Advisor **Condoleezza Rice**'s Middle East hand.

Senior Director for Near-East, South-west Asian, and North African Affairs at the NSC, the congenial and softly spoken Abrams espouses strongly unilateralist, activist, and pro-Israeli views on the Middle East. In placing Abrams on the NSC – whose appointments do not require congressional authorisation – President George W Bush ensured that Abrams was not subjected to uncomfortable Capitol Hill scrutiny over his prior conviction for lying to Congress during the **Iran**-Contra scandal.

sacrificed by the administration towards the end of the year, if this becomes politically expedient.

Deputy Secretary of Defence **Paul Wolfowitz** – tipped by some for a future role as National Security Advisor, with Rice shifted to Secretary of State – may struggle to shake off neo-con associations. With a number of candidates being scouted for his job, neo-con NSC Middle East advisor **Elliot Abrams** is also likely to be replaced. So the neo-cons may well have only a short period of time before their influence will begin to wane and they are relegated to their more frequent habitat in the margins of Washington thinking.

THE IMPACT ON IRAQ

Neo-con influence over Iraqi reconstruction flows principally through the Pentagon's influence over the Coalition Provisional Authority (CPA), headed by **L Paul Bremer III**.

The newly created Washington-based Office of the CPA Representative will be headed by an advisor to Wolfowitz, **Jaymie Durnan**. He was plucked to run the office from the edge of one of the most sought-after positions in the Pentagon – the plum post of Under-secretary for Acquisition, Technology and Logistics. Previously an advisor to the senior management of the ***MacAndrews and Forbes Holdings Company*** (principal shareholder in ***Revlon Incorporated***), Durnan will provide a channel for guidance from Washington to Bremer – who was appointed by Rumsfeld, albeit vetted by the State Department.

The Defense Policy Board – a 30-member advisory committee that has access to Rumsfeld and Wolfowitz and whose members include former Assistant Secretary of Defence Richard Perle, former CIA director **James Woolsey**, and Reagan-era National Security Advisor **Robert MacFarlane** – will seek to push Bremer towards the rapid privatisation of state assets and the opening of Iraq to foreign direct investment. MacFarlane, who presided over the Iran-Contra scandal, has teamed with **Michael Bleyzer**, a US-**Ukrainian** former ***Exxon*** exec with prior business ties to Rumsfeld, to lobby the CPA for a rapid opening to foreign capital, repeating the process that Bleyzer and Rumsfeld employed in Ukraine in the 1990s.

Bleyzer recently noted: "What I'd like to see over the next ten years is to really rebuild Iraq, and that means a market economy. There would be a much better business environment if ***BP*** or ***Exxon-Mobil*** or ***Shell*** could invest. We want to set up a business environment where global companies like ***Coca-Cola*** and ***McDonald's*** could come in and create a diversified economy not dependent on oil."

TRADE, AID OR JUST POLITICS

Neo-con advocacy has also taken aim at the ***US Agency for International Development (USAID)***. "Trade not aid" is a neo-con mantra, and neo-con allies have called for enterprise and market-driven economic recovery instead of aid hand-outs. Key to this process will be the USAID economic governance contract. The leading contender, ***BearingPoint***, will likely suit neo-con tastes. BearingPoint managing director **Patrick Bryski** noted: "We've got to get assets out of the hands of the government and into the hands of the private sector."

The neo-con agenda is beginning to merge with more mainstream US business interests. The State Department-aligned ***Centre for Strategic and International Studies (CSIS)*** hosted an Iraq reconstruction conference on 1 May that stressed privatisation of Iraqi assets. Co-sponsored by ***AIG*** and ***Booz Allen***, it was attended by senior executives from 67 companies and law firms, including ***Babcock International Group***, ***BAE Systems***, ***Cummins Power Generation***, ***DynCorp***, ***Goldman Sachs***, ***KBR-Halliburton***, ***Stevedoring Services of America (SSA)***, the law firm ***White & Case*** and two of **Japan**'s largest trading companies.

The ***US-Iraq Business Council***, meanwhile, appears to be expanding its influence steadily. Formed in June 2002 in anticipation of regime change in Iraq, the organisation is reportedly on the verge of attracting major sponsorship from interested parties such as Coca-Cola, pharmaceuticals giant ***Pfizer***, and AIG, and partnership from the ***Centre for International Private Investment***, which is affiliated with the US Chambers of Commerce.

The Council's trade lawyer **Bart Fisher** recently stated that the council was pushing for foreign direct investment in Iraq's information technology, insurance, agribusiness, healthcare, pharmaceutical, and manufacturing sectors, identifying ***Schlumberger***, AIG, ***Cargill*** and ***Toyota*** as leading prospects. Sources also tell *GSN* that Council president **Rubar Sandi** has been busy in Baghdad buying up accommodation, vehicles, security and interpreters to provide a one-stop shop for potential investors concerned about operating in the confusing and dangerous emerging market in Iraq.

A further neo-con approach gaining traction is "negative conditionality". US Trade Representative **Robert Zoellick** has intimated that emerging US trade policy will favour states that mirror US policy on "foreign policy and security issues", with **Bahrain**, **Jordan** and **Morocco** representing the first tier of states invited to join the US Middle East Free Trade Area by 2013. With AIPAC lobbying hard, there have been indications that US trade, aid, and contracts may become tied to a nation's or company's *Iran-Libya Sanctions Act* compliance.

Negative conditionality may also be invoked if a country does not mirror the US stance on international treaties, recently seen in discretionary withdrawal of some aid to countries joining the ***International Criminal Court*** system.

