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Dubai's Sheikh Mohammed takes on tough government role

Often seen as an autocratic leader, Sheikh Mohammed occupies a complicated position in the UAE's subtle power mix and may now be ready for political reform to promote Dubai's global ambitions.

Spurred into action by the traffic jams that now clog its streets for hours every day, Dubai is pressing ahead with detailed plans for a \$4bn light rail system, with 99 trains to carry up to 43,000 passengers an hour on two lines by May 2013. Construction starts next year. By Dubai standards, that is a relatively slow gestation for even so massive a project. Few would be surprised to see the timetable speeded up as the emirate's energetic government seeks to modernise infrastructure to keep up with the daunting pace of development.

Dubai has exemplified the United Arab Emirates's capacity for taking sudden large strides after a quick decision by top leadership. A string of massive new projects over the past decade, most often led by the ruling Al-Makhtoum's *Emaar Properties* vehicle – including Dubai Internet and Media Cities, the Burj Al-Arab hotel, Palm Island and the *Dubai International Financial Centre (DIFC)* – have each been more surprising and audacious than the last, breaking new ground and consciously developing the city's role as a global-scale destination.

Externally, these have been perceived as the personal creations of Federal Defence Minister and *de facto* leader of Dubai's government General Sheikh Mohammed Bin Rashid Al-Makhtoum. Especially since his appointment as Dubai Crown Prince in 1995, Sheikh Mohammed has been widely portrayed as a sort of one-man

government, running the emirate like a private company in his determination to transform the city into a Gulf version of **Singapore** – the parallel most often cited by key aide, Emaar Properties' Mohammed Ali Alabaar.

But while there are undoubtedly parallels to be drawn with strong-minded south-east Asian leaders such as **Lee Kwan Yew**, the role of Sheikh Mohammed in Dubai politics is a more subtle and complex affair.

Hints of reform

Dubai sources insist that the clichéd view of Sheikh Mohammed as a one-man government are far too simplistic (*see Finance and policy*) – although one aide, when asked by *GSN* if he was an adviser instantly responded: "You don't advise Sheikh Mohammed!"

Operating under the auspices of the federal government in **Abu Dhabi** and as part of a traditional monarchical system, Sheikh Mohammed does not have the free hand he often appears to wield. He is also well aware of regional and international trends towards greater transparency and popular participation in decisions – and of the need for Dubai to fit comfortably with evolving global attitudes if it is to become West Asia's modern business gateway to the world.

In the past year, Sheikh Mohammed has responded to these pressures with a conscious attempt to institutionalise Dubai's governing structures and lay the basis for a formal system of supervision and accountability.

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An Executive Council, bringing together all the key governmental department heads, was established in early 2003. This is being accompanied by the creation of councils for the economy, culture and education, and the announcement of plans for local district councils – which might even be partly or wholly elected, although no final decision has been reached.

These are a formalisation of longstanding majlis (consultative) traditions. It is too early to talk of democratisation of the kind seen in some other parts of the Gulf – although this is advocated openly by some local commentators. But the new councils' creation does represent an admission of the need for reform, insiders told *GSN*, and could help to set the tone for further moves down the path of accountability and scrutiny.

However, they do not represent a model for parliamentary supervision of the government as a whole. "The councils are not there to advise Sheikh Mohammed. They are there to watch over departments and see that they really respond to the needs of people," one well-informed local observer told *GSN*.

He forecast a tussle for influence that will test the real strength of the new bodies: "The councils, especially the economic one, will be there to observe what's going on and make recommendations. How much power they have in practise will depend on their members and how much power they manage to grab. That's going to be a long struggle."

For the moment, it looks as though the key departmental officials working with Sheikh Mohammed will retain the upper hand. It is they who form the Executive Council, after all, not the civil society and interest groups that press for more rapid change.

Inside the machine

At the heart of the Dubai governmental system is the Executive Office (also known as the Corporate Office). Based in the stunning Emirates Towers hotel and office complex, this is the formal heart of day-to-day administration,

working directly with Sheikh Mohammed, designing new projects and overseeing the different elements of the evolving government structure.

Meanwhile the task of maintaining the momentum of business development and international capital inflows lies with *Dubai Development and Investment Authority (DDIA)*, set up in 2002.

The close interaction between these two central powerhouses of government is illustrated by the fact that both are headed by **Mohammed Al-Gergawi**, a US-educated MBA, who earned his spurs overseeing the development of the Internet and Media City projects.

Gergawi is responsible for preparing the new district councils scheme, which will then be discussed in the Executive Council – chaired by Sheikh Mohammed – before it goes ahead.

Other members of the inner technocratic circle include Alabbar, director of Emaar and the *Department of Economic Development*; **Sultan Bin Sulayan**, head of ports and customs; Dubai Municipality director general **Qasim Sultan**; and Dr **Khalifa Mohammed Ahmed**, head of the Ruler's Court.

The emirate's rulers have made a point of sounding out leaders of the trading community, the original motor of Dubai's growth. A few years ago, some major business families expressed concern at the slowing pace of economic activity, but Dubai's current growth spurt has revived spirits – even though *GSN* heard grumblings among some big families that their city centre developments are being evacuated by companies who are relocating in glitzy real estate projects promoted by Makhtoum-dominated companies. The Economic Council – which also includes key public officials – provides a forum in which to express their views in a more formalised and public manner.

The Council's chair is businessman **Juma Al-Majid**. Others appointed to it early this year included Dr **Ahmed Belhasa**, Dr **Anwar Gargash**, **Majid Al-Shamsi**, **Hisham Al-Shirawi**, **Sultan Al-Mansouri**, **Ahmed Bin Hassan Al-Sheikh** and **Ahmed Bin Brek**.

Troop deployment weighs on US-Turkish relations

Turkey's parliamentary vote in support of dispatching troops to Iraq could make relations between Ankara, Washington and Iraq's Interim Governing Council in Baghdad more complicated rather than less.

The Turkish parliament's 7 October vote to send troops to Iraq was a significant gesture in US-Turkish relations. But GSN hears from US, Turkish and Iraqi foreign policy actors that actual deployment of troops may never materialise – much to the relief of all parties involved.

Mindful of Turkey's failure to deliver basing rights in the spring, US Office of the Secretary of Defence (OSD) officials directed Turkish foreign policy officials earlier this summer to secure parliamentary backing before further exploring the issue of troop contributions. Now the Turkish government has a reasonably firm mandate to send troops if the US requests them, OSD has begun assessing the logistical feasibility and political costs of employing Turkish troops in Iraq.

Although Washington could put up to 10,000 Turkish troops to good use in north-western Iraq, the USA is far less desperate for international troop contributions than it was in July, when casualties were spiralling upwards and bombings began to broaden the list of sites that coalition forces were protecting. The situation has arguably changed since then; US forces have moved to counter-insurgency tactics that are more intelligence-led and less manpower-intensive, some international forces have arrived, and a dizzying range of Iraqi internal security organisations are proliferating to defend static targets and border areas.

The USA would undoubtedly still welcome sustainable, high-quality contributions of the type the Turkish military and other equivalent armed forces could offer, but Washington is no longer willing to expend as much political capital to attract troop contributions, and indications are that Turkish troops may come at too high a price for Washington's taste.

US Army officials have begun technical consultations with their Turkish counterparts to plan the arrival of 6,000–10,000 troops and their equipment in the Bakuba and Tikrit areas north-west of Baghdad. To ease the political issues raised by the Turkish military travelling through lower Iraqi Kurdistan, the majority of troops will be flown into Iraq.

GSN has learned there are also plans to improve a two-lane highway from Turkey that skirts the western edge of Kurdish-controlled areas of Iraq, and to build heavy-load bridges across the River Dijlah (a Tigris tributary). Turkish equipment and vehicles would move through Ain Zalah and link up with airlifted personnel at Tall Afar airbase.

But securing Interim Governing Council (IGC) support for the deployment of Turkish forces is likely to prove troublesome. Turkish support was merely the first stage in what could be a torturous process of negotiations before Turkish troops ever arrive in the provinces north-west of Baghdad. The Turkish vote was followed the next day by a

unanimous vote in the IGC against allowing the troops in, and an inconclusive day of talks on 9 October (*see Centrepiece*).

Iraqi public opinion is the invisible “elephant in the room,” in the words of former ambassador to Turkey **Mark Parris**.

The IGC's politics remain fluid. Turkmen IGC member **Songul Chapouk** has been vocal in pointing out that although the Council's decision was unanimous, this was more out of commitment to solidarity than real unanimity. Chapouk told GSN that the IGC would “welcome any countries who wished to contribute to the stability of Iraq”.

Kurdish representatives and the *Iraqi National Congress (INC)*, their one-time guests in Iraqi Kurdistan, represent the core of opposition. But they are not the only opponents of Turkish intervention. IGC members canvassed by GSN suggested the diversity of views; **Wael Abdul Latif**, the Shiite Governor of Basra, has little axe to grind with the Turks, but emphatically opposed the entry of Turkish forces, stating that the IGC opposed the presence of any of Iraq's neighbours.

Aside from Chapouk, Turkey has no real friends on the IGC and there is every chance that the body will choose this issue as the platform through which it will assert its growing confidence. Coalition Provisional Authority (CPA) administrator **L Paul Bremer III** must now calculate the political costs of accepting Turkish troops without an Iraqi statement of approval.

The Kurds and other costs of co-operation

Turkish involvement could lead to a number of hidden costs for the US administration there. One of these would be the need to satisfy Ankara that the Iraqi cells of the *Kurdistan Workers Party (PKK)*, now renamed *KADEK*, will be unable to mount further operations against Turkish interests.

Counter-terrorist delegations have been shuttling between Washington and Ankara since mid-September. On 2 October the Turkish government received State Department counter-terrorism co-ordinator **Cofer Black**, who is best known for offering to bring **Osama Bin Laden's** head back from *Afghanistan* for presentation to President **George W. Bush**.

Suppressing *KADEK* to Turkish satisfaction is a time-consuming job that US special operations forces will not want to undertake. Turkish special forces only achieved it by attempting to kill or capture the organisation's leadership. The Turks may also expect the US to expend some valuable political capital with the IGC and *Kurdistan Democratic Party (KDP)*, whose territory contains the majority of the *KADEK* camps in Iraq.

One sticking point may be that the Turkish military will probably want to have its operational freedom and rights

Turkey weighs deployment costs at home

While Washington remains concerned about the political and military capital it will have to expend to get Turkish troops into Iraq, deployment of Turkish forces promises to inflict extra recurring costs on Turkey as well, Turkish Foreign Ministry advisors told *GSN*. "Concealed pressures" had been brought to bear, Turkish sources said, by France, Germany and other EU members (presumably eyeing Turkey closely in the run-up to its accession), who are wary of Ankara's courtship of Washington via offers of troops.

