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UAE moves toward greater transparency, helped by the IMF

In the wake of the IMF/World Bank annual meetings in Dubai, several recent moves by the United Arab Emirates indicate a shift toward greater financial transparency and accountability – at least for the time being.

With the **UAE** announcing its intention in late September to fully comply with ***International Labour Organisation (ILO)*** standards on the housing of migrant workers, it seems that **Dubai**'s hosting of the 19-23 September ***International Monetary Fund/ World Bank*** annual meetings may be having a greater influence on the emirates and the wider Gulf region that was at first envisaged *(see page 6)*.

Whether Dubai will be able to turn this favourable image to its best advantage remains to be seen. However, besides signing up to the ILO standard, Abu Dhabi agreed in March to permit for the first time the publication in full of the IMF's Article IV economic assessment *(GSN 706/13)*. Meanwhile, over the past two years, the UAE and other Arab oil monarchies have begun to fully participate in the international programme of debt relief for heavily indebted poor countries, known as the HIPC programme, by forgiving a portion of poor countries' bilateral debts. Having established a track record, the UAE is expected to play a full role in multilateral efforts to rebuild **Iraq** – in addition to Dubai pitching itself as a services and rest and recreation base for firms seeking to exploit opportunities presented by the **US** occupation.

Although these are outwardly unconnected events, they serve as indications that Gulf economies are beginning to take heed of the multilaterals' emphasis on transparency, good governance and financial accountability. Ripples of the attention brought by the Bank and Fund meetings may be felt throughout the region.

Transparency and accountability have been central themes of the Bretton Woods institutions in recent years, and it is no coincidence that it was this year that the UAE abandoned its traditional secrecy over the IMF's annual review of a country's economy and financial policies. The IMF only publishes the results of its Article IV findings at the government's permission and request.

The UAE had been among a tiny clutch of governments refusing to allow the publication of their Article IV documents. **Saudi Arabia** has yet to follow suit. But the even the kingdom has taken an important recent step in asking ***Standard & Poors*** to research and publish a full ratings report on its finances this summer *(GSN 716/13)*.

Unlike most Gulf states, the UAE has yet to get itself rated – and missed a potentially important opportunity when it eventually issued its much-anticipated bond to finance the meetings. But that step may not be so far away. Dubai's eventual local bond issue prepared the ground with an unprecedentedly detailed circular to investors.

Even if the federal government in Abu Dhabi has no need of the cash, a rating could act as a benchmark for the international agencies to grade major infrastructure and industrial projects that are financed on an independent basis, often through the capital markets. A credit rating often acts as a stamp of approval that reassures foreign capital and portfolio equity investors.

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CbI
Cross-border Information

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The most immediate influence of the World Bank and IMF was to have the emirates on their best behaviour for at least one week in September. More than 16,000 delegates, officials, bankers and journalists were said to have attended the meeting, despite early misgivings *(GSN 717/16)*.

The event passed off with efficiency and a notable lack of bureaucratic hassle – and without the anti-globalisation protests that have put such global meetings in question. There was a consensus among seasoned delegates that the annual meetings may just have been reborn in Dubai.

Some attendees found themselves caught in the occasional Catch-22 – not having registered yet, they were at first prevented by a zealous security machine from boarding the shuttle buses laid on by the ***Dubai 2003*** committee to take them to the registration desk. But on the whole, the meeting proceeded smoothly and with a lack of disruption.

Facilities at the Dubai International Conference Centre (DICC), which was hosting its first major event since construction was completed in January 2003, were superior to those available at most past meetings. Hotels were closed to the general public and the few protesters who bothered to travel to the Gulf were kept well out of sight.

All this served to boost the image of the UAE and to strengthen Dubai's credibility in its bid to become a major destination city and international financial centre to rival the regional financial centre, **Bahrain**.

It also helped give a wider lift to the image of Gulf states generally. When **Qatar** hosted the *World Trade Organisation* talks two years ago, the choice was regarded as eccentric, if helpful at a time when other cities were reluctant to face the risk of anti-globalisation demonstrations.

The success of the talks in Doha started to shift perceptions. Although the decision to hold the IMF meetings in Dubai was made in 1999, the emirate's smooth hospitality will help move along this process of change.

At the very least, the Gulf region will now be taken somewhat more seriously as a service centre and potential host of major international events.

One protocol feature of the conference provoked wry amusement among some regular attendees of the annual meetings. At one point, World Bank president **James Wolfensohn** and IMF managing director **Horst Köhler** trooped off the stage of the plenary session to welcome members of the UAE ruling family. This is not a courtesy generally extended to the US president or other heads of state addressing the meetings in Washington (the venue two years out of three).

"Where are our sheikhs?" asked one Emirati in the audience, as Wolfensohn and Kohler made their unaccustomed sortie. But such is Dubai's kudos that now a visit to the DICC by Crown Prince **Sheikh Mohammed Bin Rachid Al-Makhtoum** was seen as a star event even by hardened hacks.

Qatar controls NPLs

Qatar has the lowest rate of non-performing loans (NPLs) in the Gulf Co-operation Council region, and the **UAE** has the highest, according to analysis by ***Standard & Poor's***. Just over 6% of gross loans in Qatar were non-performing as of 31 December 2002, whereas more than 12% fell into that category in the UAE – which has a much more diverse economy, especially in the small- and medium-size business sector, where such problems are often most frequent.

In **Kuwait** – one of the GCC's most state-dominated economies – the NPL rate is just 6.5%, compared to 8% in **Saudi Arabia** and 11% in **Oman**, which has experienced serious problems over NPLs in parts of the banking sector. **Bahrain**, which, like the UAE, has an extensive private sector, has an NPL rate of 11.5%.

A makeover for GSN

Gulf States Newsletter has had its first makeover in three years. The intention is to make *GSN* more user friendly. Please send any comments to **Jon Marks** (*jon@gulfstatesnews.com*) or Mark Wallace (*wallace@gulfstatesnews.com*).

Yemen security steps up the pace

Through both active measures and indirect avenues such as the country's clerical establishment, Yemeni authorities are increasing their co-operation with international counter-terrorism efforts.

On 9 September Yemeni security authorities handed over **Bandar Al-Ghamdi** to their **Saudi** counterparts, who had issued an arrest warrant for the suspected ***Al-Qaeda*** terrorist after the 12 May bombings in Riyadh. The arrest and extradition of Al-Ghamdi is an illustration that the Yemeni government has come a long way since senior government figures routinely shielded Al-Qaeda figures from **US** and Saudi investigations.

Faris Sananbani, editor of the *Yemen Observer* and security advisor to President **Ali Abdallah Saleh**, summed up the recent changes when he told *GSN* the government had recognised terrorists as "the common enemy in a very real and direct battle". According to US security officials canvassed by *GSN*, the sea-change in Yemeni counter-terrorism policy is beginning to show fruits at a number of levels, despite new US travel warnings on the country *(GSN 718/15)*.

Last December, the Yemeni parliament issued a 96-page report that represented the first frank and open admission of Yemen's terrorist problem. Since then, the government has developed a multi-faceted response to the threat.

The first stage saw a general increase in the government's situational awareness and defensive capabilities. Yemen's secret police organisation, known as ***PSO***, has been thoroughly re-staffed in recent years, shuffling its existing tribal make-up and removing most of the senior leadership. The ***National Security Council***, established in August 2002, involved non-military figures in national policy for the first time, injecting a new class of educated and internationalist participants into security decision-making. All foreigners in the country are now subjected to surveillance, and an estimated 5,000 illegal immigrants have been deported.

According to Sananbani, as long as the government knows of your existence, "you can no longer come to Yemen with no good reason and expect to stick around". Protective security and the closure of arms markets has progressed apace in Sana'a, though many international embassies continue to maintain a fully locked down defence stance.

High-profile successes

The government continues to increase its capabilities in the realm of active counter-terrorism activities.

An official from the US Office of the Secretary of Defence told *GSN* that the Yemeni army had greatly increased its operational tempo in the Maarib and Jouf regions following US military training of government forces *(GSN 715/4)*.

US training and communications gear has also allowed increased patrolling and checkpoint presence on the road network in tough areas such as Hadramout.

According to Sananbani, troop presence has been extended to 371 new control points across the country. Anti-terrorist raids have been undertaken with greater success and at a lower cost than before. In November 2002, 22 army personnel were killed and another 30 injured in a single raid in Marib governate, yet since then only ten personnel have been killed and 22 injured in an escalating series of actions.

Yemeni security forces launched successful operations in Hattat in late June and early July, killing at least six members of the ***Aden-Abyan Islamic Army (AAIA)*** in a single firefight – including their leader **Khalid Abdul Nabi** – and capturing some 37 suspects.

Sananbani told *GSN*: "Previously we had kept cameras away from the military in case of disasters such as last November, but this time we were very confident following the US training. We had helicopter back-up and had received US satellite images of the site. Our Special Forces troops were masked and wore body armour. It was one beautiful success story." A further AAIA four members were arrested on 29 July.

Quieter movements

Sananbani outlined the measures that Yemen has taken in recent months to reduce terrorism through indirect means.

Foreign satellite media is watched by a large proportion of the Yemeni population through satellite repeater systems that allow one household to piggyback on another.

Yemeni government officials would like to counteract what they see as potentially dangerous images of Arab-**Israeli** conflict and US actions in Iraq which "make it difficult to get people involved in the war against terror".

The government has made broad use of the media to try to undercut terrorist recruiting. On occasions, this has included direct government propaganda; for instance, publicising the fact that the AAIA attacked a medical team on 21 June.

Religious leaders have spoken on television about the effects of terrorism on Islam and on Yemen. In other instances, the government has been more creative, Sananbani noted, explaining that the government had "taken some of the toughest clerics, put them on Yemeni TV, directed conversations where we wanted them to go, and with a little editing, they came out fine."

The government has learned to make use of the country's clerical establishment: moderate clerics have been tasked with talking to Al-Qaeda subjects and associates, and then left to extract confessions from some and release those "without blood on their hands", according to Sananbani.

The educational system – where Yemen's radical Islamists draw their strength – has also been quietly reformed, through the opportunistic expedient of slowly absorbing religious schools into the mainstream educational system, rather than by undertaking the adversarial policy of closing them down.

Yemen's 1,300 religious summer schools had elements of the national curriculum slowly integrated into their lesson planning until the secular elements formed the majority, thereby reducing the educational shortfall at the same time as downplaying the religious elements of the schools.