Finance And Policy

Kind IMF Words On Iran Turn To Warning On Oil Revenue

The International Monetary Fund has warned Iran against the use of surplus oil money in its latest Article IV assessment of the country's economic condition, marking a turn from the string of approving reports the Fund has handed out to Tehran in recent years. Surplus oil revenues should be kept aside for periods of economic slowdown, the Fund has warned.

Over recent years, the IMF has been impressed by the determination of the Tehran authorities in consolidating national finances and paying off foreign debt. But the Fund now seems increasingly concerned that this discipline may be slacking off. Inflation, it notes, is on the rise once more, an occurrence the Fund explicitly links to improper use of oil revenues.

Consumer price inflation, which had been in decline, bounced back up to 15.8% in the year to 20 March, compared with just 11.4% in 2001/02. The government has set a target ceiling of 18% for the current year. Unless this surge is rapidly reversed, inflation threatens to erode mass living standards and the Islamic Republic's external competitiveness, at a time when President **Mohammad Khatami**'s government has been struggling to create favourable conditions for business and employment.

The IMF is particularly worried by the government's tendency to dip into its Oil Stabilisation Fund (OSF) at a time when world crude prices are high. The Fund's executive board has now publicly reminded the Iranian authorities that the OSF's "proper use" is as "a counter-cyclical tool", easing the pressure on public finances at times when oil revenues are depressed. "Expansionary policies in the current environment of strong private demand – in particular, the use of the … OSF … in a period of high oil prices – have contributed to a build up of inflationary pressures and a narrowing of the external current account surplus," said IMF directors.

First the good news

The Fund did have some positive things to say, noting that growth in 2002/03 was 6.8% in real terms, but that non-oil GDP rose by an impressive 7.9%. The domestic non-hydrocarbons sector, particularly important for job creation and unemployment, declined slightly to 15.7%.

Iran's transition to a unified market-based exchange rate in March 2002 passed off smoothly and the change of policy has been vindicated by the performance of the rial, which depreciated by only 4% over the subsequent 12 months.

Moreover, Fund officials are well aware of the social, political and economic constraints under which the Khatami government has to operate. Although the executive board would like to see Tehran press ahead more rapidly with structural change, it does not heavily stress the point. In any case, it has been encouraged by the progress of liberalisation in the financial sector, where four private banks have now been licensed and private insurance companies are being authorised.

But the overall tone of the Fund's report is one of critical warning and some disappointment. The IMF is clearly concerned that the Islamic Republic's hitherto impressive recovery from the financial problems of the 1990s could be undermined by slack management.

Monetary policy – which it describes as "accommodating" – gives particular cause for concern. M2, one key indicator, rose by 30% in a year, while credit to the private sector rose by 35%. Such trends, if allowed to run unchecked, would fuel inflation and economic instability.

There have also been problems in the banking industry, still mainly in the public sector's hands. Prudential indicators have worsened and state banks remain under-capitalised because of high operating costs. Furthermore, until recently, official controls limited the rates of return that banks could achieve and dictated the allocation of credit to different economic sectors.

The government has promised action to stop the drift in the monetary position. All public expenditure is being brought within the budget framework – the old fixed exchange rate represented a subsidy that was a cost on the state, even though it was not included in the budget calculations. That has now changed.

Iran: Selected Economic Indicators

	1999-2000	2000-2001	2001-2002	2002-2003
Real GDP growth (% change)	1.7	5.1	5.4	6.8
CPI inflation (% change)	20.1	12.6	11.4	15.8
Unemployment rate (%)	16.0	15.8	16.3	15.7
Central govt. balance (% of GDP)	-0.6	8.7	1.8	-2.3
Broad money growth (% change)	20.2	30.5	25.8	30.1
Current account balance (% of GDP)	6.3	13.1	5.3	3.0
Overall external balance (% of GDP)	2.0	6.8	4.2	4.4
Gross international reserves ($ bn)	5.6	12.2	16.9	21.8
Public and publicly guaranteed external debt ($ bn)	10.8	8.0	7.2	9.2
Exchange rate ($1=rials)	7,908	8,078	7,921	7,967

Iran Called To 'Share Burden' On Debtors

One key area where the ***International Monetary Fund*** would like to see action from Tehran is in the area of debt relief for poor countries. In two cases, the Islamic Republic is a substantial creditor. The Bretton Woods institutions and Western governments have poured money into the Heavily Indebted Poor Countries (HIPC) initiative – of which "burden sharing" and the equal treatment of all creditors is a key principle. There is considerable irritation at the failure of some major oil producers to participate. This is an issue on which Tehran could rapidly earn itself some much-needed international goodwill, and at minimal cost – after all, the debt is probably not being serviced anyway. Early generosity on HIPC would be an astute move, at a time when Iran has drawn heavily on its reserves of foreign goodwill.

The economics of social change

Looking further ahead, the government has promised to cut subsidies and target social support more narrowly to benefit the least well-off. But the authorities have also said they want to reduce total spending – a daunting goal in political terms.

Ministers feel they must use public spending to create more jobs. The IMF counters that employment could be created if government took more action to encourage the private sector. But it agrees that a social safety net for the poor is essential. It is also pressing for more transparency, particularly on Iran's international reserves.

The Fund's firm words add to the pressure on Khatami at a difficult time, when Iran's relationship with Europe has been seriously damaged by the wrangles over its nuclear activities. If the government takes action to tighten up financial discipline and curb popular domestic spending programmes – such as generalised consumer subsidies – this could enhance the position of already powerful conservative nationalists who argue that the president has made concessions to the West without reaping the promised rewards.