Turkey's foreign policy elite are nervous about the potential domestic public opinion backlash that could attend deployment of forces to Iraq. Prime Minister Recep Tayyip Erdogan has stated that any negative reaction in Iraq to Turkish forces would be "unacceptable," underlining Turkish sensitivity to losses. The issue could potentially reach the Turkish Supreme Court if legislators choose to rescind their support and there is no new UN resolution to further legitimise the US approach to Iraq. If opinion runs against the troops commitment, the court could rule the deployment unconstitutional as it lacks either a UN resolution or the "broad international legitimacy", Turkish sources tell *GSN*.

Influential Turkish foreign affairs commentators also see negative long-term side effects for US-Turkish relations if the Turkish populace should side against Ankara's military support of Washington. For this reason, if the CPA and IGC do not call on Turkey to make good its offer, the Turkish foreign policy establishment may be relieved, having restored some of its political capital in Washington by offering troops, but having narrowly avoided what could become a politically costly entanglement.

enshrined in a highly detailed memorandum of understanding that the US would find difficult and time-consuming to create. The Pentagon would prefer a minimalist document with lots of grey zones for interpretation – this is not how Turks officials tend to do things, however.

Turkey is also likely to expect the appointment of one or more Turks to Bremer's staff, to place them at least on a par with Poland's representation there. Ankara also seeks to

convince the EU to crack down on KADEK front organisations in Europe, and may seek US support on this count. In cutting these deals, Turkey is likely to be highly sensitive to accusations that it expects some consideration in return for its troop contributions.

US relations lose that Clinton intimacy

Ankara has domestic concerns over possible troop deployments to Iraq (see box), but its Foreign Ministry would prefer to focus on long-term issues such as accession to the EU and rebuilding relations with the USA, Turkey's principal economic sponsor.

The Foreign Ministry has always been wary of making troop deployments the central tenet of improved relations, and will seize any opportunity to let the issue die a natural death.

The 7 October vote will heal some of the damage caused by Turkey's March rejection of US forces, even if no troops are sent. Yet over the long-term, Turkey faces an uphill battle to win back the intimacy it previously enjoyed as one of Clinton-era America's "strategic partners".

The Bush administration has developed a deeply personal style of diplomacy, and the affront caused by the spring vote will take some time to heal. Ambassador Parris, a deep believer in the US/Turkish relationship, has written that Turkey will never again be "vital" to US security interests, and can at best be "useful or, at times, important" through its support to humanitarian and peacekeeping operations.

Turkish officials will seek to counter this perception. A foreign policy advisor told *GSN*, "This Iraqi business will be a long one, with many episodes over the years, so we should disassociate our relations with the US from the issue of Iraq."

Instead, Turkish officials point to ongoing concerns such as Iran, Syria, and the South Caucasus as areas in which Turkish mediation could assist the USA. Even so, there is a prevalent sense that a change has occurred in the relationship. As one Foreign Ministry advisor told *GSN*, "Turkey now considers the US as a neighbour, and Turkey has always treated its neighbours differently from its friends."

OMAN: Universal ballot, but few women gain seats

Oman's 4 October elections marked the first to be conducted under universal suffrage, but tribal influences and conservative social attitudes prevented the success of a vigorous campaign to bolster female representation among the 83 MPs (*GSN* 719/4). The two incumbent women MPs hung on to their Majlis Al-Shura seats in a relatively low turnout. That women candidates performed as well as they did was a considerable achievement: only 13 women were standing – compared with 491 men. Yet many of the defeated female candidates notched up respectable support. The two women incumbents were Lujeina Mohsen El-Zaabi, in the Muscat City constituency, and Rahila Amer Al-Reyami in Bausher, also in the capital conurbation. Both typify the liberal urban middle class, which tends to be concentrated in the Muscat area. Zaabi, only 34, has links to an Al-Ayan upper class family background; she has been running her family business for some time. Reyami is a former director of planning at the Education Ministry, and thus a product of Sultan

Qaboos Bin Saeed's persistent drive to promote the role of women in public service. There has been some speculation that the sultan might now appoint a woman to a cabinet post.

What remains to be seen is how the members of the new Majlis make use of their strengthened mandate. Preceding assemblies have shown themselves ready to subject ministers to tough questioning and to substantially amend draft legislation. This time around, having been elected by direct universal popular vote, they may feel ready to advance the assembly's role further in practical terms, whether or not there are formal institutional changes.

The 4 October poll was the sultanate's first to be conducted on the basis of universal suffrage of adults over 21, rather than through a hand-picked electorate. Under the old system, only about one-quarter of Omani adults were allowed to vote. This tended to give disproportionate weight to the more politicised middle class, whose attitudes to women's emancipation were probably more liberal than those of the wider population.

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Nobel not enough to unite Iran's reformists

Iranian reformists have taken heart from Shirin Ebadi's Nobel peace prize. But with conservative opposition still powerful, attaining their political goals remains a long way off.

The Nobel peace prize awarded to Iranian human rights lawyer Shirin Ebadi (*see box*) has inspired reformist politicians at a time when Iran feels isolated ahead of the 31 October deadline for compliance with the Non-Proliferation Treaty (*GSN 717/3*). But they are still far from united in their campaign to outflank conservative opponents as they head into Majlis (parliamentary) elections next February.

The legislative elections will provide a stern test for President **Mohammad Khatami's** commitment to challenging the conservative establishment, and for the reform movement's ability to remain sufficiently united to see off its enemies. Diplomats are pessimistic about their chances (*GSN 719/5*).

The *Second Khordad Front* coalition of 18 reformist groups has been debating their election strategy – notably at an early October meeting with Khatami – and their response should the conservative-dominated *Guardian Council (GC)* once more neuter their campaign via the heavy vetting of candidates.

The biggest reformist party, the *Islamic Iran Participation Front (IIPF)* – led by **Mohammad Reza Khatami**, the President's brother – has said it will boycott the election if GC interference gets out of hand. Secretary-general Khatami has set a deadline for the IIPF to announce its decision on 17 October, when the party holds its congress.

The IIPF has set up an election HQ, which it says it will use only in “free elections” – presumably if the GC refrains from disqualifying reformist candidates. The IIPF is becoming increasingly confrontational, sparring with those reformist groups who believe it is too radical.

A number of reformist-conservative skirmishes have broken out in recent weeks as well. The reformist-led Intelligence Ministry has accused the conservative-controlled judiciary of covering up evidence about the July death in custody of **Canadian/Iranian photojournalist Zahra Kazemi** (*GSN 715/20*). A ministry official is on trial for Kazemi's death; reformists claim this is part of a conservative plot. Nobel laureate Ebadi is representing Kazemi's family.

The uses of hunger

There have been some signs of compromise. In one intriguing development, conservative daily *Entekhab's* managing director **Taha Hashemi** said the GC should respond to the needs of the time and reverse its decision to block President Khatami's twin reform bills, whose failure was the key political battle of 2003. This would open the way for a much-needed massive public turnout in the legislative elections, argued Hashemi, who is identified as being close to Rahbar (Supreme Leader) Ayatollah **Ali Khamenei**.

A new reformist-conservative crisis may have been headed off by the 6 October release of reformist activist **Mohsen Sazegara**. After reformist press and Web sites circulated rumours that Sazegara (who has a history of heart disease) had died, he was released before his lot became an issue abroad during a sensitive period in Iranian international relations.

Sazegara twice went on hunger strike during the 114 days of his detention, fasting for a total 79 days, along with another leading political prisoner, **Abbas Abdi**. Other celebrity prisoners, including **Hashem Aghajeri** and **Akbar Ganji**, said they would also join. Sazegara is an important figure in the reform movement's history, as recorded in **Geneive Abdo** and **Jonathan Lyons's** excellent *Answering Only To God* (**Henry Holt**, New York, 2003) – in which Sazegara, an “entrepreneurial genius” with “profound insights”, even has the last word.

Reformists are backed by several religious heavyweights – including Grand Ayatollah **Yousef Sanei**; the revolution's first chief justice and now reformist Grand Ayatollah **Abdolkarim Mousavi-Ardabili**; and the ruling theocracy's most challenging dissident Grand Ayatollah **Hossein Montazeri** (*GSN 703/20*). These men are no friends of Khamenei, a cleric with a less illustrious academic career but surer political instincts.

Faint praise for a peace prize for Iran

On 14 October, 179 of the 290 Majlis deputies issued a message congratulating **Shirin Ebadi** for winning the Nobel Peace Prize. They highlighted her status as a jurist and a Muslim woman, and her stances on issues such as the **Israel-Palestine** dispute.

President **Mohammad Khatami** then spoke – as ever, sitting on the fence. Ahead of Ebadi's return to Tehran, the President said he was “happy that one of our compatriots has won this award”, but added: “The Nobel peace prize is not that important. The awards for literature and science are more important.” This faint praise followed a relative silence from Tehran, while reports abroad focused on Ebadi's struggle for human rights in Iran. Time magazine was unambiguous: “In naming Ebadi last week, **Norway's** Nobel Committee handed a platform to a formidable Iranian voice of conscience, breathed life into the country's dying reform movement and put the Islamic regime on notice.”

A **Tehran University** law school graduate, Ebadi, aged 56, is the first Iranian and first Muslim woman to be awarded the peace prize. She was one of Iran's first female judges, but lost her job despite supporting the 1979 Islamic revolution. She established an NGO for child welfare and increasingly took on high-profile political cases. In 2000, she helped document allegations that conservative clerics and politicians were behind vigilante attacks on reformers – and was jailed for 23 days on defamation charges.

Elections to launch new Saudi social contract while Riyadh battles the politics of suspicion

The first elections ever planned in Saudi Arabia mark an important step on the long road of reform but the Kingdom has much to do to persuade international opinion that political reform is for real.

A small helping of democracy has reached Saudi Arabia with the 13 October announcement of the Kingdom's first elections, which will fill half the seats in the country's 14 restructured municipal councils. The elections – preparations for which are to be completed within a year – represent the first real fruit of months of dialogue between Crown Prince Abdallah Bin Abdelaziz Al-Saud (CPA) and the growing reformist movement, and mark a significant shift in the unwritten covenants by which the House of Saud and its allies rule.

“What is taking place in Saudi Arabia is a very radical reassessment of the social contract,” as one editorial had it in the English-language daily *Arab News*. The official *Saudi Press Agency (SPA)* was less expansive, quoting a cabinet statement saying the government had “decided to expand the participation of citizens in running local affairs through elections, by empowering the roles of municipal councils”.

Details such as an election date or who will participate in the ballot were not given. The use of the word “citizens” to describe the electorate holds the tantalising promise of female suffrage, although such a radical step for the Kingdom remains unlikely according to *GSN*'s soundings.

The announcement had been flagged for some time by younger members of CPA's team, but the move remained in the balance while senior Al-Sauds fought among themselves. Talks with reformists had been paralleled by intense negotiations within the Al-Saud leadership to win a degree of conservative support. A victory for CPA was signalled when in recent weeks veteran establishment figures such as *Saudi Export Council* chairman and Majlis Al-Shura member Dr Abdelrahman Bin Abdallah Al-Zamil started talking openly about the prospects for elections; this suggested that even before the latest petition was delivered to CPA the pluralist opening was a done deal.