According to Sananbani, the change was easier to implement because it began before 11 September 2001, and was thus perceived by Yemen's citizenry as being an internally driven development rather than a response to US diktat.

The main remaining security challenge is to overcome the sheer size of the country and its many remote terrorist havens. The size and density of Yemen's border, terrain, and population exacerbates the tasks of the security forces. Covering an area the size of **Jordan**, **Bahrain**, **Qatar**, and the **UAE** combined, Yemen is segregated by mountains and the independence of semi-autonomous governates.

Sananbani suggested to *GSN* that critics of his government should consider the eample of "how long it took the FBI *[Federal Bureau of Investigation]* to find the Unabomber [**Theodore Kaczynski**] despite its relatively unlimited resources and greater federal reach."

OMAN

Government wants the majority of its citizens to head for polls

Officials have launched an unprecedented turnout campaign to maximise the credibility of Oman's first parliamentary election to be conducted on a universal adult franchise, with polling scheduled for 4 October.

All candidates have been allowed to campaign openly this time around, and private-sector employees are being given the day off to cast their ballots. People who have lost their voting cards will be allowed to collect replacements up to three days before the election. Cards are bar-coded for security and those that are lost can be rendered void.

Some 262,000 citizens, including 100,000 women, have registered to vote in an election that represents an important step forward for the democratic development of Oman, as well as for the wider Gulf region. For the first time, all citizens aged 21 or over are entitled to vote. Until now, the sultanate operated a limited franchise, with voters selected by regional administrators.

Winners will be the candidate who tops the poll in each area. In the last elections, the member of parliament for each constituency was nominated from among the three candidates to get the most votes.

The assembly does not hold formal legislative powers. But it has in the past made full use of its powers of scrutiny and review to transform government bills extensively. It has also subjected ministers to tough questioning.

New patterns of political behaviour?

Because this is the first election to be held on a universal franchise, it is hard to predict how patterns of support will play out. The authorities have been calling on voters to set aside tribal loyalties, which have played a significant role in previous elections. Complaints about the ineffectiveness of some tribal deputies have been aired in the local media.

But in spite of the official appeals, it would not be surprising to see tribal influences reinforced, as many voters will be new to the experience of electoral politics and may tend to support those candidates they know or with whom they have some personal connection.

Ministers are also keen to see more women candidates succeed. Only two hold seats in the current assembly. Fifteen women are among the 506 candidates contesting just 83 seats.

During the final days before the poll, media analysts argued that the level of turnout among women voters could have a decisive impact on the level of female representation.

However, this may not necessarily be the case. In **Bahrain**'s local elections last year, there was a solid female turnout, but no women were elected and most did not even come close. It seems that many women preferred to vote for men or came under heavy family pressure to do so.

New faces, new technologies

Oman has been among regional leaders in promoting the role of women in the workforce and public life. The sultanate has one woman ambassador – in The Hague – and a number of senior government jobs are in female hands. There is even speculation that **Sultan Qaboos Bin Saeed** might appoint a first woman cabinet minister in a post-election reshuffle.

In the last elections, female candidates concentrated their efforts on Muscat, where the liberal middle class are denser on the ground. This time, at least one woman is standing in a rural area where she has strong family connections, far from the capital. In some parts of the country, where more conservative attitudes may prevail, separate female polling booths have been provided, to encourage women to vote.

If more women are elected, they are likely to press for greater attention to the social and family implications of new laws or policy measures. One female candidate complained that maternity leave entitlement in the private sector had been reduced by one-third; this is the sort of change that an increased female parliamentary presence might prevent.

For this, its fifth election, Oman has adopted a new computerised voting system. In technical terms, this will put the sultanate in advance of many other countries, including the **UK** and parts of the **USA** (as Florida's experience in the 2000 presidential contest and since continues to attest).

Despite changes to the electoral system, the assembly will still not have full legislative powers. But the broadening of the voter base to encompass all adults will strengthen the moral clout it can wield, because it will be clearly representative of Omani society as a whole. This should strengthen its authority as a scrutineer of government policy and performance and of new legislation.

The parliamentary elections can also be seen as part of a wider programme of political and constitutional development that includes a raft of legal measures that have formalised such concepts as citizens' rights vis-à-vis government authorities such as the police. Like the election of a parliament, the programme represents a step towards a system where the state is formally held accountable for its actions.

Oman has been something of a regional pioneer in this regard, although it is a development that has attracted relatively little attention elsewhere in the Gulf. If the sultanate can make a success of such reforms, though, political convenience could dictate that they catch on more widely in years to come.

Nuclear spat could see Iran reformers routed

Political fall-out over IAEA inspections and poor relations between Tehran and London, a big supporter of 'constructive engagement' with Iran, could lead Iranian hard-liners back to power in turbulent times.

Worsening **UK**-Iranian relations have complicated Tehran's efforts to build international support for its position over nuclear inspections. The result has been to put Iranian reformists on the defensive, and add to scepticism over the possibility of Iran's signing up to a stiffer inspections protocol.

The deepening rift between Iran and the UK has been underlined by the fall-out from the August arrest in England of **Hadi Soleimanpour**. Former Iranian ambassador to **Argentina** Soleimanpour is accused of involvement in the bombing of a Jewish community centre in Buenos Aires in 1994, in which 85 people died.

The four separate shooting incidents during August and September at the UK's downtown Tehran embassy hardly helped. Prevailing British sensitivities over the failure of Iranian authorities to apprehend the attackers should help thwart any chances of an rapprochement ahead of the 31 October inspections deadline.

The British Foreign Office told *GSN* that the UK's demand for an urgent investigation into the attacks had gone unheeded, and expectations were not high. The embassy is functioning normally, but is not open to visits by the public. Non-essential staff have been allowed to leave Iran.

But signs are that UK Prime Minister **Tony Blair**'s sympathy with the hard-line **US** position over Iran is what lies at the heart of the spat. Blair first linked ***European Union***-Iranian trade relations to the nuclear issue at the EU summit in June, knocking the wind out of Foreign Secretary **Jack Straw**'s carefully nuanced policy of engagement.

Israeli diplomats confirmed, after a July meeting at No 10 Downing Street with **Ariel Sharon**, that Blair now shared Israel's concerns about Iran. Iran tops Israel's list of perceived threats, not least due to its support for **Lebanese** ***Hizbollah***.

One senior UK Foreign Office official said in an off-the-record briefing in late September that there was "no difference" between the US and the UK on the goals of their Iran policies – simply a difference in tactics.

According to one senior UK foreign office official, chances of a compromise appear slim. "If Tehran opens up to the ***International Atomic Energy Association (IAEA)*** that would be a significant development. But we're quite a long way from that," he said.

Dim prospects for a settlement

The Iranian government has refrained from issuing an official response to the IAEA deadline, indicating the renewed strength of conservatives who see **North Korea**'s uncompromising path as perhaps the best strategy for retaining nuclear ambitions. In contrast, the largest reformist political party, the ***Islamic Participation Front (Mosharekat)***, has said compliance with the protocol would build international confidence in Iran's intentions.

Some hard-liners are advocating full withdrawal from the nuclear non-proliferation treaty (NPT). The unfortunate resemblance between the current US-led pressure on Iran and the tactics Washington employed against **Saddam Hussein** in 2002, with sanctions leading to a focus on alleged weapons programmes, is emboldening conservative forces in the Islamic Republic who favour a stronger stance. Tehran's representative on the IAEA, **Ali Akbar Salehi**, said in mid-September that Iran would no longer exceed its obligations and would adhere only to explicit commitments already made.

Reformist elements have been thrust into defensive mode. Their attempts to restrain Washington through use of their influence with key European actors, notably the UK, appear to have come to nothing.

With Blair taking personal charge of Britain's Iran policy, Tehran's reformist President **Mohammed Khatami** looks to have been left out to dry. Khatami's August letter to the UK prime minister, assuring him of Iran's willingness to meet NPT obligations, failed even to elicit the dignity of a response.

In a 1 October interview with the *BBC*, Blair contentiously invoked the invasion of **Iraq** as a justification for turning the screws on other members of the "axis of evil". He said that if the coalition had not confronted **Saddam Hussein**'s regime, Iran would not have started co-operating with the IAEA – a somewhat presumptuous conclusion to go public with ahead of the 31 October deadline.

Conservative victory

Consensus thinking among Western diplomats is that in the current atmosphere, Iranian reformists will be routed at the February general elections. According to the senior Foreign Office official, the expectation is that liberal candidates will either be weeded out by the Council of Guardians before the poll or that voters will simply abstain, leaving the field for conservatives to clean up.

The UK expects to see a major power struggle in Iran over the next 18 months to two years, as reformists and conservatives battle for power. "The judiciary is the place to watch," said the official.

Some well-placed commentators see Iran's next leader coming from within the conservative camp, but from the branch that favours reform of both foreign relations and economic policy. Whisper it (*GSN* has suggested it before), but the return of former president **Ali Akbar Hashemi Rafsanjani** to power is not beyond the realms of possibility.

"It's either regime change or Rafsanjani," quipped one Iran analyst.

UNITED ARAB EMIRATES

Small steps towards democracy with studentelections in Sharjah

Despite the lack of democratic reforms in the UAE, Sharjah is pressing on with a political experiment that could eventually have an impact on the course of political change in the federation. Elections remain a rarity in the UAE, despite moves towards democratic representation in other parts of the Gulf. But Sharjah's ruler, **Sheikh Sultan Bin Mohammed Al-Qasimi**, continues his gentle promotion of new political thinking – allowing students at the ***American University of Sharjah (AUS)*** to elect members of their student council for the sixth year running.

The university introduced elections on the orders of Sheikh Sultan. "The Sharjah ruler, who is also President of the AUS, wants an elected student body to liase between students and the university administration," a university official said. "The main objective is to form a students' government at the campus to help them solve their problems, organise activities and make the university a better place, giving them democratic rights to raise their voice about their concerns."

This is not the sort of language that is commonplace in other emirates. **Dubai** has announced plans for elected local councils, but has demonstrated no appetite for change at the federal level.

Ras Al-Khaimah, perhasps the poorest of the emirates but equal to Sharjah in formal political weight, with six seats on the FNC, appears to be retreating to a more conservative stance. **Sheikh Khalid Bin Saqr Al-Qasimi**, who occasionally floated democratisation plans in public, was dismissed as crown prince on 14 June *(GSN 707/11)*. RAK ruler, **Sheikh Saqr Bin Mohammed Al-Qasimi**, replaced him with a younger son, **Sheikh Saud Bin Saqr Al-Qasimi**, an energetic businessman who already headed the municipal council and the Ruler's Court.