Iraq Trade Bank Takes Shape With US Backing

With a $500m imprimatur from ***The Export-Import Bank of the United States (Ex-Im Bank)***, the Trade Bank of Iraq (TBI) began operation early in September. But because the US-led occupation of the country will have the final say on its deals, the autonomy of the institution is in question.

With authorised capital put at $100m, the TBI is expected to finance about $100m in import deals each month at first. Some reports put that figure as high as $500m a month by the end of Q3 04. The TBI will be run by a consortium of 13 international banks, led by ***JP Morgan Chase***. US officials have said they would like Iraqi banks eventually to provide the services of the trade bank.

Ex-Im Bank will provide $500m in related short-term export insurance to help get trade and commerce moving again as part of the reconstruction effort. But Ex-Im Bank's facility applies to US exporters to Iraq, and its guidelines call for the Iraqi imports it finances to contain at least 50% American goods. The TBI's transactions will also require approval from the US-led Coalition Provisional Authority (CPA).

Though the presence of a working government financial institution in the country does much to help strengthen the foundation for an independent Iraq, the limited autonomy of the TBI opens questions as to how quickly the CPA is committed to handing authority over to Iraqis themselves.

Oil for credit

Getting Iraq's oil exports off the ground will be a crucial component of reviving trade, as the Iraqi imports that the TBI will support are to be funded through the ***Development Fund for Iraq (DFI)***, according to the Ex-Im Bank. The DFI, in turn, is funded by proceeds from Iraqi oil exports, under ***United Nations*** Security Council Resolution 1483, and is administered by the CPA.

The TBI will finance trade deals within Iraq and with international companies. Ex-Im Bank's related facility can insure up to $500m in letters of credit issued by the TBI, which may help bring other export credit agencies back into Iraq. These could include the **UK**'s ***Export Credits Guarantee Department*** and **Australia**'s ***Export Finance and Insurance Corporatio***n, both of which are said to be considering a similar move.

Because Ex-Im Bank will treat transactions as sovereign, coverage will be available for 100 percent of the principal and interest. Normal Ex-Im Bank repayment terms are applicable – up to 180 days for consumer goods, spare parts and raw materials and up to 360 days for qualifying products such as capital equipment, fertiliser and bulk agricultural commodities.

TBI could also provide a secure method of transferring funds into the country. Some estimates put potential transfers by Iraqi expatriate into Iraq at some $3bn/yr.

A consortium of allies

The JP Morgan-led consortium will hold the TBI contract for an initial year. The CPA may renew the arrangement for a further three years. Fees will be in the area of $2m a year, at first.

Other banks in the consortium include ***ANZ Banking Group***, ***Banco Comercial Portugues***, ***Bank Millennium of Poland***, ***Bank of Tokyo-Mitsubishi***, ***Caja de Ahorros y Pensiones de Barcelona***, **France**'s ***Crédit Lyonnais***, ***National Bank of Kuwait***, ***Royal Bank of Canada***, **Italy**'s ***San Paolo IMI***, ***Standard Bank*** and ***Standard Chartered Bank***.

The collection is a reassuring sign that the CPA is not exercising overly zealous control over such contracts. The US has been charged in the past with trying to insure that Iraqi reconstruction contracts only go to institutions from countries the US considers its allies.

Risk Management Report — UAE

GSN Risk Grade — B+/2: Economy revels in political climate ahead of IMF/World Bank meet

Political And Social Development

Overview: The UAE remains one of the region's most stable countries ahead of the World Bank/IMF meetings, the biggest financial event ever to be held in the region. Security concerns surrounding the event are understandable and may persuade some Westerners to stay at home, although problems are expected to be minimal. Peaceful demonstrations at pre-arranged locations under police supervision will be allowed but the authorities have promised to come down hard on anyone involved with violence, rioting, or attempting to create an "unhealthy climate". Regionally sensitive issues such as Palestine and Iraq will get some air time – the UAE has been a high-profile provider of humanitarian aid to both – while as a one-off concession, Israeli nationals attending as delegates will be allowed to enter the UAE.

Succession: Abu Dhabi Crown Prince and presumptive heir to the UAE Presidency Sheikh Khalifa Bin Zayed Al-Nahayan has been taking a very prominent role over the summer months, in part due to UAE President Shaikh Zayed bin Sultan Al-Nahayan recovering from a hernia operation. Sheikh Khalifa has long held influence over domestic commercial matters but is now beginning to play a more prominent, public role in foreign affairs, as witnessed by a June visit to the UK and France. In domestic constitutional issues, such as democracy and women's political rights he holds less sway.

Democratisation: The UAE is behind other Gulf countries in pushing forward democratisation reforms; earlier in 2003 Dubai set up an advisory Dubai Executive Council. Sheikh Zayed's wife Sheikha Fatima Bint Mubarak continues to push for women to join the 40-member Federal National Council – an appointed advisory body with parliamentary potential; consensus among the UAE's seven rulers is regarded as essential on this issue.

External factors: Relations with Western countries are close, but the UAE continues to lobby behind the scenes about Palestine and Iraq. Relations with fellow GCC members are strong. The UAE is keen to strike up a good political and commercial relationship with post-Saddam Iraq. Humanitarian aid and political contacts including former adviser to Shaikh Zayed and Iraqi Governing Council member, Adnan Pachachi, will help.

Economic Outlook

Overview: Economic conditions remain good. GDP growth of 4.7% has been forecast for 2003, with the non-oil sector growing at 4.2% and the oil sector at 6.7%. Official figures show the private sector now accounts for 47% of GDP, with non-oil sector growth playing an important supporting role. Inflation is expected to continue in its present 2-3% range. The UAE can pump 2.217m b/d under present OPEC quotas, and more if needed. Iraqi reconstruction is expected to create new opportunities for UAE firms to pick up lucrative contracts. The IMF has cautioned that a deteriorating fiscal position could impact on a generally favourable macro performance if not addressed.