Riyadh conference protest

The day after the election announcement, hundreds of banner-waving protestors demonstrated for greater freedoms near the government's much-vaunted human rights conference in central Riyadh. Hundreds were reported arrested as *GSN* went to press, while police dispersed the demonstrators and set up roadblocks to prevent them from reaching the conference building. Speakers on the first day of the conference stressed the fact that Sharia (Islamic) law should outweigh international considerations of human rights.

Not an experiment

In an interview with the *Associated Press* during the Islamic foreign ministers' meeting in Putrajaya, Malaysia, Prince Saud Al-Faisal said the leadership was responding to ordinary citizens' demands. “Our leaders are not experimenters, they are only seeking to do what is the wish of the Saudi citizen and definitely we have reached the stage of development where the participation of the citizens of Saudi Arabia is a requirement now,” he said. The Foreign Minister is a key CPA ally.

“This is the process of reforms that [CPA] allows,” Prince Saud said. “In the opening of the session of the Advisory Council he said that there would be the beginning of expanded participation in the political system of the citizens of Saudi Arabia. This is the first step in that process of reform.”

Reformists who have been involved in submitting three petitions to CPA also see it as an important step. Liberal intellectual Mohamed Said Al-Tayyeb told *Agence France Presse* the polls were “a major step on the road to political reform and the achievement of popular participation”. Tayyeb added, “We hope it will be followed by other steps, such as electing the provincial councils [in the Kingdom's 13 provinces] or electing the Shura Council.”

Shura member Al-Zamil and other establishment figures have talked about Shura Council elections by 2010. Reformists want pluralist government well before then.

In the initial analysis, the local elections route is politically expedient – it tells reformists and international opinion that something is finally happening, and establishes the principle that it is not anti-Islamic to vote. But neither will municipal councils undermine key Al-Saud prerogatives; the elections can be presented to regime hard-liners as the least objectionable option in an unavoidable – but very long – process of reform.

Legal fights in the USA point to battles ahead

The announcement of the Kingdom's first formal elections is good news for Saudi Arabia's friends, who have been facing increasing resistance to arguments that the West – specifically, the USA – must remain fully engaged with the Kingdom.

There will be many more battles ahead. US lawyers who are mounting actions against leading members of the Saudi elite for their alleged financing of “Islamic terrorism” are talking up their cases (*GSN 712/4*).

These include Mount Pleasant, South Carolina-based law

firm *Motley Rice*, which has initiated an action on behalf of the families of victims of the 11 September 2001 attacks. US lawyer **Ron Motley** claims he has a (so-far unidentified) witness who could establish a direct link between “financiers of terrorism” and Saudi Arabia’s Second Deputy Prime Minister and Defence and Aviation Minister **Prince Sultan Bin Abdelaziz**.

The Motley Rice team, including French intelligence expert **Jean-Charles Brisard**, will try to link Prince Sultan and other members of the Saudi establishment to *Al-Qaeda*.

Brisard has Saudi Ambassador to London **Prince Turki Bin Faisal Bin Abdelaziz** in his sights. He claims that during Prince Turki’s stewardship of the *General Intelligence Directorate*, the Saudi authorities paid the *Afghan Taliban* – and their allies in *Al-Qaeda* – not to attack the Kingdom.

Saudi spokesmen counter that such claims are rubbish: they want to see evidence that Saudi leaders were financing **Osama Bin Laden**, who had made the House of Saud’s overthrow his priority. They argue that Saudi Arabia has done much to control financing flows passing through its banks and charities, while Interior Minister **Prince Nayef Bin Abdelaziz**’s security forces have cracked down on underground Jihadist groups (GSN 718/3).

Shedding light

The announcement of elections is only the latest sign that the Kingdom is lobbying hard to revive its reputation, courting old friends and wielding the chequebook to finance another huge public relations campaign in the US media. Ambassador to

Washington **Prince Bandar Bin Sultan** in early October held separate meetings with President **George Bush**, Secretary of State **Colin Powell** and Secretary of Defence **Donald Rumsfeld**. The *Federal Bureau of Investigation* and *Internal Revenue Service* have been allowed to post agents in the Kingdom; the Department of Homeland Security has made its first foreign deployment by basing officers in Saudi Arabia to help process visa applications.

Saudi Arabia finds itself between a rock and a hard place. Moves towards transparency and reform are no antidote to negative media coverage. Much of the recent media focus has been on alleged Saudi funding for radical **Palestinian** Islamist groups. For many in the USA (as well as most **Israelis** and some Europeans), *Islamic Jihad*, *Hamas*, *Hizbollah* and others focused on are terrorists; for swathes of Saudi and other Arab opinion they are freedom fighters, and the legitimate recipients of funds. This split has helped foster the politics of suspicion that has come to dominate key relationships since 9/11.

How much municipal elections can do to dispel that hostile international environment remains to be seen. More immediately effective should be things like Riyadh’s request to have published the 28 pages of a Senate Intelligence Committee report on the 11 September attacks that were deemed classified.

Like the late US Supreme Court Justice **Louis Brandeis**, Riyadh seems to feel that “sunlight is the best disinfectant”. But as lawyers seek to clean up, the mess and stains that were exposed by 9/11 will not prove easy to remove, even when Saudi Arabia is apparently more sinned against than sinning.

Politics and security pointers

BAHRAIN: Manama denies fighter pilot’s “defection” to Iran

Bahrain has denied a report published on 9 October in the *Kuwaiti Al-Qabas* newspaper that one of its pilots defected to Iran in a *Royal Bahraini Air Force* F-16. When the jet went missing in late September, a military spokesman it had crashed during a training flight. A spokesman quoted on 10 October said: “Search and rescue operations continue and a **British** company specialised in underwater searches is helping” to locate wreckage.

IRAN: New science minister

President **Mohammad Khatami**’s second candidate to become science minister, **Jafar Tofiqhi**, has been approved by the *Majlis* (parliament), which rejected his first proposed nominee after former minister **Mostafa Moein** resigned following this summer’s student unrest. Tofiqhi received 163 votes for and 27 votes against.

SAUDI ARABIA: Jordan leaves amid blaze of gossip

After weeks of rumour he was being forced out, US Ambassador **Robert W Jordan** is to leave his post “in a few weeks”, according

to US government officials. State Department spokesman **Adam Ereli** said Jordan submitted his resignation about two months ago for “personal reasons”. The Texas lawyer (a founding partner at *Baker Botts*, along with **James Baker III**) was unusually outspoken (GSN 713/2, 711/6, 710/3). Influential **Al-Sauds** were reportedly upset by dinner party remarks reproduced in the London-based *Al-Quds Al-Arabi*, in which Jordan spoke of the need for a younger prince to succeed **Crown Prince Abdallah**. US officials maintain Jordan was misquoted. Foreign Minister **Prince Saud Al-Faisal** said, “Reports that the Kingdom requested his departure are not true... We had hoped he would reconsider his decision, which was based solely on personal reasons.” Jordan’s replacement has yet to be nominated.

USAF to sell airliner defence systems

The US Air Force (USAF) has been cleared to sell **Bahrain, Jordan, Qatar** and **Saudi Arabia** AN/AAQ-24(V) Directed Infrared Countermeasure (DIRCM) systems to protect their heads of state’s airliners from attack by shoulder-held missiles. The USAF can now issue letters of offer and acceptance for deals that could be worth up to \$240m in Saudi Arabia, which wants four systems for *Boeing 737* and *747* aircraft. Bahrain, Jordan and Qatar could each spend around \$61m. Likely contractor is *Northrop Grumman Corporation*.

Attitudes to neighbours point to IGC's direction

The Turkish deployment so anxiously sought by Washington has highlighted the IGC's growing tendency to distance itself from the US-led occupation authorities. Analysis drawn from the new monthly *Iraq Focus* shows the IGC is striving on a regional stage to underline its independence, much to the liking of Iraq's Arab neighbours.

The standoff between the US administration and Interim Governing Council (IGC) over the posting of troops from neighbouring countries, specifically Turkey, in the country highlights Iraqi concerns over potential future hegemony by regional rivals. The 14 October car bomb outside Turkey's Baghdad Embassy further focused minds on the unpopularity of the upcoming Turkish intervention, even if Prime Minister Recep Tayyip Erdogan shrugged off the episode as just another in a long line of incidents.

But the question of the Turkish deployment so anxiously sought by Washington shows how the IGC is quickly moving to distance the new Iraqi leadership from the US-led Coalition Provisional Authority (CPA) – an accelerating trend identified in the first issue of *Iraq Focus* (IQF).

As IGC member Dr Raja Khuzai told IQF on 13 October, the Council does not want troops from any neighbouring state to participate in the expanding international peace-keeping force. The IGC had made clear its opposition to the Turkish troop deployment requested by the USA and approved by Parliament in Ankara when Khuzai told IQF that its objections applied to “all countries with which Iraq has borders”.

The IGC wants to cultivate good relations with neighbouring states. In the past, relationships with many of these neighbours have been difficult, for various reasons; Khuzai cited Iran, Kuwait, Saudi Arabia and Syria. She noted that “a kind of cold war” had prevailed with Syria.

With this historical baggage, and in seeking to build a new climate of co-operation and friendship, it would be much better if the situation were not complicated by the presence of troops from any neighbouring states.

Iraqi Kurdish concerns about the role that Turkish troops might play are well known, and it is easy to see why Iraqi Sunnis might be wary of any Iranian presence. There could also be resentment in some quarters towards troops from countries such as Kuwait, Saudi Arabia or Jordan, that openly or secretly co-operated with the US-led invasion earlier this year.

Khuzai made it clear that even the presence of troops from Jordan, with which pre-war Iraq had good relations, was unacceptable in the eyes of the Council. Opposition to a troop presence from any neighbour country, Arab or non-Arab, was an agreed Council view, she told IQF, during a visit to London.

But the Council has no objection to the presence of peace-keepers from other Middle Eastern countries, with which Iraq does not have borders. Egyptian or Yemeni peace-keepers would thus be acceptable. Khuzai indicated that the IGC would also be happy to see troops from the more distant Gulf

Co-operation Council (GCC) states such as Oman. It is worth noting that the United Arab Emirates, which has actively participated in UN peace-keeping in Somalia, might bring useful experience to bear.

The US view on peace-keepers differs from the Council's: Washington is keen to get Turkish troops into Iraq to ease the strain on US forces (see *Politics and security*). But the Council is trying to look beyond the immediate security situation to the need for Iraq to rebuild a new position for itself in the region, after decades during which Saddam Hussein's belligerence had cultivated fear and mistrust among its neighbours.

A majority on the Council believes this task of diplomatic and social regional re-integration will be much simpler if it is not complicated by military issues.

Arab governments can work with the IGC

The IGC has something to build on. Despite widespread wariness of the USA and L Paul Bremmer III's CPA, neighbouring governments have shown themselves keen to develop good working relationships with the emergent Iraqi leadership – even while the true extent of the Council's authority remains unclear at best.

Defying the uncertain status of Iraq's interim political structures, many neighbours now believe they have no choice but to engage with the IGC in Baghdad. Recent weeks have seen a string of high level bilateral meetings between the Iraqi interim leadership and Kuwait, Jordan, Iran and Syria.