Sheikh Saud has been impressed by the decisive leadership of Dubai's Crown Prince **Sheikh Mohammed Al- Rashid Al-Makhtoum**, now basking in his latest success, the holding of the 19-23 September ***IMF/World Bank*** annual meetings. The new RAK crown prince sees Dubai's business-led development as the model to emulate and, in comments to foreign visitors, has been firmly dismissive of democratic ideas *(GSN 707/12)*.

Students today, citizens tomorrow

Though Sheikh Sultan's capacity to introduce major political changes remains limited, introducing the idea of democracy to young emiratis could have a pronounced effect on the emirates' political complexion in years to come.

For now, though, it is **Abu Dhabi** and Dubai that wield the decisive political clout in shaping the UAE's development, including representational issues such as whether to begin electing the Federal National Council and/or whether to appoint women to the FNC.

Remarks by the previous speaker of the FNC, **Mohammed Khalifa Al-Habtoor**, floating the notion of elections, fell on stony ground. Habtoor has subsequently kept a low profile.

Although Sharjah's capacity to shape the debate is strictly limited, Sheikh Sultan continues to encourage fresh thinking and engage in political experiments. Sharjah's council is appointed but includes a number of women. Meanwhile, students are encouraged to gain experience of democracy on the campus and the emirate has even held elections to a children's parliament.

Such moves are kept strictly local, so that they do not ruffle feathers in the wider UAE federation. But Sharjah's experiments are covered by the UAE national press and thus become known to the population.

Campaigning in the September student elections lasted for more than a week, with 24 candidates distributing leaflets and canvassing fellow students in the battle for the 12 council seats. Five women were among the winners.

Subtle pressure could improve conditions for migrant workers

Dubai and the **UAE** managed to pull off a well organised meeting of the ***World Bank*** and ***International Monetary Fund***, but what they may not have expected that week was a sharp public message from the ***International Labour Organisation (ILO)*** over the treatment of migrant workers.

Although harsh, the message was entirely informal. The ILO did not issue an official statement, but – at a social issues forum held in the margins of the Bank/Fund meetings – the Geneva-based organisation made no secret of its views. Remarks were wrapped in compliments but the message was clear. "With the region being increasingly integrated with the global economy, there are rules and regulations that need to be followed," said **Samir Radwan**, an adviser to the ILO's director-general.

He insisted the ILO operated by offering advice, rather than through coercion, but went on to state: "I think there will be much more progress in the area very soon, because you don't want progress imposed on you from the outside."

Radwan praised **Bahrain** for progress on trade union rights and the rights of migrant and women workers. He also cited **Saudi Arabia**'s strict enforcement of a decree banning camel jockeys under the age of 18 (an issue in the UAE). He said that **Oman** and the UAE lagged behind on labour rights.

The response was almost instant. Just days after the forum, UAE federal Labour and Social Affairs Minister **Matar Humaid Al-Tayer** announced the government would impose the ILO standards on workers' accommodation and work sites. Tayer said the authorities would monitor and enforce employers' compliance with all international rules on the provision of healthy accommodation and work environments.

"We are also committed to protection of workers' health and remuneration, and we will ensure companies will implement at least the minimum ILO requirements," he said.

The ILO and its offshoot, the ***International Confederation of Free Trade Unions (ICFTU)***, also made the case for fixed contracts and unionisation. But these may prove a step too far for the authorities at this stage.

"Everything is modern here except for the way they treat workers," ICFTU assistant director **Nezam Qarhoush** had told the Dubai forum.

Politics and security pointers

KUWAIT: Arms deals investigation

An investigation has been opened by the Kuwaiti Army into three contracts between the Ministry of Defence and military contractors. Mounting allegations of financial irregularities are said to have forced the Army's Legal Department to look into the matter. One contract reportedly involves construction of a $1bn missile system. A second contract is for a National Guard camp constructed soon after the 1991 Gulf war. That deal is said to have sparked interest on the part of investigators into 19 questionable contract clauses. Four current or former MPs have been linked to company supplying at least one of the contracts, according to reports. **Major-General Mohammed Al-Assafi**, head of the army's legal department, has been granted broad powers of subpoena on the case by Defence Minister and Deputy Prime Minister **Sheikh Jaber Al-Mubarak Al-Sabah**.

SAUDI ARABIA: Politics by petition

Saudi campaigners for political reform have cranked up the pressure with an appeal for the royal family to translate words into concrete action. They have produced a third petition pressing for change, which has secured more than 300 signatures; among them, for the first time, are those of 51 women. As usual, the petition – *In Defence of the Nation* – is addressed to **Crown Prince Abdallah Bin Abdelaziz**. It called on him to recognise "the need to start implementing the radical comprehensive reform process". This is blunt language by Saudi standards. Women signatories have been giving media interviews to ram home their message that the majority of ordinary Saudis do not support vocal conservative Islamists and would prefer to see moderate reform, generated from within the country. The petition – the first such document since the bombings in Riyadh in May – condemned violence, arguing that a move towards participatory government was the best defence against the frustrations that feed extremism. Crown Prince Abdallah may not be unhappy to see the intellectual middle class return to the charge in this way. The sustained pressure for reform – from a broad range of moderate Shia and Sunni leaders, business people and liberals – has shifted the public debate now bubbling in the kingdom towards the agenda of gradualist change he appears to favour. Senior members have started to talk about the eventual need for elections – perhaps offering an elected Majlis Al-Shura by the end of this decade. Even regime conservatives such as Second Deputy Premier, Defence and Aviation Minister **Prince Sultan Bin Abdelaziz** have had to engage with this trend to some extent *(GSN 715/5, 713/10).*

UAE: Zayed's back

Since his 21 September return from health treatment in **Switzerland**, **Abu Dhabi** Ruler and federal President **Sheikh Zayed Bin Sultan Al-Nahayan** has been quick to reappear in public, visiting the *Arabian Hunting Show* in Abu Dhabi and receiving senior UAE figures.

UAE: Prison reform agenda

In an indication of evolving Gulf government policies towards penal and social issues, the UAE is building two new prisons that will include furnished family cell units where inmates will be able to spend time with their spouses and families, to help them maintain these key relationships, so they cope better with life outside once they are released. Maintaining strong family connections may reduce the likelihood of future reoffending, and Gulf society places a high premium on the importance of family relations.

Sovereignty questions muddy waters ahead of Iraq conference, Afghanistan an unhappy precedent

More than 300 governments, businesses and other organisations are invited to attend the Iraq donor's conference in Madrid, but vexing questions over the country's sovereignty may prevent them from doing much good there. The experience of Afganistan does not give grounds for optimism.

Spanish officials preparing the ground for the 23-24 October 2003 donor conference for Iraq in Madrid are studiously concentrating on practicalities and trying to ensure that their efforts are not disrupted by international manoeuvring over the future governance of the country.

Donor representatives will gather in Madrid to discuss a needs assessment prepared by the ***World Bank*** and decide how much they are willing to pledge towards Iraq's reconstruction and operating budget. Washington is hoping that international donors will pledge up to $20bn, matching the amount it is requesting the **US** Congress authorise for reconstruction. Initial reports, however, indicate that the donor's meeting could raise as little as $2bn-3bn.

The major roadblock is that less than a month before the meeting, donors still do not know which international organisations will have recognised the Iraqi interim cabinet and Interim Governing Council (IGC), nor what legal and financial capacity key donors and other institutions will bring to the meeting. Many donors will be reluctant to pledge or lend money until an internationally recognised sovereign government is in place.

Some 70 governments, 25 international organisations, 40 non-governmental organisations (NGOs) and 200 private sector entities have been invited. If most of these turn up, this could create powerful momentum and increase the pressure on leading *UN* Security Council players to hammer out a workable deal on Iraq's governance.

A preparatory meeting – to discuss trust fund arrangements and other technical details surrounding the donor's conference – was held in **Dubai**, just after the closure of the *IMF*/World Bank annual meetings. One World Bank source told *GSN* the Bank would like to have a trust fund mechanism in place by the October donor meetings, in order to have a well-defined repository for any money that is pledged.

The Bank's needs assessment – 14 sector assessments and three papers on the investment climate, the macroeconomic situation and the financial sector – will likely be ready for one of the two further technical rounds, in Madrid on 2 October and New York on 6 October.

Despite its current inability to provide funds under its lending rules, the Bank is preparing the ground for credits that could be released within weeks or months. One well-placed source told *GSN* it was possible that the Bank could relax its sovereignty requirements in this case, although this was currently not under consideration.

Up to now the Bank has regarded the IGC as an appointee of the Coalition Provisional Authority (CPA) and the cabinet as an appointee of the IGC. That could change instantly with a UN agreement, but until that moment, the current Iraqi institutions are clearly not a sovereign government in the eyes of the Bretton Woods institutions.

Until there is international recognition of the IGC's status, there is the risk that any commitments they take on could be repudiated by a democratically elected and clearly sovereign successor administration.

Many countries and financial institutions such as export credit agencies will be reluctant to extend credit until there is a sovereign government clearly empowered to take on serious financial commitments. "We need a borrower," in the words of one World Bank official.

But while the CPA, led by the USA and **UK**, is recognised by the UN as an occupying power, international law confers a strictly limited role on the occupiers, and no one has put forward the CPA, the cabinet or the IGC as representative of a sovereign Iraq.

This is a point that was implicitly recognised by Iraq's interim Finance Minister **Kamil Mubdhir Al-Gailani** when he visited Dubai for the IMF/Bank annual meetings. What grabbed the headlines were his tax incentives for investors -- but what mattered was his personal judgement that major structural economic decisions would have to be left until Iraq had a government with a democratic mandate. Interim Oil Minister **Ibrahim Mohamed Bahr Al-Uloum** had already made the same point.

High stakes in Europe

Spain is attaching great political importance to the Madrid talks. The meeting is being arranged by staff attached to the office of Prime Minister **José María Aznar**.

Aznar gave strong political backing to the invasion of Iraq, even though Spanish forces did not participate. But Spain also prides itself on good relations with Arab states and strong support for the **Palestinians**. The Madrid conference offers a chance to reconcile these two roles.

Madrid hopes to play down questions of sovereignty during the conference, and is aiming to bring real aid-giving clout and a wide range of development expertise to the table, without pre-judging political arguments.

The situation is exerting pressure on both sides. The gathering weight of donor involvement makes it difficult for **France** – or other promoters of the UN's role and of early Iraqi sovereignty – to ignore the proceedings or attempt to block the process. It also puts pressure on US conservatives who may be reluctant to fulfil conditions set down by the UN and big donors such as the ***European Union***.