Finances: A delayed 2003/2004 federal budget was ratified in August, envisaging a deficit of Dh2.2bn. Spending has been fixed at Dh23.28bn, with revenues forecast at Dh21.07bn. Abu Dhabi accounts for the majority of the UAE's oil revenue and underwrites other emirates during periods of stress. Dubai's Dh1.5bn five-year bond issue successfully closed in May and listed on the Dubai International Financial Market. The UAE's official reserves were $15.5bn at end-2002. The trade balance in 2003 is forecast to grow to $11.9bn.

Privatisation: Progress has been slow beyond independent water and power projects (IWPPs). Telecoms company Etisalat is traded on the DFM, but is still majority state-owned. Oil firm Zadco, Abu Dhabi's electricity transmission system and Emirates Post may be part-privatised. Commercial Bank of Dubai listed on the DIM in April.

Investment: The UAE is a WTO member. Foreign investors can hold 100% of companies in the free zones and 49% elsewhere. A free zone-registered company, set up by foreign investment, is set to become the first to fully own a development, with the planned $500m underwater Hydropolis Hotel in Dubai. Sharjah is a manufacturing hub for SMEs, as are the FTZs. The Dubai Economic Council was created in March to help further boost private investment. Slow progress with the Dubai International Financial Centre has dampened investor interest. The IMF has commended the banking sector's strength, profitability, supervision and capitalisation, but foreign banks say the UAE is over-banked.

UAE: Key projects

Umm Al-Nar IWPP: Group led by the UK's International Power (IP) is operator, with existing 855MW unit to be replaced by 1,550MW new capacity. Desal capacity will be 95m g/d (including a new 25m g/d unit) for completion in 2006; $855m commercial debt syndicated August-2003.

Jebel Ali L IWPP: Subcontracting phase under way. EPCs awarded in May to Toshiba Corporation with Mitsubishi Corporation for the 700MW power plant, and to Italy's Fisia Italimpianti for the 70m g/d desal plant. Completion is expected 2005.

Other power and water schemes: EPC tender for phase two of Fujairah's Qidfa power/desal project expected early 2004, for mid-year award; Fichtner awarded consultancy contract in July. Expansion of Abu Dhabi's Mirfa plant is planned as an IWPP; requests for proposals are expected in Q3 03, with completion envisaged in 2007. Abu Dhabi's $1.6bn 1,500MW Shuweihat S1 power and desalination project is to start 2004 operated by the US' CMS Energy and IP.

Dolphin Energy: $3.5bn project to import Qatari gas is progressing. Partners are Occidental, Total and UAE Offsets Group. Omani gas will supply Fujairah plant from Q4 03 until Dolphin gas comes onstream in 2006. Final Gas sales agreements are expected by end-2003.

GCC grid: Plans for the connection of the UAE's five grid systems by Q4 05 are advancing; bids for seven packages are expected by end-September.

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.

UAE: Selected Economic Indicators

	1998	1999	2000	2001	2002[f]
GDP growth (%)	–6.2	10.1	20.4	–4.0	3.5
GDP per capita ($)	16,991	17,668	20,300	19,945	19,600
Population (m)	2.78	2.94	3.25	3.39	3.50
Exports/re-exports ($ bn)	30.4	35.1	43.3	38.5	40.0
Imports ($ bn)	28.9	30.8	32.0	33.5	35.4
Trade balance ($ bn)	1.5	4.3	11.3	5.0	4.6
Oil production (m b/d)	2.3	2.1	2.3	2.1	2.2
Crude oil exports	34.6	45.4	70.1	56.0	56.0

[f] = Forecast.

Source: Central Bank of UAE, Local authorities, Ministry of Planning.

Yemen Risk Management Report

GSN Risk Grade — D/3: Security concerns remain; economic issues need addressing

Political and Social Development

Overview: President Ali Abdallah Saleh continues to privately strengthen his relationship with the US while publicly maintaining a fiercely independent stance, witnessed by his criticism of US policy in Iraq and public talks with President Mohammed Khatami of Iran. Despite US/Yemeni co-operation Yemen remains a risky place, with tribal violence and general lawlessness still chronic maladies. The government has been investing in grassroots education and health services to help tackle Islamist discontent and radicalism. The April parliamentary elections returned President Saleh's General People's Congress (GPC) to government with a comfortable majority. Electoral abuses and violence were on a smaller scale than previous years

Government: Prime Minister Abdelqader Abdelrahman Bagammal, re-appointed after the elections, is regarded as a natural foil for Saleh and helps to ensure that southern interests are represented. Key portfolios were all unchanged. The GPC holds 226 seats in parliament, The Islamist Al-Islah is the largest opposition party with 47 seats, while the Yemeni Socialist party has seven seats.

Opposition: A more urban-based opposition emerged from the elections; the Al-Islah/YSP-led Coalition for Reform, which focused on corruption and reform, was deemed a success and is likely to continue. A joint meeting of opposition parties in early September called for changes to the general elections law. In May President Saleh pardoned 16 exiles connected to a failed 1994 southern secession bid. Benefiting from this, former parliamentary speaker and YSP politician Yassin Said Noman returned in early September after nine years of exile.

Security: Authorities continue to pursue radical Islamists and made a number of arrests over the summer. Tighter co-operation and integration between Yemeni and US security has paid off, but new US travel warnings underline continuing threat perceptions. The US' FBI has expanded its office to full bureau status, while the US has provided significant funds and training for Yemeni forces. The government has increased spending on anti-terrorism, including a new unit in the Interior Ministry. Ali Ahmad Jarallah was sentenced to death in September for the 2002 killing of YSP MP Jarallah Omar.