Damascus and Tehran, in particular, appear to have concluded that the best means of shielding themselves from hard-line US pressure is to develop good relations with the IGC, even if it is essentially a creation of the American-led occupation administration.

There are signs that this approach is co-ordinated. The Damascus/Tehran axis has been an important feature of Middle East politics for many years and Iraq was a key agenda item when in September Syrian Foreign Minister Farouk Al-Shara was visited by his Iranian counterpart Kamal Kharazi.

For the IGC, the development of friendly ties with surrounding governments is not only a means of enhancing its own status and claims to interim legitimacy, but also a way of distancing itself from Washington and the CPA.

That the IGC members should be anxious to project an identity separate from the Americans is hardly a surprise, especially in the present volatile security climate. The stakes are very high: IGC member Akila Al-Hashimi appears to have been murdered by Saddam loyalists or Islamist radicals

who regarded her as a US stooge, and there have been substantiated and unsubstantiated reports of attempted attacks on several other IGC members.

What is really striking is the readiness of so many neighbouring governments to deal with the IGC. At first glance this appears to conflict with their support for an enhanced United Nations role and an end to the effective US control of political development and economic reconstruction in Iraq. Shara and Kharazi have both pressed for an end to the occupation, a boost to the UN role and the restoration of Iraqi sovereignty through the creation of a government that enjoys popular legitimacy. But they seem to have concluded that the best way to encourage events to evolve in this direction is to develop ties with the IGC, helping it to build up an independent standing in relationship to the CPA.

Straightforward business realities also come into play, especially for Syria – which enjoyed a profitable trade relationship with the Hussein regime and is keen to revive similar ties with the inheritors of power in Baghdad.

For Jordan too, the cultivation of good Iraqi connections is little short of an economic necessity. The Hashemite kingdom was badly hurt by the 1990s isolation of a country for which it had been one of the main trade gateways during preceding decades; even in the dying months of the Hussein regime, Amman continued to explore new bilateral connections, notably in the energy sector.

Oil-rich Kuwait does not have the same urgent need for revived bilateral connections, but it has been keen to replace the antagonism and suspicion of the 1990s with a constructive new partnership. It was among the earliest humanitarian donors to post-war Iraq, delivering emergency supplies to the south, sending teams to cap burning oil wells and making its hospitals available to provide specialist treatment for seriously injured Iraqis. These overtures appear to be bearing fruit. IGC Oil Minister **Ibrahim Mohammed Bahr Al-Uloum** has indicated that *Kuwait Petroleum Company* could be his preferred technical partner to rehabilitate Iraqi oilfields.

Below, *Iraq Focus* rounds up the attitudes of Arab neighbours to the IGC.

IRAN

Sticking with old friends

Tehran has never made any secret of its wish for an early end to the occupation of Iraq – in May President **Mohammad Khatami** warned that the Coalition's presence would not bring stability and security. Yet Iran felt it could not ignore the

US-nominated *Interim Governing Council*.

In early August, shortly after the IGC's appointment, **Hussein Sadiqi**, head of the Middle East and Gulf department at the Iranian Foreign Ministry, led a delegation to Baghdad for talks with **Ibrahim Al-Jafaari**, then holder of the IGC's rotating chairmanship. Jafaari said his side had proposed tightening border security to curb smuggling and illicit movements of people; he also sought the return of those Iraqis still held prisoner in the Islamic Republic. Sadiqi indicated Tehran's readiness to help with rebuilding Iraq and pressed for reassurances about pilgrims' access to the Holy Shiite sites at Kerbala and Najaf. Unsurprisingly, the Iranians also met with a leading Shiite member of the IGC, **Abdel Aziz Al-Hakim**

– who, just days later, made his own return visit to Tehran, where he was received by **Khatami**, Foreign Minister **Kamel Kharazi** and head of the Judiciary **Mahmoud Hashemi Shahroudi**.

This allowed the Islamic Republic's warring liberal and conservative wings to both publicly demonstrate their continued interest in Iraq – despite US warnings against interference. They also implicitly reaffirmed their support for the *Supreme Council for the Islamic Revolution in Iraq (Sciri)*, as

the leading Shia-based political movement, at a time when the Pentagon had been strongly supporting the secular Shia returned exile **Ahmed Chalabi**, leader of the *Iraqi National Congress (INC)*.

KUWAIT

Bridge-building exercise

Relations between Iraq and Kuwait are inevitably a sensitive matter because of **Saddam Hussein's** 1990 invasion – and also, in the eyes of some Iraqis, because of Kuwait's readiness to host US and UK forces. Before the war, Kuwaitis were already looking forward to Saddam's impending removal with eager anticipation (*GSN 705/10*).

Kuwait rapidly recovered its peace and prosperity after 1991, while Iraq suffocated under Saddam and sanctions, creating a paradoxical situation in which it was the onetime invader who was far worse off. In the eyes of much Arab popular opinion, Kuwait came to be associated with – indeed, partly responsible for – Iraq's suffering. Although Kuwait was the wronged party in 1990, Kuwaitis' understandably unsympathetic stance towards Saddam's Iraq did not go down well with many in the Arab world.

Kuwaitis are well aware that they now face a diplomatic public relations battle: indeed, in late 2002, as war became

IRAQ FOCUS

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steadily more likely, a group of prominent liberals felt the need to allay bad feeling with the issue of an open letter expressing sympathy with the suffering of ordinary Iraqis.

Immediately after the invasion, Kuwait sought vigorously to build a new relationship of support and goodwill – and to make sure this was noticed. Its humanitarian supplies, teams tackling oil fires and provision of hospital treatment were genuine gestures of support that were also usefully high profile.

This makes good sense. Quite apart from the economic opportunity for Kuwait to act as a services and trading base for the opening of Iraq and the development of new infrastructure connections in the northern Gulf, the government of **Sheikh Sabah Al-Ahmed Al-Sabah** needs to defuse Arab resentment of Kuwait's close association with the USA. A strong partnership with an independent IGC should help Kuwait to re-establish its credentials in the Middle East mainstream.

The decision of IGC Oil Minister **Ibrahim Mohammed Bahr Al-Uloum** to identify *Kuwait Oil Company* as a possible rehabilitation partner for the Iraqi oil industry was a valuable gesture – especially because it implicitly contrasted KOC, from an Arab country, with the US and European multinationals that are jockeying for a big role if the sector is eventually privatised.

Also significant was the inclusion of *National Bank of Kuwait (NBK)* in the *Trade Bank of Iraq* consortium led by *JP Morgan*, said executives involved in the project (*GSN 718/13*).

Diplomatic gestures, horrible realities

Kuwait has extended high-profile diplomatic overtures to Baghdad, publicly declaring support for the IGC's participation in the 9-10 September *Arab League* meeting in Cairo (*GSN 718/2*). Later that month, Emir **Sheikh Jaber Al-Ahmed Al-Sabah** received an IGC delegation led by chairman **Ahmed Chalabi**. Prime Minister Sheikh Sabah, setting out his policy programme in July, stressed his desire to move on from the events of 1990-91: "We have to forget the issue of Iraq's aggression; we should put it past us."

But this may be easier said than done. Sheikh Sabah confirmed that the US military would remain in Kuwait for the time being, although Iraq would be consulted about this.

Most delicate is the question of Kuwaitis taken prisoner and still missing in Iraq. After 1991, more than 600 Kuwaitis were still unaccounted for; in proportionate terms, this is a huge number – close to one in 1,000 of the entire national population – and most Kuwaitis have been affected.

Although the Hussein regime's periodic releases of long-detained Iranian prisoners maintained hopes that some of the missing might eventually come home alive, its refusal to provide information on their fate had always portended the worst. Post-war investigations are starting to confirm these fears. By early September the remains of 34 dead Kuwaitis had been found. In early October, a mass grave for 100 Kuwaitis was discovered at Al-Rasheed camp in southern Iraq; they appear to have been killed with poison injections in the early 1990s; the doctors and nurses who carried this out were

themselves murdered afterwards, to cover up the massacre. In the short term, understandable public anger limits Kuwait's room to make compromises over war-related issues.

Debt manoeuvres

This may explain why, despite its readiness to provide new aid and support to Iraq, Sheikh Sabah's government has turned down appeals from the USA and IGC to abandon claims for compensation for the 1990 invasion.

Kuwaiti official sources have calculated Iraq's pre-1990 debt to their country at \$8bn, but the *United Nations Compensation Commission* has received claims for up to \$300bn in reparations. Kuwait could well emerge as a key player in negotiations leading up to the expected Paris Club/London Club debt restructuring agreement, promised by end-2004 – at which stage all creditors are expected to take a big "haircut" (examined in the *Business Prospects* section of *Iraq Focus* issue 2).

Privately, Kuwaiti planners are well aware that this is an unpayable sum and they are prepared for the need to make big debt cuts. But at this stage, and especially while the graves of missing citizens are still being unearthed in Iraq, abandonment of the compensation claims would be politically difficult and likely to provoke fury at home. However, the government may be able to change its stance once all claims relating to individuals (as opposed to government or business) are settled. Many have already been dealt with, but the discovery of the bodies in Iraq is likely to generate fresh claims from those whose missing family members are now confirmed dead.

SYRIA

Seeking alliances in a crisis

Damascus has been even more proactive in developing its relationship with the IGC, particularly in recent weeks when it has been attacked by an **Israeli** air strike and hawks in Washington have maintained their pressure to have Syria replace Iraq in the 'Axis of Evil'.

In early October, President **Bashar Al-Assad** held his first meeting with an IGC member, *Kurdistan Democratic Party (KDP)* leader **Masoud Al-Barzani**. Just a few days earlier, Syrian Vice President, **Abdelhalim Khaddam** had received IGC Secretary-general **Eyad Allawi**.

The saga of Iraqi/Syrian relations is a tortured one. For decades, what IGC member **Raja Khuzai** describes as "a sort of cold war" prevailed between the two countries, rivals in presenting alternative models of *Baathism*. Syria famously participated in the war to drive the Iraqis out of **Kuwait** in 1991. But after **Bashar Al-Assad's** accession an increasingly collaborative détente developed, with the reopening of Iraq's oil export pipeline through Syrian territory (*GSN 699/12*).

Even so, the driving force behind Syrian policy was pragmatism rather than ideology and, with the Hussein regime gone, Damascus is keenly aware of the need to develop good

Syrian pipeline prospects and other business

Syria has lucrative economic interests to cultivate: one of Iraq's main oil export pipelines runs through its territory and Damascus is pressing for the line – shut by US forces in April – to be reopened, carrying 200,000 b/d. The pipeline was a notorious channel for the export of discounted, illegal Iraqi oil during the final years of Saddam Hussein's reign. During a period of peak diplomatic tension, Washington may want to keep the taps turned off to pressure the Syrians. But, as liberal Economics Minister Ghassan Rifaae points out, Syria can offer good security conditions for the segment of the pipeline that passes through its territory. With Coalition forces struggling to protect internal Iraqi pipeline networks, this could give the Syrian route an advantage over the internal shipment of oil to Iraq's marine export outlet on the Gulf.