The EU – whose External Affairs Commissioner **Chris Patten**, once a UK ***Conservative Party*** grandee, has been an outspoken critic of US foreign policy – has announced that it will put $230m on the table in Madrid. It expects that to be complemented with substantial contributions from many of the 15 individual member governments. In **Afghanistan**, where a similar sum was pledged by the European Commission (EC), total EU support this year was $823m.

The EC has already allocated about $80m to NGO for humanitarian spending, out of a total of almost $120m it has set aside for Iraq in 2003. It hopes to distribute the remaining funds by the end of the year.

Afghanistan poses an unsettling spectre at the feast

Arab aid donors, whose minds may be concentrated on **Iraq**, could find themselves pressed to contribute to another troubled regional neighbour whose fragile internal condition poses a potential threat to their security and social conditions. The signs so far is that they are little inclined to do so – including **Saudi Arabia** and the **UAE**, two of only three states who formally recognised the former ***Taliban*** regime.

Afghan Finance Minister Ashraf Ghani has set a $30bn target for external aid over the next five years. ***International Monetary Fund*** officials say it is too early to finalise a figure, but confirm that a financing need of $20bn or more is not impossible.

For all the hot air about liberating Afghanistan – and its importance to NATO, as the focus for its first excursion outside the traditional North Atlantic theatre (*GSN 714/1, 11*) – mobilising such sums from the traditional Western donors could prove difficult, given the other calls on their resources.

But because of Afghanistan's close proximity to the Gulf, the international community may well feel that Arab states should make a substantial contribution to mainstream budget and development support, rather confining themselves to the more glamorous field of humanitarian assistance and prestige social projects, where Islamic relief organisations have often taken a lead, with sometimes controversial results.

The UAE in particular could find itself the target of peer pressure from other donors, because it was one of the few governments to maintain relations with the Taliban regime. Saudi Arabia, because of its past indulgence towards towards Islamic hardliners, might also be lobbied to help by compensating today's struggling post-Taliban state.

Moreover, Western governments may quietly remind the Gulf states that it is in their own interest to encourage stability in a country so close to their region – and especially one that is the world's largest producer of opium. There is a substantial and growing drug problem among young people in the affluent GCC economies.

The timetable for securing initial aid commitments could prove tight. Ghani is keen to arrange a fresh donor conference before the elections scheduled for June 2004 – when he has said he will step down. Ghani wants to bequeath his successor a secure medium-term funding framework.

At the January 2002 donors' conference that followed the overthrow of the Taliban, donors pledged $4.5m in grants and $500m in loans. Some $1.6bn was received in the year to March and a further $2bn is expected to be disbursed during the current year – to which must be added a fair chunk of new American money. The USA has just announced an extra $1.2bn for the current financial year, of which $400m could be released within weeks. Arab donors were virtually invisible on the scanner.

Timetables for the January 2002 commitments vary from donor to donor, but it is clear that much of the money will have been spent by June. The medium-term financial outlook is not secure.

The World Bank will have to carry out a needs assessment. But once that is in place, both the energetic Ghani and the IMF – which has been impressed by Afghanistan's strong monetary performance and efforts to reconstruct state finances – are likely to press donors hard.

Iranian contribution

Iran is already preparing to make an important contribution through its own infrastructure programme. Under a January 2003 agreement with Afghanistan and **India**, Iran is investing heavily in links that will give Afghan business easy access to the port of Chabahar, on Iran's Indian Ocean coast.

The Iranians will construct a new main road from Milak, in south-east Iran, to Zaranj in Afghanistan; this will include a bridge over the Milak river. Meanwhile, India will build a new road within Afghanistan, from Zaranj to Delaram.

India and Iran will also build a rail line connecting Chabahar to the Iranian Central railway station, on the main Teheran-Karachi line; and there will be a link to a second Iranian port, Islam Qaleh.

We appear to be seeing a new version of the "Great Game" that imperial powers used to play in this part of the world. In today's version, Iran is collaborating with India to reinforce their mutual ties to Afghanistan and thus reduce the country's reliance on **Pakistan** *(GSN 712/8)*.

Already, Afghanistan has been granted full access to the duty-free zone at Chabahar; Iran is providing storage facilities for Afghan trade and allowing Kabul's inspectors and trade officials to operate on-site. Afghan trade through Chabahar is being encouraged through a 90% abatement on port fees and a 50% cut in charges for warehousing and other services. Even oil tankers benefit from a limited discount.

Iraq investment law off to uncertain start

Though CPA officials are happy, international institutions and investors have taken a more sceptical view.

If "capital is a coward", as **US** Treasury Secretary **John Snow** observed at September's **IMF/World Bank** meetings in **Dubai**, then getting international investors into the Iraqi market will require considerably firmer assurances than were on offer at the development institutions' annual jamboree.

In the first press conference since his appointment, Iraq's acting Finance Minister **Kamil Mudhir Al-Gailani** painted a tantalising picture of a "free and market-oriented economy" that the *Coalition Provisional Authority (CPA)* and the ***Iraqi Governing Council (IGC)*** had apparently created at the stroke of a pen. In reality, however, a number of hidden problems are likely to emerge – some are already evident – casting doubt on the ability of the CPA and IGC to win investor confidence.

Aside from the oil, gas, and minerals sectors, the Iraqi economy will be opened to 100% foreign ownership, with foreign companies receiving the same "national treatment" (including full repatriation of profits) that Iraqi firms receive, according to Gailani. Six foreign banks will be provided with "fast-track" access to Iraq's banking sector, allowing them to buy majority shares in Iraqi banks, while other foreign banks will be allowed to acquire up to 50% shares in Iraqi banks. Corporate income tax will be slashed from 45% to a maximum of 15% from January 2004, and taxes on imports will be minimised to 5%, with most other tariffs abolished and full exemptions for food, clothing, and medicines. Forty-year land leases will be available.

Mixed feelings

A sound plan, on the face of it. But there are some problems, including whether the plan ever really takes shape. **Wael Abdul Latif**, Governor of Basra and an IGC member, told *GSN* that the investment law reform package outlined at Dubai would probably be revised to some extent by a sovereign Iraqi government. This raises questions about how much investors can really trust reforms initiated before the enactment of a new constitution and sovereign government.

And with the first organised polling of Iraqis now making regular appearances in the press, indigenous public opinion is beginning to enter the equation of CPA decision-making. It is thus far uncertain how Iraqis will react to the sudden opening of the market to foreign direct investment (FDI).

Within the technocrat community, early opinions on the opening of Iraq's non-oil sector have varied. **Mohammed Tofiq**, Iraq's Minister of Industry and Minerals, is representative of the supporters of privatisation, and recently stated that radical changes to Iraq's investment laws were required to make Iraq a decisively better investment climate than that of other Middle Eastern states (offsetting security concerns) and as a means of rapidly reducing unemployment.

But **Kassim Daoud**, General Secretary and Economic Advisor to the *Iraqi Democratic Movement*, told *GSN* that the new investment measures would threaten the prosperity of Iraqi entrepreneurs at a sensitive moment in the economic development of the country.

The key beneficiaries of the privatisation that has taken place since the 1980s have been the *Baathist*-associated Iraqi oligarchs in whose hands the country's capital has increasingly been concentrated. For the merchant class and the fast-growing service sectors, FDI will open the floodgates for foreign franchises and outlets to set up competition in Iraq. For the slower-developing heavy industries and manufacturing sectors, the arrival of FDI will be a godsend in terms of capital inflows and technology transfers.

Those who invested heavily in real estate and the Iraqi stock market in the lead-up to war have already seen rates of return

Will Washington bring "shock therapy" to Iraq?

The transformation of Iraq sought by **US** neo-conservatives *(GSN 718/10)* will not be limited to the political sphere. There is now a strong push for Iraq to develop commercial and investment laws that will be compatible with a fast-tracked Iraqi sovereign constitution and will offer a relatively unconstrained investment environment for foreign capital. This will be accomplished though the Pentagon-dominated ***Coalition Provisional Authority (CPA)***.

Though the CPA may be slowly losing its iron grip over the ***Iraqi Governing Council (IGC)***, close associates of US Secretary of Defence **Donald Rumsfeld** continue to fill influential positions in the economic advisories in Baghdad. The US ***Agency for International Development*** economic reconstruction contract being managed by ***BearingPoint International*** includes Iraqi legal reform sub-contracts being undertaken by ***Squire, Sanders, and Dempsey***, whose partner **Ron James** is a close associate of Rumsfeld and US Vice President **Dick Cheney**.

The CPA is also directly driving more aggressive privatisation and opening to foreign direct investment (FDI) through its own consultants. The ***Iraqi International Law Group*** is now operating in Baghdad under the leadership of **Sam Chalabi** – brother of **Ahmed Chalabi**, the current rotating head of the IGC – and **Marc Zell**, a former business partner of US Undersecretary for Defence **Doug Feith** at legal practice ***Zell, Goldburg, and Co.***

Perhaps most dramatically, the CPA has contracted **Russia**'s **Yegor Gaidar** to consult on the lessons of Russia's experience of rapid opening to foreign capital, which Gaidar called "shock therapy". As one of **Yeltsin**'s "young reformers", Gaidar was the central figure in Russia's disastrous experiment with privatisation vouchers, which were quickly sold by the public and gathered in the hands of oligarchs for a fraction of their market value.

of 500% in the last six months. Opening to FDI threatens the monopoly of these economic leaders and of a number of smaller business consortia that have emerged since the war, providing conduits through which Western businesses have been able to form joint ventures.

For manufacturing, the advantages and disadvantages of opening to FDI are more mixed. Iraq is now effectively a free trade zone, and it will stay that way beyond January next year. At that point, the CPA and IGC will probably experience great difficulty in imposing even the 5% import tax they have announced.

Whatever plan finally emerges, contemporary Iraq is witnessing a major economic reshuffle that will rapidly reorder the local business community.

Iraq's investment potential: looking beyond the security concerns at non-oil sectors

With the appointment of an interim cabinet and the drafting of an initial investment law, Iraq looks like taking great strides towards reintegrating itself in the global economy – albeit under intense security pressures..

One of the main aims of the Iraqi Governing Council (IGC) and the Coalition Provisional Authority (CPA) at present is to encourage investment flows to the country in order to speed a reconstruction that is having trouble locating funds from bilateral and multilateral donors. Though international investors have yet to make great inroads, it seems only a matter of time. With the exception of oil, gas and mineral resources, the entire economy is open to foreign ownership. *GSN* looks at a dozen of Iraq's main service, manufacturing and industrial sectors that will be ripe targets for international investors.