Economic Outlook

Overview: The security environment continues to hurt investment despite the authorities' attempts to protect business interests. Underlying poverty and unemployment are major concerns; the World Bank estimates 42% of Yemenis live below the poverty line, while unemployment is estimated at 25-30%. A downward trend for oil output is also a worry. Production presently averages around 470,000 b/d but the World Bank has warned that output could fall to less than half this by 2008 unless more work is undertaken. Allegations of corruption in state hydrocarbons companies are a worry. On the plus side is a creditable payments record, low debt service ratio and careful use of oil revenues. The World Bank has forecast 3.9% growth for 2003. Inflation has receded since reaching double digits during the first quarter of 2003, while the trade surplus rose by 69% in the first quarter to $157m compared to first quarter 2002.

Development: An IMF Poverty Reduction Strategy Paper for 2003-05 calls for structural and governance reforms. Donors pledged $2.3bn over three years in October 2002. There are plans to reopen the US Agency for International Development office in Sanaa after a seven-year hiatus.

Finances: A period of sustained high oil prices looks set to produce more favourable figures for 2003. Oil averaged $27.52/bbl in the first half of 2003 compared to the $21/bbl oil price envisaged by the 2003 budget. The budget originally forecast YR64.1bn deficit, with spending of YR668.4bn and revenues of YR604.3bn. Total external debt was $4.95bn at end-2002, compared to $4.87bn at end-2001. Forex reserves were $4.8bn at end June. The oil price helped increase oil revenues to $836m in H1 03, vs. $774m in H1 02.

Liberalisation: The EU is providing technical assistance to help Yemen on its long road to World Trade Organisation membership. The IMF's has called for budget reform, reduced energy subsidies, a clearer public spending focus, poverty reduction and efforts to cut the non-oil deficit. Reforms to the civil service and judiciary, tax system and customs service are planned. Oil industry workers threatened to strike in late-August over corruption connected to state hydrocarbons companies and oil smuggling.

SAUDI RELATIONS: Yemeni-Saudi relations have improved since settlement of a border dispute. Both have enacted extradition exchanges and increased patrols to crack down on militants and arms smuggling. Saudi Arabia extradited two men in August in connection with the 2002 Limburg bombing. Saudi Arabia has requested extradition of a man in connection with the May Riyadh bombings. New commercial opportunities in the oil sector have resulted, and the possible connection of the countries' electricity grids.

YEMEN: Selected Economic Indicators

	1999	2000	2001[e]	2002[p]
Real GDP growth (%)	3.7	5.1	3.3	4.1
Real non-oil GDP	2.9	4.7	4.0	5.0
Consumer price inflation (%)	8.0	10.9	11.9	15.8
Yemeni crude price ($/b)	18.7	28.2	23.0	23.1
Public revenue and grants*	29.8	41.7	38.5	36.2
Public expenditure*	30.0	33.2	35.7	35.7
Public finance balance*	–0.2	8.5	2.8	0.4
Current account*	2.8	14.1	6.8	4.0
Public external debt*	—	54	56	54
Reserves (months of imports)*	6.0	12.3	14.8	15.1

[e] = estimate [p] = projection * As % of GDP.

Sources: IMF, Yemeni authorities

Yemen: Key Projects

Aden port: The southern hub's container terminal is privately managed by Port of Singapore Authority (PSA); container throughput reached 388,000teu in 2002, an average of over 32,300teu/month, representing 2.8% growth on 2001 and would have reached more if it hadn't been for the crippling after effects of the October *Limburg* attack.

Hydrocarbons: Oil exploration has increased since production-sharing agreement terms became more favourable. Settlement of the Saudi border has opened potential exploration zones along the fringes of the Rub Al-Khali (Empty Quarter). Recent oil successes include India's Reliance Industries Al-Roidhat-1 well (Block 9) and the extension of TransGlobe Energy Corporation's Tasour field (Block 32). Other established operators include Nexen, Occidental Petroleum and Hunt Oil.

Refineries: Two new refineries planned, plus the rehabilitation and possible expansion of the 170,000 b/d Aden refinery. EPC award expected for the initial 50,000 b/d Hadramaut refinery in October. A $1.2bn long-term offtake agreement was signed in August with Samsung Corporation. UAE and Saudi businessmen are sponsoring the project. US-based VECOA has undertaken a feasibility study for a 30,000 b/d refinery at Ras Issa.

Power projects: Bid evaluation started early September for a gas turbines contract for a planned 300MW plant in Safar (Marib region). The project's 200km 400kV Marib-Sanaa transmission link is also in bidding phase. The Arab Fund for Economic and Social Development is providing an $84m loan, while the Saudi Fund for Development is also expected to provide financing.

MIDDLE EAST ENERGY

POLICY, RISK AND PROJECTS IN THE GULF AND LEVANT

SYRIA: Oudeh action

Canada-based ***Tanganyika Oil*** has raised more than $5m and will seek to raise just over $5m more in a private share placement for use in the development of the Oudeh oil field. Tanganyika said that technical evaluation and modelling indicated Oudeh could produce more than 30,000 b/d for several years on full development. Reserves are put at 84m bbl proven and probable, and another 82m bbl possible. Production from the field averaged just over 1,100 b/d at end -2002. The company's Hana field in **Egypt** currently averages about 1,600 b/d. Syria is preparing to offer a further ten blocks by the end of September *(GSN 717/22)*.