Syria's *Al-Bayan* oil company also has considerable Iraqi ambitions. Early this year director general Mohammed Mohammed Saaed confirmed that Al-Bayan was carrying out a €300m drilling contract. At a time when it seemed that Russia's *Lukoil* had been deprived of the West Qurna project, Saaed also expressed interest in getting involved with any other Russian oil groups that might take its place.

The Syrians have been getting down to practicalities. In late July they resumed rail services to Iraq, after a four-month suspension, and Damascus has proposed bringing Turkey into tripartite talks about future rail traffic development. The line's reopening was welcomed by business. *Syrian Chambers of Commerce Federation* chairman Ratab Al-Shallah said traders and industrialists were exporting foodstuffs, power generators, fridges and large numbers of satellite systems and receivers (which were banned in the Hussein era).

Damascus has sought to encourage trade by halving the transit fees imposed on trucks travelling between Iraq and Syrian ports or Lebanon. Lively trade flows are developing with Baghdad and with northern centres such as Mosul. In August, Nineveh governor Ghanem Sultan Al-Busso held talks with Rifaae and the governors of Damascus and Aleppo, Ghassan Al-Laham and Osama Adi.

relations with the new leadership emerging in Baghdad.

There are some differences of view between IGC leaders and Damascus. Despite Syria's keenness to see an early end to the US-led occupation, Barzani told Assad that Iraqis did not want an immediate American withdrawal as it would create new problems. The KDP leader courted Syrian goodwill by playing down allegations that Damascus allowed anti-US militants to cross the frontier into Iraq. Speaking to Kuwait's *Al-Anbaa* newspaper, Barzani stressed the importance of Syria's role in Iraq, speaking of "two brotherly peoples".

The cultivation of ties with Damascus makes good sense for the IGC at a time when it needs to demonstrate independence from the US.

But the relationship also suits the Syrians, now that 'Dr Bashar's' honeymoon with the West is over and his regime is under growing US pressure over alleged sympathies for terrorist organisations. Assad is clearly anxious to cultivate the emergent Iraqi leadership as a friend and diplomatic ally, and to cement it into the Arab mainstream.

JORDAN

Ties complicated by Chalabi

Jordan, like Kuwait, is seeking to establish itself as a friendly Arab partner of the new Iraqi leadership, but it is starting from a markedly different position: unlike Kuwait, Amman enjoyed amicable relations with the Hussein regime; and complicating relations, prominent IGC member Ahmed Chalabi remains a wanted man in Amman following the collapse of *Petra Bank*.

King Abdallah II has announced that Jordan would lay on eight-week training courses for 30,000 members of the Iraqi security forces, with the first 3,000 coming to the Hashemite kingdom this autumn. His government is providing a field hospital for Falluja – a Sunni area where support for Saddam loyalists remains strong. An IGC delegation, led by then chairman Ibrahim Al-Jafaari, visited Amman in late August, holding talks with Prime Minister Ali Abul Ragheb.

Jordan's past friendship with Saddam – it has given refuge to the former dictator's two daughters – has not protected it from the anger of old regime supporters at the friendly relationship it has developed with the new Baghdad leadership. In August, the Jordanian Embassy was the target of a car bomb that presaged the more murderous later attacks on the UN headquarters and *Sciri* leader Ayatollah Mohammed Baqer Al-Hakim in Najaf.

There is even deeper historical baggage dating back to the years when Iraq was ruled by Hashemites – which resurfaced in the run-up to the US invasion with media speculation that King Abdallah's uncle Prince Hassan Bin Talal might be given a role – even the throne – of Iraq (*GSN 691/5*).

Relations with the IGC are further complicated by Jordan's refusal to abandon its legal pursuit of *Iraqi National Congress* leader Chalabi – who in 1989 was sentenced *in absentia* to 22 years in prison on charges relating to the collapse of *Petra Bank*. There are domestic political pressures on the Jordanian government to keep a certain distance while Chalabi continues to play a major role. Some 32 members of the Jordanian Parliament have issued a memorandum demanding the convening of a special session to debate the *Petra Bank* affair – they want Chalabi pursued through Interpol and extradited to Jordan.

Chalabi denies wrong-doing, claiming the *Petra Bank* affair was politically motivated in events involving the late King Hussein, but Jordanian judicial officials have been making public their opposition to any abandonment of the action, unattributably briefing *Al-Arab Al-Youm* newspaper that the indictment against Chalabi remains valid and that the case will only end with his handover to the Amman authorities.

Meanwhile, several parliamentarians have also been pressing for the withdrawal of the field hospital from Falluja, which recently came under attack, leaving one Jordanian guard dead and three others wounded.

Dubai bond issues release flood of financial data

In preparing the ground for a bond issue, Dubai has released an unprecedented volume of economic and financial data to potential subscribers.

Encouraged by the success of this summer's AED1.5bn (\$408.4m) regional bond issue, the Dubai government could well turn to the capital markets to finance its ambitious new light rail project. Local capital market finance could prove an attractive option for Dubai's proposed light rail project, especially given the lengthy time before the AED15bn (\$4bn) costs are recouped through fare payments, and the fact that the UAE and its constituent emirates, in contrast to many regional neighbours, have not yet sought ratings from the likes of *Standard & Poor's* or *Fitch*. This limits their capacity to tap international capital markets.

But Dubai's successful local currency issue demonstrates that it is possible to raise money at home. That is a valuable option in an economy where many forms of taxation are still socially and politically unacceptable – there is no income tax, and foreign banks and oil companies are the only businesses liable for corporate tax, at rates that tend to be low.

To prepare the ground, Dubai has released a flood of data that chimes well with the increased financial transparency that federal UAE authorities undertook in the run-up to the *IMF/World Bank* meetings, and which is very much in tune with the wider modernisation of government structures that has been undertaken in Dubai over the past year.

The figures released in the government's Offering Circular contained some notable surprises, as well as specific confirmation of points that were already well known in general terms. They provide much the most comprehensive picture of the Dubai economy ever released.

The numbers speak

One notable feature is the decline of trade as a portion of GDP. The traditional mainstay slipped to 16.4% in 2001, down from 19.3% in 1997, when it was still the largest single contributor to GDP, just ahead of manufacturing.

The fastest-growing sector has been financial services, which leapt by 13.9% in 2001 and could notch further strong rises in near future, should the *Dubai International Financial Centre* get off the ground. Real estate expanded by only 3.8% in 2001, but could also be set for acceleration, given new projects like Palm Island.

Dubai's overall rate of economic expansion has fluctuated. GDP rose by 4.17% in real terms in 1998, then leapt above the 11% mark for the following two years before collapsing back to 3.14% in 2001.

Oil and gas remains more important than many outsiders realise. Dubai's current output is 240,000 b/d – comparable with some medium sized West African producers. The main producer is *Dubai Petroleum Company*, owned by the emirate's

Al-Makhtoums harmonise well in governing Dubai

Though Dubai Crown Prince Sheikh Mohammed Bin Rashid Al-Makhtoum takes the lead role in the emirate's day-to-day political life (see page 1), not the least distinctive feature of Dubai politics is the harmonious and collaborative style in which the three Al-Makhtoum brothers have governed the emirate after their father, Sheikh Rashid Bin Saeed Al-Makhtoum, became seriously ill in 1981. The structure that evolved during this period of shadow leadership, with Rashid still formally Ruler of Dubai, set the pattern for what was to follow after his death in 1990.

SHEIKH MAKHTOUM: Since 1990, Sheikh Makhtoum Bin Rashid Al-Makhtoum, the eldest son, has been Ruler of the emirate, though *de facto* leadership of government has been entrusted mainly to Sheikh Mohammed.

Sheikh Makhtoum undertakes ceremonial duties and is also consulted on big decisions, but Dubai insiders say he has never been a political animal and is quite happy to stay out of day-to-day government. This leaves him free to devote more time to leisure interests – he is, like several members of the family, keenly interested in horses. But in a monarchical Gulf society, even traditional social obligations and Majlis consultation can be time-consuming.

SHEIKH MOHAMMED: Although trained as a soldier in the UK and holding the federal defence portfolio, Sheikh Mohammed also assumed civil responsibilities from an early stage. He was put in charge of the committee overseeing Dubai airport in 1977. The Jebel Ali free zone was added to his brief in 1985 and, that same year, he instigated the plan to launch *Emirates Airlines*.

With the succession officially entrusted to his line, Sheikh Mohammed has begun to prepare his key sons for public life. Sandhurst and equestrian sports have provided the initial path: sons Hamdan and Rashid are talented participants in long-distance endurance riding, a sport in which the UAE excels, and Rashid has his own racehorse stable.

Both Hamdan and Rashid now frequently accompany their father on public engagements, but they have yet to be given any formal government roles. A third son, Makhtoum, has been made chief executive of *Dubai Bank* and head of *TECOM*, the holding entity for the Media and Internet City projects and the new Knowledge Village. Both are roles that will allow him to develop strong connections with top technocrats and with foreign investors.

Sheikh Hamdan Bin Rashid Al-Makhtoum, Deputy Ruler of Dubai, has a shrewd financial brain and, as holder of the federal finance portfolio, plays a crucial role in the relationship between Dubai and the UAE national authorities in **Abu Dhabi**. Like Makhtoum, he is consulted on key decisions and assumes responsibility for certain projects.

Hamdan takes on some public engagements but tends to stay out of the limelight – in contrast to Mohammed, who has his own Web site and sees himself very much as a public figure. Local sources say Hamdan was unruffled by Makhtoum's 1995 decision to name Mohammed as Crown Prince and is comfortable with his own much lower profile role.

government. In 2001, hydrocarbon sales produced AED5bn of the Dubai government's AED10.2bn revenue.

Other non-tax income included AED1bn in dividends from companies in which the government has shares. Customs revenue from trade flowing through the emirate amounted to AED1.4bn. The biggest public sector capital project itemised in the circular is the expansion of Dubai airport, which consumed well over AED3bn between 1998 and 2001. In 1999 the airport project cost AED1.5bn – compared with the combined AED8bn expenditure of all the departments of the Dubai government.

GULF/WORLD BANK

World Bank report criticises Gulf jobs policy

The government policies on employment that prevail throughout the Gulf region may be harmful to local economies, according to a new report from the *World Bank*.

Intervention by Gulf governments to boost the role of locals in the labour force produces uncertain results and may even be counter-productive, the report warns. But *Gulf Co-operation Council (GCC)* governments show no sign of backing away from their interventionist approach.

The imposition of quotas for the recruitment of nationals can increase business costs and undermine competitiveness, even if there is a short-term surge in the number of local people who get jobs, according to the Bank. The new report – *Unlocking the employment potential in the Middle East and North Africa* – analyses the massive job-creation challenge facing countries in the Middle East and Gulf regions, where population growth is fast outstripping growth in employment.

In the rich oil states of the Arabian Peninsula, with their generous welfare provisions and heavy reliance on imported migrant labour, the shortage of jobs for locals may not threaten social deprivation of the severity already widespread in **Algeria** or **Egypt**. But it nevertheless represents a major challenge to long-term economic viability, and may affect the political outlook of young people entering the labour market. With governments under pressure to curb public sector employment, university graduates can no longer automatically assume that a government job awaits them on graduation.