The service economy

Iraq's service sectors are likely to be the fastest growing elements of the newly opened non-oil economy. Iraq's relatively large and young urban population has been strongly boosted by the influx of foreign businessmen, bureaucrats, and military personnel. The liquidity of the economy has experienced a rapid turnaround. Personal savings rates appear to have been underestimated during Saddam Hussein's regime, with much more "mattress money" emerging than had been anticipated.

As well as destroying much value, looting effectively redistributed wealth within Iraqi society. These cash reserves have been boosted as the Saddam dinar has steadily stabilised and increased in value (a new currency will be introduced in late October). CPA stipends to Iraqis may not arrive with perfect regularity but nonetheless represent a major increase in personal spending power at a time when international food support is still being provided in Iraq.

The results of new liquidity – a burgeoning consumer goods market - were evident to many recent visitors to Iraq consulted by GSN, who say the quick set-up times and low start-up costs in the services sectors currently offer the best opportunities for investors.

Key sectors include the following:

• **Telecommunications:** The landline telecoms system was comprehensively attacked by the **USA** during the war, particularly outside Baghdad. As a result, the country is unlikely to attempt to reconstitute a land-line system, and offers a very attractive emerging market for telecommunications firms. However, the current tenders on offer suggest that early market entry will be a major gamble. With a estimated $200m of investment required to set up services for an estimated 400,000 users each in the north, centre, and south of the country, it is likely that there will neither be the number of users nor the length of contract (currently capped at two years) to show a profit.

In any case, until there is a firm legal basis for foreign investment (i.e., a constitution and sovereign government in place), investors are unlikely to get much more than a toehold in the market, and may have to wait for more secure longer-term contracts.

• **Motor Vehicles:** Judging from the large number of foreign licence plates visible in Baghdad and the rapid drop in car prices in Iraq, there has been a tremendous increase in the number of imported cars since the war. Cars valued at $9,000 in Iraq before the war are now retailing for $4,000, according to recent visitors.

In **Abu Dhabi**, a large proportion of five- to seven-year-old cars have been purchased for resale in Iraq, and a similarly large proportion of $3-4,000 used cars have been purchased in **Kuwait** and exported over the border. Iraq represents a large and fast-growing market for spare parts and mechanic services.

• **Consumer Goods:** For some time to come, it will be quicker and cheaper to import consumer goods to Iraq than to produce them in-country. Imported consumer goods will be a major market for the foreseeable future, with the majority of goods flowing through Kuwait rather than Umm Qasr. Though rail networks are being rehabilitated, they are primarily serving the humanitarian requirements of CPA and IGC policies, and road traffic will remain the key means of commercial inter-nodal freight for the foreseeable future, with containerised goods being trans-shipped from Kuwaiti to Iraqi trucks at the border and thereafter transported to most destinations in Iraq for under $50. The Iraqi public have already embraced the full range of white goods, computers, satellite television and DvD technologies.

• **Hospitality:** The hotel business in most major Iraqi cities is booming due to the influx of CPA officials, foreign businessmen and international organisations, and to high levels of domestic business travel within Iraq. Related industries have also experienced sharp upturns, including ice manufacture, air conditioner leasing, the provision of Internet and satellite phone access, and security services.

• **Construction:** Though the future for construction in Iraq is clearly very bright, Iraqi firms have not yet experienced the boom in business that they anticipated. Despite winning around 79% of ***Bechtel***'s capital construction sub-contracting work, Iraqi firms have been disappointed by the small scale and short duration of contracts, which have only created jobs for around 25,000 Iraqi construction workers. The expected influx of additional donor funding, further ***US Agency for International Development (USAID)*** contracts, and increased foreign direct investment flows suggest that the market will experience unchecked but steady growth for some years.

Non-oil industrial sectors

Iraq's recent experience of containment and sanctions has distorted the country's ability to exploit advances in these fields since 1990, and the heavy industries and manufacturing sectors offer tremendous mid- to long-term investment opportunities.

Much of the country's high-technology industries were converted to serve military industrial programmes throughout the previous two decades, and the country's industrial base suffered heavy damage in the 1991 conflict. Any goods with dual military and civilian applications were difficult to pass through the UN Sanctions Committee. This restricted the country's access to advanced electronics and communications equipment, and halted the development of Iraq's chemical and pharmaceutical industries, which were believed to support chemical and biological weapons programmes.

Power generation has fallen short of the demands of industry since the electrical grid suffered major damage in 1991, and will require massive new investment. There will be notably less immediate momentum in other sectors of the non-oil economy, which accounted for just 11% of government revenues ($343m) in the H2 03 budget period.

Though the non-oil industry holds the key to long-term economic stability and job creation, it will not deliver the "quick wins" that the CPA currently requires in terms of revenue generation. For instance, it may be cheaper in the near-term for the CPA to import foodstuffs, pharmaceuticals, and construction materials than to manufacture them. The domestic manufacturing sector, including high-technology industrial equipment, is only beginning its reorientation from military back towards civilian applications. Opportunities exist in the following sectors:

Power generation

The earliest opportunities will unfold in Iraq's electricity generation transmission sector. Though signs already point to competition between Iraq's domestic generation capacity and that of neighbouring countries, a deregulated market is some time off. No timeline has been finalised for the creation of the ***Iraqi Electric Regulatory Authority*** that US firm ***BearingPoint International*** has recommended.

The very high rate of subsidised electricity supply enjoyed by Iraqis will limit the speed with which the industry can be exposed to market forces, though Iraqis are becoming used to paying for electricity by purchasing generators for "point" or household generation. Maintenance training and funding will be key near-term requirements for the power sector. USAID has outlined the following stages of power infrastructure redevelopment:

• **Emergency repairs:** This phase rapidly returned power generation to a plateau of 3,300 megawatts (MW) in the first six weeks after the war, but it has been difficult to raise sustainable supply any further due to low oil production. Repair work was undertaken under USAID's Bechtel-administered capital construction contract, using up all $259m allocated to it.

Power generation throughout Iraq is fluctuating in the 3,000-3,500MW range, an average of 82% of pre-conflict output. The CPA is negotiating possible purchases of power from partners such as **Turkey** (70MW) and Syria (70MW), and could also consider **Iran** (100MW). Electrical generation in the Baghdad area currently runs at 1,300MW. Most of Iraq now operates on a three-hours-on/three-hours-off power supply. The CPA hopes to guarantee power 24 hours a day at strategic sites such as hospitals, water and sewage plants, and oil installations.

• **Return to pre-war capacity:** An additional $350 million worth of funding has been provided by the CPA to get generation back up to the pre-war level of 4,400 MW. This work will primarily involve mechanical and electrical repairs of existing infrastructure, and will be opened to public tender in late November, according to USAID. Some capacity will also be replaced using point generation rather than by repairing transmission elements of regional and national grids. Whilst insecurity remains, point generation offers strong advantages over the use of vulnerable overland transmission.

• **Meet near-term demand:** The CPA thereafter plan to expand supply to 6,000 MW within 12 months through the installation of new gas turbines at existing plants.

• **Install new capacity:** The Iraqi Electric Commission Plan – which should ensure some continuity after the CPA disbands - aims to reach an optimal installed capacity of 7,500 MW by mid-2006 to allow for an expansion of peak-time demand, for the frequent down-times required by hydroelectric plants, and for other down-time required to maintain and repair generators. This would probably require some $8-10bn in new investment, reportedly spending 80% on generation, 16% on distribution, and 4% on transmission.

• FOOD & BEVERAGE: Sanctions and the Oil-for-Food Programme (OFP) caused tremendous damage to the Iraqi food and beverage sector between 1990-2003. As well as preventing import of milling and cold storage equipment and pesticides, OFP prevented Iraq from using its oil revenues to purchase agricultural produce from domestic sources. Over 60% of Iraqis depended on imported OFP food parcels, strangling the development of local agribusiness and the food and beverage sector during this period.

One of the key restraining factors on the food and beverage industry will be the high levels of subsidisation that Iraqis are used to. Some non-essential foodstuffs and beverages which were not included in OFP packages continued to be locally produced by firms such as the ***Baghdad Company for Soft Drinks*** (a former ***Pepsi*** subsidiary), and packaging specialists like the ***Iraqi Packing and Canning Company***.

With access to non-sanctioned goods, factories in the Kurdish north maintained relatively high levels of productivity. The ***Harir Processing Plant*** in Kurdish northern Iraq produced 600,000 cans of high-quality tomato paste during a test period in June-September 2001. Within ***Baathist*** Iraq, however, most mass production of foodstuffs ceased during OFP.

In the longer term, the relatively Western-leaning Iraqis are highly likely to buy into brand-name soft drinks as soon as local franchises and licensed production deals can be arranged. Even during the Baathist years, a range of smuggled Western-branded foodstuffs and drinks remained popular in Iraq, suggesting that local grievances against the USA will not translate into effective Arab boycotts of Western merchandise. With a predominantly young, urban population estimated at 22m and growing fast, Iraq represents a major potential market for soft drinks and fast food franchises.

• BUILDING MATERIALS: A priority for industrial development will be the building materials sector, which will naturally experience a sharp and sustained increase in trade over the next decade. Iraqi cement and clinker production is only 4.3m and 3.3m tonnes a year, respectively. The reconstruction programme will require output to be lifted to at least double that level.

Exposure to market forces has pushed the cost of producing cement from $8 per tonne to $100 per tonne in state-owned enterprises, and quality control remains low. As a result, this is one of the least competitive industries in Iraq and is already losing out to imports from neighbouring states. Companies like FL Smidth of Denmark, which has been keeping a close eye on plants it built in Iraq during the 1970s, will be on hand to propose expansion and upgrade projects, probably including equity investment. Cemex of Mexico and France's Lafarge are also likely to be quickly on the scene proposing new cement plant investments.

• CHEMICALS: The 1991 war and over a decade of sanctions had a heavy impact on Iraq's chemicals industry, resulting in direct attacks on the sector in 1991, followed by a rundown of embargoed machinery and the diversion of key surviving elements to military industrial applications. Iraqi agriculture will require large quantities of fertiliser and pesticide to service its domestic requirements.