IRAQ: Oilfield costs balloon

The **Bush** Administration now estimates the costs of restoring Iraq's oilfields to their pre-war capacity to be almost three times as much as originally thought. A recent funding request to Congress from the White House asks for $2.1bn on top of the $1.1bn already allocated – an amount that seemed to satisfy the Coalition authorities as recently as late August. Heavyweight US ***Democrat*** Congressmen like **John Dingell**, the ranking Democrat on the House Committee on Energy and Commerce, and **Henry Waxman**, ranking Democrat on the Committee on Government Reform, are now pressing to know why the estimated costs of restoring Iraq's oil production have nearly tripled. In a letter to the White House Office of Management and Budget, the Democrat grandees asked for an explanation of the new funding request and projected work; an explanation of why the ***US Army Corps of Engineers (USACE)*** was not consulted in the new request, despite the fact that USACE is in charge of the work; and an accounting of all communications between "any private contractor, such as ***Halliburton*** or ***Bechtel***, and any Administration official during the preparation of the supplemental appropriation request." Halliburton, of course, is closely linked to Vice President **Dick Cheney**, while Bechtel has long employed senior ***Republicans***. Iraqi crude production remains low *(see page 2)* and rises have been hampered by sabotage and power shortages *(GSN 717/13)*.

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Gulf Gas Still Liquid Gold

New LNG development deals and rising demand could spell big gains in market share if Gulf producers play their cards right.

With global liquefied natural gas demand projected to rise sharply in coming decades, established Gulf LNG heavyweights **Oman** and **Qatar** – and newcomer **Iran** – are busy laying down markers as part of a wider push to find new customers in key European, Asian and North Atlantic markets.

Middle East exports of LNG have more than doubled in the past four years, and a burst of new project activity in gas giants Qatar and Iran augurs well for Gulf players' chances of snaring market share amid stiff competition from producers based in North and West Africa, Asia and the Caribbean.

According to **Charles Watson**, Middle East director at ***Shell International Gas***, Gulf exports could grow even faster in the next four years if current gas-related projects in Qatar, Oman, Iran and **Abu Dhabi** get off the ground. "Given the size of the still untapped gas resources in the Gulf, it would be surprising if gas-rich governments were not eagerly following up this additional source of potential revenue," Watson told an early September conference in **Dubai**.

IRAN: Slow Growth

The Islamic Republic is finally shedding its LNG virgin status, with bids submitted in late July for construction of the country's first gas liquefaction facilities at Bandar Tombak. Backed by ***National Iranian Oil Company (NIOC)***, the LNG scheme will liquefy gas supplied from phase 12 of the giant South Pars offshore project at a two-train site at Tombak, producing 9.6m t/y of LNG. The plant is just 40km from the South Pars gas-processing centre of Bandar Assaluyeh.

With a newly appointed 'gas tsar' in place – managing director of NIOC subsidiary ***National Iranian Gas Export Company (NIGEC)*** **Rokneddin Javadi** – Tehran is looking to take its rightful place in the global LNG firmament. The gap between the country's potential and reality is stark: Iran has 18% of world gas reserves – second only to **Russia** – but accounts for less than 1% of world supplies.

Tapping rising demand for LNG is seen as the quickest way to realise its nascent gas potential. Iran has therefore mooted building four separate LNG plants near the South Pars gas field.

Iran's LNG potential has drawn the attention of major international gas groups such as ***BG Group***, which signed a framework agreement with NIGEC in May for the $1.75bn Tombak LNG plant. If the deal goes ahead, the **UK** company will take a 25% stake in the plant.

Supplies are earmarked for export to gas-hungry **India**, where import terminals are under construction. **Italy**'s ***Eni*** is tipped to team up with BG on the upstream part of the project.

The other three LNG projects

are under discussion with ***BP*, *Shell*** and ***Total***. But NIOC admits that only two of the four projects on the drawing board are likely to see the light of day within the next few years. Furthermore, according to the tender documents, the Tombak project will only see construction of one 4.5m-5m t/y train at a time. Iran's move into the LNG big league is therefore likely to follow the usual glacial pace.

Another significant Iranian LNG development this year saw state-backed ***Petropars*** sign a $1.2bn contract with an international consortium to build the world's largest gas refinery at Assaluyeh. The plant will produce 120,000 tonnes of LNG with some volume slated for export to **Japan**.

QATAR: Sustainable Growth?

Qatar is making headway with advanced LNG plans. LNG output is slated to hit 26m t/y by 2005, with ***Qatar Petroleum (QP)*** planning a major expansion of the ***Qatargas*** and ***RasGas*** LNG projects that currently export a combined 14m t/y of gas. QP took its gas plans a dramatic stage further in July, inking an agreement with **US** major ***ConocoPhillips*** for an integrated LNG scheme to be known as Qatargas III, extending the original Qatargas LNG project.

The agreement is the first integrated gas project targeted exclusively at the growing US market. US ***Energy Information Administration*** forecasts see LNG imports to the USA growing at an average 8.6%/yr until 2020. According to QP Chairman and Qatari Oil Minister **Abdallah Al-Attiyah**, its LNG strategy is targeted chiefly at the US market, the largest in the world.

QP and ConocoPhillips will jointly own the project, which envisages the construction of a 7.5m t/y train at Ras Laffan. Another project, Qatargas II, a joint venture between QP and ***ExxonMobil***, will see the building of two LNG trains with joint 7.8m t/y capacity to supply the **UK** market.

Qatargas III consists of offshore facilities to feed North Field gas to the LNG train. ConocoPhillips will buy the LNG and undertake responsibility for its regasification and marketing in the USA. Start-up is planned for 2008 at the earliest.