In **Kuwait**, **Oman**, **Bahrain** and **Saudi Arabia**, the public sector accounts for around four-fifths of all formal sector employment. Private sector businesses have been expanding their workforce faster than government and parastatal enterprises – but not massively so.

With relatively high population growth, most GCC governments have intervened secure a bigger share of the available private sector jobs for their national populations. But the Bank is sceptical of the effectiveness of these measures, saying they raise costs and undermine the flexibility that firms require for competitiveness.

How the GCC measures up: Employment regulations throughout the region

BAHRAIN

The government launched a nationalisation programme in 1998. This now aims to create 6,000 jobs a year for locals. There has been vocal pressure for action from the majority Shiite community, who are resentful of the importation of foreign Sunni workers. Companies are asked to increase the local proportion of their workforce by 5% a year until half the employees are local. New businesses must have a workforce that is 20% local and there are financial incentives for small firms that increase the local proportion of staff above 30%.

KUWAIT

Under the latest economic plans, government seeks to bolster the local proportion of the labour force to 25%, creating 10,000 new jobs for Kuwaitis each year. The government has opted for a mix of limits on expatriate staffing in certain sectors, training for locals and the use of licence fees as a pressure tool. With more than 90% of Kuwaitis employed in the public sector – which still accounts for a dominant chunk of the economy – it has not been easy to identify private sector roles that Kuwaitis are prepared to take up. But the burgeoning mobile phone sector is one that it is fashionable to join.

OMAN

Government seeks to create 17,400 jobs a year for nationals under the current five-year plan. This would increase the local share of the workforce to 42% (from 36%). Vocational training for locals is financed from taxes on expatriates. Oman is the only GCC state that has actually sought to cut public sector jobs.

QATAR

Nationalisation has not been as vigorously pursued as in other GCC states, because Qatar has such a small national population and continues to import foreign labour. The government is now trying to push Qataris' share of the oil and gas workforce up to 50%. In 1997 it had set businesses a target of 20% local staffing.

SAUDI ARABIA

The Kingdom is deploying a blend of targets and incentives in its campaign to cut the number of non-Saudi workers by 1.5% a year, while creating 319,500 jobs per annum for locals. There are targets for recruitment of locals and training subsidies for firms willing to take them on. As far back as 1995, private businesses were ordered to increase the recruitment of Saudis by 5% a year and in some sectors employers are now required to have 75% local staff, with locals accounting for at least 51% of the wage bill. The fact that the wage proportion is lower suggests that, in some activities at least, Saudi Arabia is moving towards a more normal pattern of local/expatriate recruitment, with foreigners brought in because they are needed for more senior management or technical posts.

UAE

The emirates have shied away from imposing a comprehensive nationalisation programme, partly because local circumstances vary widely. In relatively poor Ras Al-Khaimah, for example, locals account for a much larger share of the population than in Dubai. Generally, the recruitment of locals is encouraged through a blend of training support and internship, with some national sector targets for local employment – 30% for the financial sector, for example, where the proportion of locals has already risen by 187% since 1997. Dubai – whose success has been built largely on attracting foreign capital and workers – has set itself the relatively modest target of increasing the local share of employment to 10% (from 7%).

A difficult job

GCC governments have been slow to take on board such advice. They generally take an active role in the development of new businesses and projects, and a similarly dirigiste approach to the labour markets. With 480,000 jobless locals and 7m foreigners in work, governments also argue that even a relatively small transfer of jobs to GCC nationals would make a big dent in unemployment levels.

There has been a significant if small rise in the proportion of private sector employees who were local. In Bahrain, Kuwait, Oman and Saudi Arabia this rose from 25% to 32% over the course of the past decade. Greater headway has been made in the public sector, where the local share of the public workforce has risen from 65% to 80%.

But the Bank's critique is harsh. It argues that interventionist policies to force the allocation of jobs to locals "encourage rent seeking and job diversion".

"Nationals reporting themselves as self-employed, for example, may merely be sponsoring expatriate workers who run establishments on their behalf," the report comments.

This criticism strikes at the heart of one of the Gulf's key economic institutions, sponsorship – under which sponsors arrange the paperwork for migrant workers, frequently from Pakistan and India, who take on positions such as taxi-driving.

SAUDI ARABIA

Under-pressure, BAe set for Al-Yamamah expansion

Though the massive contract continues to draw unfavourable (and often inconclusive) press scrutiny in the UK, the Al-Yamamah defence offset agreement signed in 1985 seems set for another expansion in coming months. This would add to the Saudi defence budget, boost projections for *BAe Systems'* earnings in 2005-06 and reassure those who fear that enduring Saudi/Western relationships may be near an end. If European optimists are to be believed, it could also bring the multinational Eurofighter project within the Al-Yamamah framework – though recent press reports could put obstacles in the way of the deal.

The developments come despite BAe Systems being rudely awakened last month to claims in *The Guardian* newspaper that it had operated a £20m (\$33m) "slush fund" to bribe Saudi officials linked to Al-Yamamah, in an arrangement engineered through a front company, *Robert Lee International (RLI)*. In a tape recording obtained by *The Guardian*, former RLI employee **Edward Cunningham** and a former senior BAe executive were heard to openly discuss "bunging the [Saudi] embassy".

Some funds were allegedly diverted for personal use, with executives claiming that funds were allocated to leading Saudis, notably *Royal Saudi Air Force (RSAF)* deputy

commander **Prince Turki Bin Nasser Bin Abdelaziz** – whose name seems to have been misused.

The Guardian also reported that RLI was looking into allegations that an employee used the fund to buy his mistress two houses worth £300,000, and may have appropriated a yacht bought with money from the same source. The allegation, which has stirred up interest in the Al-Yamamah saga, is badly timed for BAe, which is seeking to interest Saudi Arabia in the purchase of 50 Eurofighter 2000 Typhoon aircraft for \$2.25bn, as well as a \$2bn upgrade for its large Tornado fighter fleet.

The claims were subject of a letter from former Serious Fraud Office (SFO) head **Rosalind Wright** to Ministry of Defence (MoD) permanent secretary **Sir Kevin Tebbit**, and concerned events that occurred before new legislation covering foreign contracts was introduced in 2002. The confidential letter to the MoD acknowledged there was "insufficient evidence which would justify a criminal investigation". However, the SFO has indicated that it could reopen investigations, providing a new embarrassment in Saudi/British relations.

BAe Systems chief executive **Mike Turner** denied that any big new scandal was brewing, and although the issue rumbles on, it is not seen as a block on the expected extension to Al-Yamamah, which has supplied Saudi Arabia with 120 Tornados, 90 Hawk and PC-9 aircraft, plus minesweepers and other military equipment, all paid for with liftings of crude oil.

The Al-Yamamah extension would expand BAe's servicing and maintenance support business, which is calculated to have earned the UK contractor over \$1bn/yr. According to a research report from broker *UBS*, the Al-Yamamah expansion could win BAe Systems new business from 2004. *UBS* also foresaw potential new orders of Hawk jet trainers. "The higher-than-expected oil price since the start of 2003 has enabled the Saudis to build up a financial reserve that should enable BAe to win new contract work," the report said.

SAUDI ARABIA/UAE: Germans close to defence contract after Schroeder visit

As it focuses on its core business, German, "defence technology" firm **Rheinmetall DeTec** is reportedly in "advanced talks" on a deal to sell hundreds of millions of dollars worth of armoured vehicles to Saudi Arabia and the UAE. Saudi Arabia already has 36 of the Fuchs vehicles, which are equipped with a chemical, biological and nuclear weapons protection system. A UAE official told *Reuters* that a final deal had yet to be reached after several years of talks. "We have had this requirement [for armoured vehicles] for some time," the official said. "We are still discussing its details with our German counterparts and have not yet reached a final deal." Rheinmetall is also in talks with Saudi Arabia and the UAE about an air defence system that could be delivered within the next three to five years. Rheinmetall chief executive **Klaus Eberhardt** accompanied German Chancellor Gerhard Schroeder on his early October visit to **Egypt**, Saudi Arabia and the UAE.

Despite quotas, UAE sends all hands to the pump

Even after the Q4 03 OPEC quota reduction to 2.138m b/d, UAE crude production this year should still exceed the 2002 level, and Abu Dhabi is looking to push up long-term production capacity. Production averaged 2.3m b/d in January-September 2003, a rise of around 300,000 b/d year-on-year. The increase is largely explained by the UAE's filling in for missing Iraqi barrels since March. The UAE has long acted as a swing producer within OPEC, with the flexibility to ramp up capacity at its onshore fields at short notice.

To boost long-term production, Abu Dhabi National Oil Company (Adnoc) is to spend \$1.5bn/yr over the next four years on capital projects, of which at least 40% is targeted at the oil sector. Project activity in the next two years is to receive a massive fillip with new investment earmarked for expanding capacity at existing fields and developing new finds. The plan is to raise sustainable production capacity to around 3m b/d by 2005-06, with the onus on upstream development.

The six main onshore fields comprise Asab, Bab, Bu Hasa, Shah, Sahil and Jam Yaphour, operated by Abu Dhabi Company for Onshore Oil Operations (Adco). Three other fields - Al-Dabbiya, Rumitha and Shanayel - are beginning production, while a 150,000 b/d expansion in the Bab field is under way.

Adco led a \$91m engineering, procurement and construction (EPC) contract on the Bab project in March.

A further 150,000 b/d increase is anticipated from a two-field expansion in north-east Abu Dhabi, while an upgrade to the Bu Hasa field and a greenfield project at Huwaila will add 30,000 b/d of new capacity.

In the offshore, ten fields with at least 1m b/d capacity are operated by six companies. New increments are expected as a result of de-bottlenecking of trains on Das and Zirku islands, which should increase capacity by 200,000 b/d.

Abu Dhabi Marine Operating Company (Adma-Opco) will invest some \$1.2bn to expand output from the Umm Shaif field, with reinjection of 600m ft³/d of gas into existing reservoirs. Bids are due on an EPC contract in 2004.

Planning for gas projects

Gas developments are also rolling ahead. The giant new \$2.3bn onshore gas development-3 (OGD-3) and Asab gas development (AGD-2) project are the key projects, designed to recycle gas for oilfield reinjection as onshore crude reservoirs in Abu Dhabi mature.

OGD-3 and AGD-2 combined will produce 1.3bn ft³ of feed gas, as well as 135,000 b/d of condensates and 24,000 b/d of natural gas liquids. A tender is due in Q4 03. The project is a joint effort of a number of Adnoc subsidiaries for client Abu Dhabi Gas Industries Company (Gasco).

Six firms were prequalified for the first EPC package on OGD-3 and AGD-2 projects in Abu Dhabi. Prequalification has already been completed for the four other EPC packages,

with start-up set for 2007. The \$2bn Package 1 covers the construction of facilities for gas-gathering and sour gas injection at Habshan, as well as installation of trunklines, flowlines and related facilities. Adco plans to produce gas from 22 new wells, each with a 50m ft³/d capacity for reinjecting into existing and new wells.