Saudi Arabia protective of IMF rights

Despite increasing political tensions between the two countries, Saudi Arabia is emerging as a conservative ally of the **USA** in opposing plans to enhance the voting rights of developing countries within the International Monetary Fund and ***World Bank***. Saudi Arabia could see its influence in the 184-country IMF diluted by such a change; it holds 3.23% of the vote on the IMF's board of governors, and does not share its directorship with any other country, as most member states do. Besides Saudi Arabia, only **China**, **France**, **Germany**, **Japan**, **Russia**, the **UK** and USA hold one-country seats.

Proposals under review over the next few months would increase the number of "basic votes", of which all member countries hold an equal number. The net effect would be to slightly shift the balance in favour of poorer countries and post-communist transition states. But if this change goes through it might pave the way for a much bigger change – a substantial shift in the quotas for each country's financial contribution to the Fund, which ultimately plays a greater role in determining voting clout. This has always been jealously guarded by Saudi Arabia.

Without directly confronting the advocates of change, the kingdom argued against any early action on votes. Finance Minister **Ibrahim Al-Assaf** told the World Bank's Development Committee that it should wait "several years" before taking a decision on voting rights. "In the circumstances, it would not be productive for us to dwell further on the implications of a shift in the voting structure," he said.

While there was universal acceptance at the annual meetings of the case for technical enhancements like extra staff and training and better communications to support developing countries' board members, the question of a shift in voting clout was the subject of fierce argument. The big winners of a voting restructuring would be the major emerging economies of Asia and Latin America – at the expense of Saudi Arabia and small, rich west European economies. At the 2006 annual meetings in **Singapore**, where Asia's industrial powers will be centre stage, voting rights are likely to be a major issue.

In opposing any change, the Saudi government risks finding itself on the losing side of the argument. World Bank president **James Wolfensohn** and IMF managing director **Horst Köhler** have already hinted at their own views, using their final press conference in **Dubai** to strongly support a greater voice for the developing world. Europe could also move the same way. The UK has already put its support for a basic vote increase on record, as has ***Swiss*** Finance Minister **Kaspar Villiger**, chairman of the Dubai meetings.

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Yemen refinery advances, production hopes dim

Sanaa has two pieces of good news to counter the less welcome headlines afflicting its energy sector of late. On 20 August, **Canada**'s *Calvalley Petroleum* announced a significant find in Block 9, reporting that the third of the four Al Roidhat-1 wells located in the block had crossed oil-bearing Qishn sands. Similar Qishn formations in Sayun-Masila Basin produce at rates 5,000-15,000 b/d.

The news followed the government's green light for Yemen's first private oil refinery, a $200m facility backed by a group of **Saudi** and **UAE** investors operating as *Hadramout Refineries Company (HRC)*. Bids were anticipated in early October for an estimated $200m engineering procurement and construction contract on the refinery. However, the financing for the refinery has yet to be decided.

In mid-August, HRC signed a $1.2bn ten-year offtake deal with **South Korea**'s *Samsung Corporation*. Samsung will lift a total of 8.8m tonnes over the period.

The oil is geared for both export and domestic use, with local demand expected to rise from its current level of 100,000 b/d in the next few years as GDP growth inches above 3%/yr.

The refinery will be built near Mukallah on the southern coast and should start operations in 2006, with 50,000 b/d output, expandable to 100,000 b/d within the plant's 50-year lifespan. At least 60% of the refined oil will stay in-country.

HRC is also mulling other investments in Yemen, which is under strict orders from the *International Monetary Fund* and *World Bank* to kick-start a privatisation programme.

Current refining capacity is just 130,000 b/d, mainly from the Aden plant operated by *Aden Refinery Company* and a 10,000 b/d plant at Marib operated by *Yemen Hunt Oil Company*.

Another new private grassroots refinery is planned – a 30,000 b/d facility at Ras Issa on the Red Sea, for which **US** group *VECO* is working on a feasibility study.

The government also plans to boost design capacity at the Aden refinery from 170,000 b/d to 225,000 b/d.

Looking upstream

Much attention remains focused firmly on Yemen's upstream sector. With oil accounting for around 70% of state income, the government has sought to lure new players to the country to stem worrying production declines. Output averaged just 443,000 b/d in 2002 and the 2003 figure is unlikely to be any higher. The World Bank has warned that production could fall to half that by 2008 unless urgent action is taken.

Reserves are concentrated in five areas, dominated by Canada's *Nexen*, *Hunt Oil* and **France**'s *Total*, along with a slew of independents.

Nexen's efforts to increase its Yemeni production beyond 230,000 b/d look set to fail, largely as a result of a dispute over the government take under a production-sharing agreement (PSA). But Nexen is looking to drill at least eight wells in the northern blocks over the next two years.

Yemen's total reserves are estimated at 4bn bbls, concentrated in the Marib-Jawf Block 18 in the north, East Shabwa Block 10A and Masila Block 14 in the south, and the Jannay Block 5 and Iyad Block 4 in the central region.

The government still hopes to boost oil production capacity to its former level of 500,000 b/d by year-end 2003.

Exploration efforts have increased in recent years, assisted by a downturn in the number of attacks on international oil company personnel and oil infrastructure.

However, a mid-September blast set off by disgruntled tribesmen damaged one of the main export pipelines, underscoring the susceptibility of the oil infrastructure to attack. The pipeline was located in the troubled Marib region.

Bleak prospects for increased oil output

The frenzy of E&P activity of recent years is unlikely to alter the bleak long-term production outlook.

A World Bank study forecast that output could slide to below 200,000 b/d by as early as 2008, unless more work is undertaken to stem the decline in fields. Better PSA terms would hold out some hope of boosting discoveries.

A total of 130 offshore wells were planned to be drilled in 2003, but new discoveries are unlikely to have matched up to the authorities' expectations.

In August 2002, **Norway**-based *DNO* brought on stream a new production well in the onshore Block 32, east of the Hadhramawt region. The Tasour field, which is operated by DNO, produces an average of 20,000 b/d.

Untapped gas reserves, LNG scheme on hold

Gas reserves of 16.9trn ft^3 remain untapped. The Yemen LNG project, initially supported by Total, expired for want of firm buyers for the gas. There are no signs of any moves to resurrect the project. Raising production of any sort will be a tough job for those who care to try.

KUWAIT

Project Kuwait picks consortia for next bidding stage

Project Kuwait took another slow step forward on 22 September when the Supreme Petroleum Council sanctioned the formation of three international groups bidding on portions of the deal.

Kuwait hopes the project will eventually double output from its five northern oilfields, though real progress has been a long time coming.

The three consortia are due to submit development plans by a 27 October deadline. Companies will outline ideas on how to develop the northern fields, leaving ***Kuwait Petroleum Corporation (KPC)*** to evaluate the bids. Each consortium will also provide KPC with three different supplementary plans outlining the companies' view on possible fiscal structures, timeframes and project economics.

KPC will then judge whether amendments should be made to the original development plan as a result of the international oil companies' recommendations. The resulting plan will then become the potential bidding platform for the groups.

Project Kuwait, which has been held up because of parliamentary opposition to opening the upstream to IOCs, calls for the doubling of production from northern fields, which now produce around 450,000 b/d.

The three approved consortia break down as follows:

- Group One: ***ChevronTexaco*** leads with 50%, along with ***Total*** (20%), ***PetroCanada*** (10%), **Russia**'s ***Sibneft*** (10%) and **China**'s ***China Petroleum and Chemical Corporation (Sinopec*** – 10%).
- Group Two: **BP** leads with 65%, along with ***Occidental Petroleum*** (25%) and a combination of **India**'s ***Oil & Natural Gas Corporation*** and ***Indian Oil Corporation*** (together 10%).
- Group Three: ***ExxonMobil*** leads with 37.5%, along with ***Royal Dutch/Shell*** (32%), ***ConocoPhillips*** (20%) and **Denmark**'s ***Maersk Oil*** (10%).

Each consortium has one operator and one back-up operator. ConocoPhillips, at its own request, was downgraded from operator to non-operator in Group Three.

Energy Pointers

IRAQ: Lukoil confident of success

European critics are complaining that in most sectors **US**-based firms are picking up the lion's share of contracts, but **Russia**'s Lukoil is confident it will be allowed to proceed with its **Saddam**-era contract to develop Iraq's 15bn bbls West Qurna oilfield. The Russian company signed a contract in 1997 to develop the field, but sanctions and disputes with the Iraqi authorities prevented any oil being extracted. Lukoil president **Vagit Alekperov** has reportedly said that the contract remains valid under international law, having discussed the matter with Russian President **Vladimir Putin**, US Energy Secretary **Spencer Abraham** and US Commerce Secretary **Don Evans**. Alekperov said Lukoil had done some legal due diligence on the project, including retaining leading US legal firms, which had concluded the legitimacy of the project. If the scheme gets the green light, Lukoil would invest $1bn in the first 18 months, and up to $3bn within seven years of the development getting under way. West Qurna could produce 800,000 b/d within two years, Alekperov said.

IRAQ/TURKEY: Kirkuk-Çeyhan link set for November restart

Iraqi oil sales through its northern export pipeline could restart in early November, once storage tanks are filled at the line's terminal in Turkey, a senior Coalition Provisional Authority (CPA) official said on 1 October. The Kirkuk-Çeyhan pipeline was closed by sabotage in mid-August just before it was to pump large volumes of crude to world markets after a five-month closure. Repairs should be completed by mid-October, the CPA official said. But the CPA is also mulling alternative routes to export Kirkuk oil, although no details have been given. Security on oil facilities has been beefed up, with a fully trained force of 7,000-8,000 Iraqis set to join US forces and local tribes in December to protect oil routes and facilities. Shipping sources said Iraq exported around 930,000 b/d of crude in September.

OMAN: No bidders for deepwater blocks

No IOCs came in to bid by the 15 September deadline for three deepwater Gulf of Oman blocks tendered by the government working with PGS Geophysical.

QATAR: Total seeks LNG entry

France's Total is angling for a stake in the *Qatargas* II liquefied natural gas scheme. Discussions are under way which could result in Total taking an equity interest in the project, slated to produce up to 7.8m t/yr through a two- or three-train plant. The gas is destined for the **UK** market, where *Qatar Petroleum (QP)* is actively prospecting a growth market as North Sea supplies run down. The project's current shareholders are QP and *ExxonMobil*. In 2002, Total proposed to Qatargas the construction of a new 5m t/yr train, with a possible similar-sized second train. However, the current talks are focused on integrating these into the existing Qatargas II project. If successful, Total will also become an offtaker of Qatargas II LNG supplies. Construction contracts for the first Qatargas II train are due to be awarded in summer 2004. First gas is due in 2008.