Doha has made waves with its own marketing efforts this year, signing a deal with **Spain**'s ***Endesa Generacion*** in late July to supply it with 800,000 t/y of LNG from 2005.

Skilled marketing appears an increasingly useful weapon in the hands of Gulf LNG producers. Though long-term contracts still account for the bulk of supply, the market is slowly evolving with a greater mix of short-term and medium-term contracts likely in the future and the development of an LNG spot market.

Yet while Qatar has taken on the mantle of gas supergiant with relative ease, questions remain over its ability to sustain its LNG growth pace. "There's potentially a big requirement for LNG in the US market, but having to ship it from Qatar there's a question of whether they can be competitive on a delivered gas cost basis against independent gas production from Canada, for example," says **Patrick Barr**, head of oil & gas at ***ANZ Investment Bank***.

OMAN, UAE: New Strengths

Oman's LNG exports are set to rise to 9.9m t/y from 2006, from around 6m t/y now, as a result of a third liquefaction train under construction. Muscat officials have also floated a plan for a fourth LNG train. ***Oman LNG*** exports will go some way to compensating for slack crude oil production – though tighter international gas market conditions saw LNG export revenues actually decline 9% last year. But the government is firmly wedded to LNG, financing a new four-strong LNG shipping fleet at a total $600m cost.

In early September, the government announced a new $200m pipeline running from Saih Nihayda in Oman's central gas fields, to supply gas earmarked for the expansion of the Sur LNG plant.

Underpinning Oman's LNG drive has been a largely successful marketing effort. Spain's ***Unión Fenosa*** – which has an 8% stake in the third, 3.3m t/y capacity train – has a 20-year contract to lift half of the output.

Bringing up the rear, ***Abu Dhabi Gas Liquefaction Company (Adgas)*** already operates three LNG trains on Das Island in the UAE, with combined production of about 5.4m t/y. No major expansions are anticipated, although companies were invited to bid during the summer for an engineering, procurement and construction contract to install boil-off gas compressors and upgrade the sulphur recovery units on the three trains.

Out With The Baath Water At Iraqi Oil Ministry

Thamer Ghadhban's reign as oil minister came to a brief but predictable end in early September. In his place comes a figure who may be more friendly to US views of Iraq's oil sector, but who will be just as hard-pressed to revive oil production to anything like its pre-war levels.

Ghadhban, the long-serving technocrat hastily installed as *de facto* oil minister last April, had earned the confidence of the ***Coalition Provisional Authority (CPA)*** as a safe pair of hands, but an ongoing whispering campaign over his Baathist links dashed his hopes of being appointed as minister – despite the fact that those links appear more a ploy to improve career prospects in **Saddam Hussein**'s Iraq than a statement of ideology.

The new kid on the block, **Ibrahim Bahr Al-Uloum**, while a Shia like Ghadhban, is cut from very different cloth *(GSN 717/13)*. With the added credibility of having the full sanction of the ministerial appointment from the CPA, Al-Uloum quickly adopted the kind of language that Washington and potential foreign investors in Iraq's oil sector like to hear. His early invitation to the ***OPEC*** feast – the first contact with the cartel since the **US**-led occupation – adds another important shred of credibility to Iraq's putative oil rehabilitation. Al-Uloum will head a delegation to the 24 September OPEC conference in Vienna *(see page 2)*.

Pushing privatisation and production

In remarks to reporters in the back streets of the holy city of Najaf in early September, the new minister promised a rapid timetable towards privatisation of the Iraqi oil sector. He advocated the full divestment of downstream installations along with production sharing contracts in the upstream. Privatisation, he told the *Financial Times*, would begin with refineries rather than upstream operations.

The message chimes with a consensus view among senior analysts that old style national oil companies like ***Iraq National Oil Company*** have had their day. But the argument is far from won. Much of the Iraqi elite still appears to favour reconstituting the Iraqi oil industry as a state entity to be handed over to the government of a new Iraq.

This conflict will likely dominate the future of Iraqi oil, but the new minister faces more urgent priorities. Prime among these is the resuscitation of Iraqi production, which has missed even the most pessimistic post-war revival scenarios.

Despite continued infrastructure sabotage and looting, CPA officials continue to spew upbeat assessments of production capacity faster than Iraq's wells spew oil. CPA chief **L Paul Bremer III** said on 14 September that Iraq had averaged 1.5m b/d in the last ten days, while Ghadhban says it is aiming for exports of 1m b/d in October.

S***outh Oil Company*** is targeting 1.5m b/d output by end-September following full restoration of the West Qurna field.

Empirical evidence suggests that Baghdad has indeed turned the corner after a wretched summer that saw output see-saw wildly from day to day. Shippers said on 15 September that Baghdad moved 1.29m b/d the previous week, averaging 930,000 b/d so far in September – its best export pace since Saddam's toppling.

But many are unconvinced about chances of hitting an ambitious 2.8m b/d target the CPA has mooted under *Project Restore Iraqi Oil (RIO)* by an April 2004 deadline.

"If they can average 2m b/d in 2004, that'd be pretty good," said **Roger Diwan**, managing director of markets at ***PFC Energy***. Budget constraints will inhibit chances of regaining Iraq's pre-war potential, along with export bottlenecks and the continued threat of sabotage and looting.

The latter proved a particular bugbear in the southern Rumaila fields over the summer, as key power installations suffered frequent damage, which in turn hampered field production as power supplies were interrupted. In the north, sabotage has been the main cause of delayed production. The mid-August strikes on the Kirkuk-Ceyhan (**Turkey**) pipeline put back supplies of some 200,000 b/d.