The Dolphin gas pipeline venture from Qatar will satisfy much of the UAE's domestic gas needs. However, Abu Dhabi-based Dolphin Energy (DEL) and Emirates General Petroleum Corporation (EGPC) signed a memorandum of understanding (MoU) in late September to work on gas projects in the northern emirates. The MoU will allow both parties to establish working teams to study the commercial viability of joint gas ventures in the area. The two parties also said they are finalising detailed agreements for Emarat to undertake the operation and maintenance of DEL's new Al-Ain to Fujairah gas pipeline, due for commissioning in early 2004.

Iraq oil revival stymied by export gaps

Though Iraqi oil chiefs believe they are on track to hit Project Restore Iraqi Oil (RIO) output targets of 2.8m b/d by April 2004, other problems could hamper Iraq's export bid. **Mohammad-Ali Zainy**, a senior oil adviser to the Coalition Provisional Authority (CPA) until late August, said Iraq would have little problem reaching 2m b/d production by end-2003, as envisaged by the RIO timetable. But pipeline capacity constraints could undermine Team RIO's long-term export targets.

Export capacity at the Gulf-based terminals Mina Al-Bakr and Khor Al-Amaya is strapped; combined capacity is 2m b/d, but the latter terminal has been out of action since the 1991 Gulf war and Mina Al-Bakr's current ceiling is 900,000 b/d. Tanker loadings through Mina Al-Bakr are reported to be operating at two-thirds capacity, at around 55,000 barrels per hour. Exports of 300,000 b/d through the Kirkuk-Ceyhan pipeline are anticipated to restart by November, but this is still far short of its full 900,000 b/d pre-war capacity (and 1.1m b/d design capacity). With a parallel 500,000 b/d capacity Kirkuk-Ceyhan pipeline currently inoperable and supplies to Syria via the potential 300,000 b/d Baniyas pipeline halted, Iraq is finding it a strain to get sufficient barrels to market through the Mediterranean.

Zainy, a former Iraqi OPEC official, sees a reactivation of the 1.4m b/d internal Iraq Strategic Pipeline as critical. The reversible north-south pipeline, built in 1975, consists of two 700,000 b/d lines and allows for the export of northern Kirkuk crudes through the Gulf and southern Rumaila crudes via the Mediterranean. The pipeline was disabled in the 1991 war. Repairs are unlikely to be completed until end-2003, but the entire link is in need of repair and modernisation.

Other export options include the 1.65m b/d IPSA pipeline via Saudi Arabia to the Red Sea port of Muajiz. Built during the Iran-Iraq war as an alternative to Gulf-based export routes, it was suspended in 1990 after Iraq's invasion of Kuwait; in 2001, Riyadh expropriated the pipeline as surety for Iraqi debts owed to the Kingdom. More hopeful is a planned oil pipeline to Jordan. Designed to replace road transport of oil from Haditha, the link is intended to carry up to 300,000 b/d.

GSN Risk Grade – D-/3: Questions of legitimacy and security crisis undermine reconstruction prospects

Political and social developments

Overview: There are two very conflicting schools of thought on the security situation. One, now emanating from Washington, has it that July's upsurge in violence from "Saddam loyalists" has been controlled; a majority of the ancien regime's top officials have been arrested or killed, and Saddam could be captured soon; troops from Turkey and other serious military nations will be welcomed, but is not essential. The other view is reflected in the decisions of the United Nations and humanitarian organisations to pull out staff, placing the emphasis on the occupiers' responsibility for civil order and administration; while President Bush and UK Premier Tony Blair remain fully committed to rebuilding Iraq, quietly even they are looking to pull back their over-stretched forces. The outlook is murky, with Iraq drastically under-policed and crime ridden.

Government: The 25-member Interim Governing Council (IGC) is broadly representative, and showing commendable signs of independence from the Coalition Provisional Authority (CPA). A Constitutional Council will draw up a constitution and propose a date for democratic elections. The installation of ministers with one- or two-year tenure represents a serious test for the emergent political elite: their show of independence will help them to withstand the challenge of hard-line opponents, including supporters of the Hussein regime or radical Islamists such as the young Shia cleric Moqtada Al-Sadr, who has announced his own alternative government.

Multilateral: Efforts to negotiate a new UN resolution, under way as GSN went to press, could help consolidate the occupation's legitimacy ahead of the 23-24 October Madrid donors' meeting. The IMF and World Bank need UN-sanctioned legitimacy before taking a lead role. NATO is providing technical and logistical support to a 9,200-strong multi-national force led by Poland.

WMD questions: Undermining the USA and UK is their failure to find evidence that Saddam's weapons of mass destruction programme was a credible threat after the mid-1990s and awkward questions about the legitimacy of intelligence assessments, as reflected in the inquiry into David Kelly's death. Harrowing evidence of huge human rights abuses has been found, but regime change even to prevent mass murder was not the casus belli behind the invasion; Blair and even Bush face major domestic problems over this. Bush is trying to regain control for the White House with the creation of an Iraq Stabilisation Group under National Security Adviser Condoleezza Rice, rather than the Pentagon.

IRAQ: Key Projects

OIL SECTOR: US Army Corps of Engineers is overseeing rehabilitation but the Ministry of Oil (MOO) is increasingly asserting itself under new minister Ibrahim Mohammed Bahr Al-Uloum. Some estimates place long-term rehabilitation costs at \$20bn. Bids are out for work including rehailitation of the Daura refinery.

West Qurna oil field: Russia's Lukoil has 68.5% stake in the second stage development of the giant field (partners include Zarubezhneft, Machinoimport and MOO). The USA has questioned the validity of the contract (which terminates in 2020) but UN envoys suggest that the terms of Security Council Resolution 1483 mean long-term oil contracts can only be renegotiated when a permanent Iraqi government is in place and Lukoil is increasingly confident.

ELECTRICITY: USAID estimates post-war generation capacity of 2,000MW vs 5,000MW before the war. Bechtel is responsible for rehabilitation, with transmission and distribution the priorities although an estimated 6,000MW of new capacity will be required over the next three years.

TELECOMS: The fixed line system was heavily targeted by US forces during the war. Lucent Technologies won the first fixed-line contract awarded by Bechtel to upgrade Baghdad's telecoms infrastructure. The \$25m emergency repair and rehabilitation contract is to restore 240,000 of 540,000 lines out of service. Another US group, Globecom Systems, won a contract to supply an international satellite gateway station for Baghdad, enabling international call access. Intense bidding is under way for mobiles licences.

Economic outlook

Overview: The CPA is running short of funds, and needs President Bush's massive new budget appropriations to become reality, due to shortfalls in the expected oil revenues and aid forecast in Q2 03 as the US-led Coalition took over. Millions of Iraqis are impoverished, but consumer goods are flooding in and there is some investment, mainly by Arab concerns; business families such as the Al-Bunnias have quickly resumed their pre-war prominence as potential investors and contractors look for local partners.

Financial restructuring: The banking system is in disarray, although the creation of Trade Bank of Iraq (TBI) by an international group led by JP Morgan will help. Underlining the problems of operating on the ground, TBI's main operations will, for now, run out of Kuwait City. From mid-October Iraq has a new currency in a move to boost confidence.

Oil industry: The Iraqi Ministry of Oil (MOO) and US Army Corps of Engineers (USACE) have struggled to return oil production to half the 3m b/d pre-war level, due to insecurity and electricity supply shortages. Production is hovering around 900,000-1m b/d, with forecasts of 2m b/d by Q4 03 still looking ambitious. Oil is being sold on spot tenders to a variety of clients (helping to reassure markets); the move to term contracts will require production sustainability. Control of Iraqi oil is a thorny, unresolved issue. The American appointed by the CPA to run the oil advisory team, Philip Carroll, has already left, to be replaced by ex-ConocoPhillips executive Robert McKee.

Debt and compensation: Paris Club government creditors don't expect repayments before end 2004, and estimate total public debt to its members at \$21bn in principal plus a similar amount of accrued interest. A moratorium has been declared on all claims relating to the hydrocarbons sector until the end of 2007. Iraq has a reasonable situation with the multilaterals, with only about \$82m in debt to the World Bank, and a technical debt to the IMF of around \$72m in Special Drawing Rights. IMF is collecting data from non-Paris Club creditors while commercial banks are looking ahead to a London Club rescheduling of old debt. There is some secondary market trading of Iraqi paper, with prices of \$0.15-0.25 on the dollar quoted, but serious creditors expect a major "haircut" when the debt deal is eventually structured – and even these prices may prove too high. Also to be resolved is the question of compensation due to Kuwait.

GSN Risk Grades

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

IRAQ: Selected Economic Indicators

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

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GSN Risk Grade – B-/2: Government faces parliamentary scrutiny, new oil developments planned

Political and social developments

Overview: Prime Minister Sheikh Sabah Al-Ahmed Al-Sabah's government faces a trial of strength with the new Parliament following the 5 July National Assembly elections and long summer break. The government will prioritise the economy and fight against terrorism; Sheikh Sabah plans to send a bill to Parliament dealing with women's political rights – which could test the mettle of Islamist/conservative deputies. On 13 October, the cabinet approved a law allowing women to stand and vote in municipal elections; this must be approved by the National Assembly.

Government: Sheikh Sabah's promotion split the head of government function from the role of the Crown Prince and formalised a job he has effectively been doing due to Crown Prince Sheikh Saad's ill health. The Oil Ministry was merged with Electricity and Water and entrusted to a ruling family stalwart Sheikh Ahmed Al-Fahd. Of the major portfolios, only Finance Minister Mahmoud Al-Nouri is a non-Sabah – a significant bone of contention for critics. However, in the National Assembly it is estimated that the number of pro-government MPs has risen to 30 (out of a possible 50), from just 15 in the outgoing parliament. Islamists are still well represented, liberals are not. Jassem Mohammad Al-Khorafi has been re-appointed speaker, with Mishari Al-Anjari his deputy.

Reform pressures: Although the Al-Sabahs are sitting more comfortably after the elections and Saddam's fall, calls for reform remain loud and the ruling family is under pressure to rewrite its social contract with the wider population – potentially including *bidun* and other residents who cannot now take full citizenship. Launch of a reform petition calling for a new approach to "citizenship" is expected to coincide with the opening of Parliament's plenary session; its backers include some Sunni politicians (some with Muslim Brotherhood links) and Shiite activists, as well as liberals and the wider middle and merchant classes.

Security: The government has pledged to continue the fight against terrorism, while a stable and prosperous Iraq is seen as important for future security. Security services continue to be very vigilant and the justice system has processed those accused of terrorist links very quickly. The USA is pressing for more action still, as links between Kuwaiti Islamists and the Al-Ikhwan (Muslim Brotherhood) establishment and underground groups become more apparent.

Economic outlook

Overview: Prime Minister Sheikh Sabah has pledged to prioritise private sector development and foreign investment; new privatisation efforts are expected. Project Kuwait, the much delayed development of the northern oil fields with foreign equity participation from IOCs, is a priority. The macro position remains strong, but concerns over housing, unemployment and non-oil sector growth must be addressed, as must issues of state fraud and bad loans in the banking sector (6.5% of loan are officially non-performing).