UAE: Dolphin and Emarat join forces for gas projects

Abu Dhabi's *Dolphin Energy Ltd (DEL)* is to team up with **Dubai**-based *Emirates General Petroleum Corporation (Emarat)* to undertake new gas ventures jointly in the northern emirates. A memorandum of understanding signed on 30 September will see working teams from both companies studying the commercial viability of new gas ventures, evaluating the potential benefits from joint use of existing gas distribution assets, collective gas sales and marketing, and future gas transportation systems. The two companies are also in the process of finalising a deal for Emarat to undertake the operation and maintenance of Dolphin's new **Al-Ain** to **Fujairah** gas pipeline. The 182-km Al-Ain-Fujairah link is due to be completed before year-end, with first gas flowing during Q1 04.

GSN Risk Grade — C/2: Opposition demands action to open up politics; economy stable post Iraq war

Political and social development

Overview: King Hamad Bin Isa Al-Khalifa is facing real opposition from the groups outside parliament who boycotted the 2002 elections. While civil disturbances prompted by external stimuli have receded since the war in Iraq, protests are now focused on domestic issues such as unemployment, human rights abuses, prison conditions and political reforms. King Hamad's government will have to act positively and swiftly to avoid the problems escalating,

Opposition: A row has erupted over allegations that the government tried to manipulate last year's parliamentary elections by granting citizenship to members of the largely Saudi-based Sunni Al-Dawasir tribe. Opposition groups led by Wefaq, NDAS, Islamic Action and the ex-Baathist NDS (the groups that boycotted the 2002 elections) have led the challenge. The Al-Dawasir claim they have historical rights to citizenship. King Hamad has also come under fire after he donated money to Shura Council members. The opposition say the donations amount to bribes. A proposal to legalise political parties is expected to be proposed when parliament reconvenes in October. Publicly, at least, the government has not dismissed the idea.

Security: The civil disturbances seen during the Iraq war have receded, but security services remain vigilant. In recent months two Bahraini men have been jailed in connection with planned terror attacks in the country (three other men have been acquitted). Arab justice ministers meeting in September were met with a demonstration against a 2002 law that offers protection to violators of human rights and torture. The protestors demanded compensation and fair trials for those accused of such violations.

External relations: Relations with the USA remain close, though Bahrain continues to push for the release of six nationals detained in Guantanamo. While close dialogue is kept with GCC states – Saudi Arabia is routinely consulted on a variety of issues – Qatar's recent seizure of a number of Bahraini fishing vessels that strayed into Qatari waters demonstrates a continued edginess in relations. The positive noises that followed the 2001 Hawar Islands dispute resolution have faded. There have been frequent high-level contacts with Iran in recent months; seven co-operation agreements were signed in May. Bahrain is also the present chair of the Arab League.

Economic outlook

Overview: The economy has recovered from a dip experienced during the war in Iraq, with the government forecasting 5% economic growth, following 5.1% growth in 2002. Unemployment, however, remains a real concern at around 15% for nationals. The government has pledged to overhaul the work permits system by 2005, while infrastructure such as the Bahrain Financial Harbour, Durrat Al Bahrain resort and the new Formula One race track will help create new jobs. The oil industry is minimal; Bahrain pumps around 40,000 b/d from its own oil fields and 140,000 b/d from a shared offshore field with Saudi Arabia. The sector contributed 16.6% of GDP in 2002.

Financial sector: Bahrain is a regional leader and despite some banking sector concerns – Bahrain International Bank and BMB Investment Bank are in technical default – there are encouraging signs of further growth. Bahraini-incorporated banks posted combined profits of $377m for first half 2003, compared with $289.7m for first half 2002. The Bahrain Stock Exchange has risen to new heights, passing the 2,000 point mark and in early September reaching its highest point in three years, while a debut five-year $500m sovereign eurobond was launched in January, rated A- by S&P. The Bahrain Monetary Agency plans to issue Islamic bonds worth $670m in 2003; a $250m issue was listed on the local bourse in early July.

Budget: A BHD744.6m ($1.946bn) combined budget deficit is forecast for 2003 and 2004 (BHD362m for 2003 and BHD383m for 2004). Projections, however, are based on an average $18/bbl oil price, which should easily be surpassed in 2003. BHD330m has been set aside for development projects in each year. Foreign investment will be required in order to meet targets. Bahrain is progressively shifting state borrowing to Islamic structures; Islamic bonds and loans represent around 80% of domestic debt.

Liberalisation: Bahrain expects around $700m FDI from privatisation sales in 2003. MTC Vodafone won the second GSM licence in mid-April. A new telecoms law is due 2004. A committee has been created to prepare a feasibility study to privatise the electricity and water sectors. Transport sell-offs could include management of Mina Salman and Khalifa Bin Salman ports. A 3% base rate income tax has been mooted. Free trade talks with the US are scheduled to start in January 2004.

Bahrain: Key Projects

Hidd power and desalination plant expansion: France's Alstom has a $300m contract to install 700MW; a steam turbine will be installed by mid-2004. Consultancy contract for third phase expansion to be awarded soon.

Aluminium Bahrain: Fifth potline for completion June 2005; Bechtel began construction mid-February. Five tranche $1.05bn commercial bank facility secured; $300m European export credit tranche also sought. Alstom has a 650MW power contract. USA's Alcoa is mulling a sixth potline to raise output to 1m t/yr. Alco has an MOU to buy a 26% stake in Alba.

Bahrain Financial Harbour: $1bn project planned in 202,272-square-metre plot. First phase construction started December 2002. Final completion expected October 2005.

Bangas LPG: Debottlenecking and 20m-30m ft^3/d expansion to existing 280m ft^3/d processing plant. EPC tender expected Q1 04 for 2006 completion.

Sitra refinery expansion: Planned $600m, 40,000 b/d low-sulphur diesel production unit at Bahrain Petroleum Company's 250,000 b/d refinery. EPC award is awaited; JGC Corporation is the low bidder.

F1: Bahrain's new race circuit has been included in the 2004 Grand prix schedule. Subject to completion, which is expected by 7 March, Bahrain will host its first Grand Prix on 4 April.

Durrat al-Bahrain resort: First tenders for the $1.2bn development expected early 2004. Infrastructure requirements include power and water. Completion expected 2008.

GSN Risk Grades

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

BAHRAIN: Economic Indicators

($ million)	1998	1999	2000	2001	2002
GDP current prices	6,166	6,601.1	7,947.3	7,911.7p	8,100e
GDP growth (%)	-2.6	7.1	20.4	-0.5p	0.5e
Exports	3,260.7	4,350.0	6,176.3	5,562.1	5,354.6
of which: hydrocarbons	1,689.2	2,767.7	4,464.3	3,671.4	3,530.2
Imports	3,555.6	3,686.8	4,619.7	4,294.4	4,619.9
Trade balance	-294.9	663.2	1,556.6	1,267.6	734.7
CPI (percent)	-0.4	-1.3	-0.7	-1.8	0.5e
Current account	-775.1	-339.7	112.7	182.0e	-
440.0e					
Foreign exchange reserves	1,290	1,369	1,564	—	—

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

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

GSN Risk Grade — E/3-: Nervous times – nuclear issue, domestic politics may jeopardise economy

Political and social development

Overview: The coming period will be a particularly tense one for Iran. Externally all the focus is on the country's nuclear ambitions, with the International Atomic Energy Agency giving the Iranian authorities until the end of October to answer all its queries about the country's nuclear programme. Failure to do so could result in UN economic sanctions. Domestically the chronic struggle between President Khatami and the conservative clerics continues. The passage of two key bills, seen as a test of reformist power, have been blocked by the conservative Guardians Council. The increasing dissatisfaction of a youthful population is very apparent.

The nuclear question: Iran has until end October to address a number of issues to help prove that its nuclear programme is not geared towards the construction of nuclear weapons. These include Iran's uranium enrichment capabilities and allowing the IAEA full access to all sites that it wants to inspect; the latter, the EU has underlined, is essential if trade talks are to progress. If Iran fails to meet the IAEA deadline the agency may report Iran to the UN Security Council, a move that may result in economic sanctions. The US appears ready to allow Iran to develop a nuclear power industry but has intensified lobbying against Iran since the early July announcement of the successful Shahab-3 missile test (capable of hitting Israel). Russia has been asked to limit Iran's freedom to modify Russian nuclear fuel supplies, which are being provided for the Bushehr power plant.

Two key bills: In early June the conservative Guardian Council rejected two Khatami-supported bills that would reduce its power to veto electoral candidates and give the president greater power to rein in the judiciary.

External relations: The nuclear issue is complicating relations with a number of Iran's key overseas trading partners including EU members and Japan. Iran has warned Israel to stay out of the affair. Diplomatic relations with the UK have also been dented by its arrest of former Iranian ambassador to Argentina Hadi Soleimanpur. Trading relations with Gulf Co-operation Council members are strong, though relations with the UAE remain clouded by the claims over the Tunbs islands and Abu Musa.

The politics of oil: The nuclear issue is also having an impact on the oil sector. Japan has said the matter cannot be ignored in state company negotiations on the Azadegan oilfield. With international oil companies said to be frustrated by the comparatively low returns and short lengths offered by Iranian buy-back contracts, US pressure on the nuclear issue may prompt Iran to adopt more favourable terms to attract much needed investment.

Economic outlook

Overview: Iran has made significant economic progress without US investment but there are signs that the tense political situation is beginning to impact on the business environment including some oil contract negotiations. Despite a positive economic growth performance over the 2002/2003 Iranian year, the IMF has warned the government about expansionary policies. The government is forecasting GDP growth of more than 6% for its 2003/2004 year, with inflation of around 16%. Unemployment is officially 16%. Bureaucracy and corruption must be further addressed.

The IMF view: A recently concluded article IV consultation warned the government against dipping into its Oil Stabilisation Fund at a time of high oil prices. The IMF is also concerned about rising inflation, which rose to 15.8% in the year to 20 March. Despite some liberalisation measures the banking sector was singled out for worsening indicators, continued state domination and under-capitalisation. Unemployment could be helped by greater development of the private sector. On a positive note the IMF commended real growth of 6.8% over 2002/2003 and non-oil sector growth of 7.9%.

Finances: State oil and petrochemicals companies are planning eurobonds worth around $300m each before the end of the 2003/2004 year. While credibility with foreign investors has grown, helped by a good repayments record, some analysts have raised concerns about money laundering. Despite state domination the banking sector is being gradually opened. Four private banks have now been licensed, while private insurance companies are also being authorised.