But analysts point to the lack of export terminal capacity as the key medium-term hurdle. In the unlikely event that Iraq could get all its overworked fields pumping at full stretch, export bottlenecks are placing formidable obstacles in the path of Iraqi crudes looking to reach foreign buyers.

With one of the main Gulf export hubs, Mina Al-Amaya, effectively out of action since 1990, only the Mina Al-Bakr terminal is in operation. Neither the ***US Army Corps of Engineers*** nor Iraqi officials entertain any immediate plans to rehabilitate Mina Al-Amaya.

Statoil: Iran payments see heads roll

Norway's Statoil has come a cropper as a result of a controversial consultancy contract with a London-based **Iranian** with close ties to the **Rafsanjani** family. In a sign of apparent scapegoating, the oil company forced **Richard Hubbard**, head of international exploration and production, to step down on 16 September. The move followed Norwegian press reports that Statoil broke national employment law through payments made to the consultants.

Chief executive **Olav Fjell** admitted that the ten-year, $15m consultancy deal had direct links to **Mehdi Hashemi Rafsanjani**, a senior manager in ***National Iranian Oil Company (NIOC)*** and son of former Iranian president and Expediency Council president **Ali Akbar Hashemi Rafsanjani**. The contract in question was granted in 2002 to a company known as ***Horton Investments*** incorporated in a Caribbean tax haven, the **Turks & Caicos** islands. The company is said to be run by London-based Iranian **Abbas Yazdi**.

Analysts expect further heads to roll as a result of a criminal investigation now under way within Statoil. Fjell says he was aware of both the contract and the fact that the younger Rafsanjani would be involved in providing services. Statoil is launching an internal inquiry over concerns that the contract with Yazdi might have been tainted by corruption. The $15m value of the deal raised a number of eyebrows.

Hubbard is accused of keeping Rafsanjani's role secret. Fjell acknowledged that Rafsanjani had played a key role in the services provided so far, which have triggered payment of more than $5m to Horton Investments over the past year.

Adding fuel to the fire, Statoil also failed to inform NIOC of its consultancy deal with Horton and of Rafsanjani's role, despite NIOC being parent company of ***Petropars***, Statoil's partner on the South Pars gas project.

Statoil has cancelled the consultancy deal, but the Norwegian company denies that payments made so far were a commission for Statoil's winning the 40% operation contract for South Pars phases six to eight.

French Sound Out Saudi Opinion On A Gallic Muslim Question

French Interior Minister **Nicolas Sarkozy**'s planned visit to **Saudi Arabia** in early October could afford an important opportunity to strengthen the two countries' burgeoning relations, at a time when the **USA** is increasingly at odds with Saudi Arabia over charges of support for terrorism *(see page 3)*. The hyperactive Sarkozy is architect of a council established to give leaders of France's Muslim community a formalised role in public life; he will visit Saudi Arabia to sign an important contract for the supply of a secure transmission system. But the trip could afford him the chance to informally sound out views on the development of France's relations with its large Islamic population – and get to know a regime that has been warming to President **Jacques Chirac**'s politics and the charms of French business.

The council was intended as a conciliatory, integrationist gesture towards France's 5m Muslims. But it has seen its effectiveness sapped by wrangles between government-supported moderates and the radical ***Union of Islamic Organisations in France***, which came out on top in regional elections to the council. **Dalil Boubakeur**, head of the Paris Grand Mosque, has already threatened to resign as Chairman.

Sarkozy is having to operate in an awkward political context. His boss, Prime Minister **Jean-Pierre Raffarin**, recently hinted at plans to ban Muslim girls from wearing headscarves in schools. This perennial political football transcends left-right divides. It pits fierce defenders of the French Republic's secular principles against those who believe that in a multi-cultural society, integration is more effectively achieved by openly acknowledging different beliefs and traditions. Sarkozy is highly sceptical of a ban on headscarves, and is emerging as the government's most heavyweight advocate of a more pluralistic approach.

Like the failed attempt to give the troubled island of Corsica decentralised administration, the creation of a Muslim council has been very much the Interior Minister's personal initiative. He may be hoping for behind-the-scenes pressure from the government of Saudi Arabia – whose **King Fahd** is Custodian of the Two Holy Places – which could be useful in nudging France's rival Muslim factions into a more co-operative effort to make the new Council work.

France has tended to keep a lower profile in Riyadh than the **British** or the Americans. But it has major economic interests at stake, particularly in defence and energy sector procurement. French companies are involved – with the **Japanese** and Americans – in reconstructing an oil export pipeline from **Iraq** to the Saudi port of Dammam. Meanwhile, ***Technip*** has won a turnkey contract from ***Saudi Aramco*** to install diesel hydro-treating facilities at the Riyadh refinery.

France has escaped the diplomatic complications faced by the UK and **Canada** over the Saudi authorities' detention of their citizens because of alleged links to bomb attacks. Canada is at the heart of a storm over its relations with Saudi Arabia, following the publication of detailed torture allegations by former detainee Dr **William Sampson**, released this summer, along with British prisoners. Sampson has now described in detail the torture he claims to have suffered.

Sampson is not the only detainee to have gone public with torture allegations, but in the UK, with **Iraq** and the **Hutton** enquiry occupying the political agenda, the issue has not dominated the headlines. In Canada, there have even been demands for Saudi Ambassador Dr **Mohammed Al-Husseini**'s expulsion. Like other Saudi emissaries in similar cases, Husseini has denied the torture allegations. The Canadian government has said it takes Sampson's claims seriously, but minister **Don Boudria** has defended the Ambassador, saying thanks to his help he managed to visit Sampson in detention.

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