Liberalisation: The EU has threatened to end free trade talks if nuclear concerns are not addressed. WTO membership is blocked by the US. Talks have opened about membership of the World Bank Group's Multilateral Investment Guarantee Agency (MIGA). The government has pledged to cut subsidies and target social support more narrowly to benefit the poor but these are political as well as economic issues, a fact that may affect progress. A two-tier exchange rate was scrapped March 2002; import procedures have been streamlined but restrictive elements remain. Privatisation progress has been slow. Urgent reforms are required to labour and commercial laws. A revised investment law was passed in May 2002.

MIGA MEMBERSHIP: Though WTO membership and EU trade agreements elude Tehran, upcoming membership in the World Bank's Multilateral Investment Guarantee Agency could help spur investment. MIGA membership will require Iran to present amended investment laws and enable firms to take advantage of MIGA's multi-billion dollars worth of guarantees. MIGA deputy head Louis Dureau visited Tehran on 1 October and spoke optimistically about MIGA membership.

IRAN: Key data and forecasts*

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

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

p Preliminary. f Forecast.

Sources: IMF, Washington; Bank Markazi, Tehran.

IRAN: Key Projects

South Pars gas field: Initial 12 phases; work underway on phases one and three to ten (phases two and three were commissioned earlier in 2003). Award of phases 11-12 awaited after revised bids. Shelll reportedly interested in 13 and 14. Around 20 companies have expressed interest in prequalifying for phases 15-16. Bids are expected in December.

LNG: Four projects under discussion. BG and Agip have signed a partnership agreement with National Iranian Gas Export Company, a subsidiary of the state National Iranian Oil Company. NIGEC launched prequalification in June for the first of two 4.5m-5m t/yr trains. Contracts for TotalFinaElf-led (Pars LNG) and Shell-led (Persian LNG) projects awaited. BP and India's Reliance also studying a project (Iran LNG).

Independent power projects: Only two companies applied to prequalify for purchase of the 350MW Khoy gas/steam plant in Azerbaijan province. State-owned Tavanir is also tendering six 500MW projects: award of Zanjan one and two expected late December/early 2004. A tender for Khoram Abad one and two is expected by end-year. Tenders for plants in Mashad and Kashan will follow.

Hydropower: Bids for the 1,000MW Siah-Bisheh project were extended to late September. Contract award is expected by end-year.

Refinery modernisation: Expressions of interest called for in August for the expansion and modernisation of the Tabriz and Tehran refineries. Tenders for upgrade work at the Abadan and Arak refineries are also expected by end-year. Work on the Isfahan and Bandar Abbas refineries will follow.

Iraq update: Business prospects trouble Baghdad entrepreneurs

While **US** government officials may be patting themselves on the back over the promulgation of the country's new investment "law" *(see page 10)*, Iraqi small businessmen are less pleased with the edict, and rumours in Baghdad indicate broader discontent with the way business is shaping up there.

With the new law allowing foreign concerns 100% ownership in all but the natural resources sector, several small businessmen in Baghdad told *GSN* they were concerned over the prospects of having to compete with Gulf Arabs and big companies from further afield. There are currently only a few large family companies in Iraq with the capital to compete with foreign firms. One of these families is the **Al-Bunnias**, headed by **Abdelwahab Mahmoud Al-Bunnia**.

One **Jordanian** businessman who has long done business in Iraq claimed that **Israeli** firms had been guaranteed contracts, although this contradicts statements by Interim Governing Council member **Adil Abdul Mahdi** at the *International Monetary Fund* and *World Bank* meetings in **Dubai**, where he said the Council had no plans to "recognise" Israel.

Both Iraqi and foreign contractors also claim that some businesses have been asked to make payments to **US** contractors, military or Coalition officials making the contract awards. US soldiers are also said to have approached local businessmen offering to help them win deals or "facilitate" contracts. Mid-September briefly saw rumours surface that either the CPA or the ***Federal Bureau of Investigation*** were looking into charges of corruption at ***Kellogg, Brown & Root*** in Baghdad, but these now appear to be false.

Such concerns have sparked action in the USA. ***Republican*** Senator **Susan Collins** and *Democratic* Senator **Ron Wyden** are jointly sponsoring a bill to make future contract allocations more transparent. "The Iraqi contract process looks like Dodge City before the Marshals showed up," Oregon Democrat Wyden told a news conference. "It just doesn't pass the smell test to have companies not be part of the competitive bidding process."

PEOPLE: McKee replaces Carroll at Iraq's MOO

Although the Ministry of Oil (MOO) is nominally headed by acting Oil Minister **Ibrahim Mohammed Bahr Al-Uloum**, the US-led coalition appoints a senior adviser to the ministry who no doubt has slightly more than an advisory role. The first incumbent was former *Shell Oil* executive **Philip Carroll**. Now the Coalition Provisional Authority has replaced Carroll with **Robert McKee**, a former **ConocoPhillips** exec who banked 36 years of exploration and production experience before his retirement in April. Carroll will "return to private life", according to a CPA statement.

Perspective: 20 years ago

American dependence on oil from the Arab Gulf states has been highlighted by a recent nationwide test in the **USA** of how the country would respond to an interruption of oil from the region. The hypothetical emergency exercise, co-ordinated by the ***International Energy Agency***, postulated a situation very similar to what could occur if the escalation of the **Iran-Iraq** war cut the flow of Arabian oil from the Gulf. In the test, the **Reagan** Administration took no regulatory action of any kind which allowed the retail price of gasoline and home heating oil to soar theoretically to more than $3 and $4 a gallon in parts of the country. This massive increase, the test showed, had the effect of reducing consumption by some 18%. The Administration claimed that the test proved that letting the free market determine oil prices in a period of crisis would reduce consumer demand sufficiently to eliminate the need for government control to restrain prices and consumption. However, there was strong disagreement from states participating in the exercise. Evaluations of the test by state governments suggested widespread business and industrial shutdowns, bankruptcies and massive unemployment resulting from the postulated crisis. One state energy office said "The Administration's allocation-by-price scenario transformed a petroleum crisis into an economic disaster in which oil supplies were adequate only for those who could afford them."

The realities of American dependence on Arab oil was emphasised last week, when the Reagan Administration expressed with 'firmness' its commitment to the freedom of commerce and navigation in the international waters of the Gulf. In a testimony before the House Foreign Affairs Committee, a deputy Assistant Secretary said the United States had made it clear to both Iraq and Iran that "the unrestricted flow of oil from the Gulf is vital to the entire international community". The State Department official continued, "Even if **Iran** and **Iraq** cannot come to grips with the basic issues that divide them, we expect them to respect this principle". The official made specific reference in his testimony before Congress to the recent visit of **Ismat Kittani**, the Iraqi Undersecretary at the Foreign Ministry, who spent two weeks in Washington recently. "His visit was an eloquent statement of the value Iraq and the US place upon coming to understand each other more accurately than has been possible in the past", the official said.

The United States has made no secret over its concern at the possibility of an interruption of Gulf oil supplies and has also made known that the US would take direct action if such a situation occurred.

Gulf States Newsletter, Vol. 8, No. 222, 3 October 1983

Citigroup's Samba retreat: geopolitics or office politics?

Citigroup insiders are sticking to the argument that the bank's move to pull out of a technical management agreement that had bound it to ***Saudi American Bank (Samba)*** since 1980 was prompted by changing global markets and a rethink of the bulge bracket group's strategy in New York. But speculation persists that the decision to pull back from Samba – where Citi remains a 20% shareholder, and is also linked via **Prince Al-Waleed Bin Talal Al-Saud**, who has holdings in both groups – points to a wider trend among global banks, and especially **US**-based institutions, to rethink their strategy to retail and other banking services in **Saudi Arabia** in the wake of 9/11, the *Patriot Act*, Know Your Customer (KYC) measures and class actions of the sort being promoted by lawyers ***Motely Rice*** (GSN 718/3, 712/4).

There is much speculation that Citigroup will sell its 20% stake. It already tested the waters with the sale of 2.83%.

It is an issue about which many normally talkative bankers have kept quiet, with little initial gossip spreading apart from reiterations of the official Citi view that the move was decided at board level in New York (although who led it is not yet apparent), and that Citigroup didn't feel comfortable with holding a 100% liability on Samba for a 20% stake.

With assets of SAR78.7bn ($21bn) on 30 June 2003, Samba is a big bank by regional standards – and number 154 in *The Banker* magazine's annual listing of the *Top 1,000 World Banks*. It reported a 17.5% drop in pre-tax profit in 2002, to a still healthy $496m.

The profits of Samba and other big Saudi banks shows money is to be made – and with a new capital markets law opening the way for majority-owned foreign banks, one rumour doing the rounds is that Citigroup has pulled out of Samba to better position itself to establish a new Citi-branded investment bank in the kingdom, similar to other Citibanks around the globe. However, seasoned Gulf bank watchers see this as unlikely. Citigroup is the world's largest bank in terms of tier one capital strength (at $59bn); it generated $22.77bn profit in 2002. According to a prominent Arab commentator, "the Samba break was coming. It was not a huge contributor by the standards of a changing Citigroup, especially when you consider that compliance issues, KYC and 9/11 issues have changed things." He concluded: "Banks no longer need to be in the region just for the sake of it."

The move led ***Moody's Investors Service*** to place Samba's C+ financial strength rating "on review for possible downgrade". This is hardly dramatic stuff: Moody's action, which was triggered by the Citigroup move, does not affect Samba's Baa2/Prime-2 ratings for foreign currency deposits.

Moody's commented that Samba was strongly rated, in part due to the Citi link. It said the rating review would focus on assessing the impact of the withdrawal of up to 20 key Citigroup-seconded staff, the severing of operational and technical support agreements, and Samba's initiatives to manage this change. Deputy managing director **Eisa Al-Eisa** has been promoted to MD, replacing **Mike de Graffenried**.

One piece of good news: *GSN* hears that Samba's chief economist **Brad Bourland**, probably the single most quoted analyst on Saudi economic matters, is to stay with the bank.

So is Citigroup's Samba get-out a matter of office politics or geopolitics, or a blend of both? Banks are deeply concerned about compliance issues and their potential liabilities post-9/11. One indicator of a dramatic shift would be if, at just the moment when significant flows of cash could be flooding back to domestic Gulf accounts, Citigroup and other institutions pulled back from retail operations in Saudi Arabia and elsewhere in the Gulf. "Watch developments in the **UAE** retail markets for clues," commented one seasoned observer.

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