Finances: The 2003/04 budget is based on a very conservative oil price of \$15/bbl and envisages a deficit of KD2.27bn (\$7.6bn), with revenues of KD3.55bn and expenditure of KD5.8bn. National Bank of Kuwait predicts that higher oil prices would push revenues to KD5bn-6bn and could even produce a small budget surplus. The Kuwait Stock Exchange is still performing well despite signs that a correction is on the way.

Liberalisation: A new four-year plan, privatisation bill, subsidy cuts, service fee increases and sales tax have been mooted as goals for H2 03/Q1 04. Development of the relationship between the government and new National Assembly will be crucial in determining the pace of change. Privatisation remains slow, with the state Kuwait Investment Authority (KIA) announcing the indefinite postponement of the sale of a 35% stake in Kuwait Cement. Speculation over the sale of Kuwait Airways and other strategic assets is a long-term feature of Kuwaiti business life.

Iraq opportunity: Kuwait sees Iraqi reconstruction as the launch pad for the northern Gulf's wider development. A task force headed by Foreign Minister Sheikh Mohammed Sabah Al-Salem Al-Sabah is developing relations with Iraq. Iraqi Oil Minister Ibrahim Mohammed Bahr Al-Uloum has indicated that Kuwaiti companies could have a leading role in energy sector reconstruction.

Offshore gasfield: A range of new energy projects present themselves, including revived plans for a fourth refinery. In one potentially important move, Energy Minister Sheikh Ahmad Al-Fahd is to meet his Saudi counterpart Ali Al-Naimi, probably on 26 October, to discuss developing the disputed Dorra offshore gas field. Kuwait plans to invite international bids for the joint development of the field – part of which is also claimed by Iran, whose drilling at Dorra in 2001 led Kuwait and Saudi Arabia to conclude a maritime border deal which committed them to jointly developing the offshore zone.

DEFENCE SPENDING: National Bank of Kuwait reported a 30% rise in military spending in 2002-03, to \$676m, and forecast a greater increase still in the year to end-March 2004. In March, Parliament approved a \$1.65bn, supplemental defence appropriation bill. Defence orders are pushing ahead, with progress on the purchase of 16 Boeing AH-64D Apache Longbow combat helicopters. The USA is also proposing to replenish Kuwait's stocks with M-1A1 Abrams tanks, M-2A2 Bradley fighting vehicles, armoured personnel carriers, mortars and 155 mm howitzers.

KUWAIT: Selected Economic Indicators

(KD billion)	2000	2001	2002	2003p'
Exports	5,962.7	4,969.7	4,683.2	4,680.4
Of which oil and oil products	5,578.3	4,590.8	4,276.7	4,286.9
Imports	2,195.4	2,413.3	2,720.0	2,296.8
Trade balance	3,767.3	2,556.5	1,963.2	2,383.6
Current account	4,501.0	2,553.0	1,282.0	1,841.8
Real GDP (% change)	1.4	-1.1	-0.9e	2.0
Consumer price index (annual % change)	1.02	1.02	1.01	-

p – projection e - estimate

1\$ =0.332 Kuwaiti Dinars

Source: Central Bank of Kuwait, IMF.

Kuwait: Key Projects

PROJECT KUWAIT: Three international consortia are now bidding for the \$7bn scheme to develop oil fields near the Iraqi border, which could eventually double output from Kuwait Petroleum Corporation's five northern fields, which are producing around 450,000 b/d. Due to submit development plans by 27 October are consortia led by ChevronTexaco (with Total, PetroCanada, Russia's Sibneft and China's Sinopec), BP (with Occidental India's ONGG and Indian Oil Corporation) and ExxonMobil (with Shell, ConocoPhillips and Maersk Oil).

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

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

POWER STATIONS: Siemens Power Generation Group is building a 1,000MW gas-fired unit adjacent to the existing Al-Zour South plant. Progress is expected on Al-Zour North, where Parsons Brinckerhoff as consultant.

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DIARY: Events around the region

23-24 October. Iraq donor conference.

A wide guest list has been lined up for the crucial meeting in Madrid. As GSN went to press it was still unclear whether the meeting would succeed in mobilising the sort of funds the US administration wants.

25 October-22 November. The holy month of Ramadan

Ramadan is determined by the sighting of the moon; local variations of one or two days are possible.

27-28 October. Reconstructing Iraq

Another Iraq conference, this one to be held at One Whitehall Place, London. Contact SMi: +44 (0)870 9090 711. www.smi-online.co.uk/iraq.asp

29-30 October. Rebuilding Afghanistan and Iraq.

A conference at the Omni Shoreham Hotel, Washington, DC. Contact MFM Trade Meetings: +1 202 349 2056.

28 November-5 December. UK trade mission to Iran

Organised by the London-based Middle East Association. Contact the MEA's Iran enthusiast Michael Thomas: +44 (0)20 7839 2137.

1-2 December. Investing in Saudi Arabia 2003.

Business conference at One Whitehall Place, London. Contact MEED Conferences: +44 (0)20 7505 6044.

Perspective: Ten years ago

Just a year ago the National Assembly was elected in Kuwait. It has made a big impact since then. Not only has it studied 550 laws and decrees, it has become a forum for free speech and debate about the government and administration. Dominated by the opposition, the Assembly has been outspokenly critical and has not spared the ruling family.

The Prime Minister and Crown Prince has expressed "regret and pain" at deputies' attacks on members of the ruling family and the government. But the Emirate government has taken no steps to curb uninhibited attacks which have concentrated on malpractice and mismanagement. The Kuwaiti public attends Assembly debates and has become accustomed to its outspoken speech as a regular spectacle. The criticisms uttered among the 50 deputies are spread around rapidly among a small population.

The Assembly has published the *Public Funds Protection Law*; deputy Abdallah Al-Roumi said, "I think that even if the Assembly did not do anything else, this law is sufficient". The deputies' lively and frank debates about the *Kuwait Investment*

4 December. OPEC ministerial conference

The cartel's 128th Extraordinary Meeting of the Conference, to be held at base, in Vienna, Austria.

4-5 December. CWC's 4th Annual World LNG Summit

Gas conference at the St Regis Grand hotel in Rome. Contact CWC Group: +44 (0)207 089 4200. www.theavcgroup.com/conferences

7-8 December. The World Islamic Banking Conference

A conference in Bahrain, pitching itself as the global Islamic banking centre, to be held at the Gulf International Convention and Exhibition Centre. Contact Middle East Global Advisors: +971 4343 1200. www.megaevents.net/wibc

8-9 December. GCC Power 2003

A conference and exhibition for power professionals focused on the GCC region and attracted to Oman in December, to be held at the Novotel Seeb Hotel, Muscat. Contact CWC Associates: +44 (0)207 089 4200.

12-22 January 2004. UK trade mission to Saudi Arabia

Organised by the London-based Middle East Association with Trade Partners backing. Contact Michael Thomas: +44 (0)20 7839 2137.

1-4 February 2004. Id-al-Adha

The Id holiday can vary slightly from country to country.

Office's enormous losses have encouraged, at least, the efforts by the parent *Kuwait Investment Authority (KIA)* to control investment better and avoid future losses. Some financial scandals have been referred to the courts thanks to Assembly investigations. The Speaker has called for tighter controls over arms deals to avoid payment of what he called "commissions".

So the limited democracy which Kuwait restored after the Gulf War has its effect. The Coalition which drove out the Iraqi occupiers and restored the Kuwaiti government urged it to make a gesture towards democracy in return. It did so with the election of a new Assembly, and after a year it can be seen that the gesture was a real one.

But it was definitely a limited gesture. What the Emir's government agreed to do was simply to restore the situation to what it had been before 1986, when the previous Assembly was suspended after making criticisms. It did not agree to change the 1962 Constitution to give greater power to the Assembly, which the government remains free to ignore and, if it feels so inclined, to suspend again as it did before.

Gulf States Newsletter, Vol. 18, No. 471, 4 October 1993

Independent Research and Analysis of Political Risk, Energy and Finance in Africa and the Middle East

From Cross-border Information

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As attitudes change, Gulf governments walk thin line on arms deals

With the opening of an investigation into missile systems procurement in Kuwait and ongoing questions over arms deals in Saudi Arabia, Gulf governments have the opportunity to take a very visible step towards greater accountability. If they choose not to do so, they run the risk of forfeiting confidence at home and making things even more troublesome in their relations with governments abroad.

The Kuwait army's legal department has begun investigating allegations of corruption involving Kuwaiti legislators and US firms providing air defence missile systems and army facilities. Talk of scandal continues to dog the Al-Yamamah family of arms deals that unfolded from 1985 onwards. Recent allegations have charged the misuse of monies from a BAe slush fund (see *Finance and policy*).

Throughout the 1990s, the Gulf Co-operation Council states have advanced towards more accountable military procurement procedures and fair trading practices. But they have made uneven progress. No GCC state is yet free of commissions agents or some form of purchaser payments, contractual or not.

The UAE has made the most progress, banning the legal use of commissions agents in the 1985 *Khalifa Directive*. Yet this ban extended only to "lethal" equipment, and left plenty of room for payments through the UAE's extensive offsets programme, plus concessions on deliveries of purchased equipment.

Kuwait's aggressive parliamentary audit commission has picked over the Paladin howitzer deal with a fine-toothed comb, and raised concerns over value and quality issues relating to BAe Sea Skua anti-shipping missiles.

Bahrain and Oman have been forced to develop thrifty procurement practices that have stressed value-for-money.

An increase in GCC deals with the USA – which requires greater, if not foolproof, safeguards against corrupt practices –

are a factor in the more transparent procurement practices seen in the late 1990s. Washington analysts argue that where US market share is weaker, high-profile scandals have continued.

Saudi mediation company *Aerospace Engine Design* sued *Rolls Royce* engines for failing to deliver the full amount of commissions payments in 1997; the UK's *Serious Fraud Office (SFO)* froze funds belonging to the Qatari royal family in the Jersey "cash-for-arms" scandal.

A change is under way in European approaches to corrupt practices and the arms trade. SFO director **Robert Wardle** said on 12 September that BAe could be investigated for its involvement with a company facilitating Saudi deals, *Robert Lee International*. *Conservative* and *Labour* governments since 1992 shelved previous UK government enquiries into Al-Yamamah. In June, *Cornerhouse* became the latest UK environmental and social justice group to issue a critical report on the prominent role of the *Export Credits Guarantee Department* in supporting £200m-300m/yr worth of defence sales, focused on the Gulf.

Arms deals of the previous two decades are ticking time bombs that threaten to undermine citizen confidence in public institutions and weaken GCC monarchies abroad. Whether their details emerge through internal enquiry (as in Kuwait) or vendor-nation whistle blowing, they could prove damaging for Gulf governments seeking to avoid culpability for economic problems as they seek to display good governance.

Unconfirmed accounts of corrupt procurement practices involving Gulf royals belie the image they seem to prefer: that of having Western arms manufacturers foist unnecessary military equipment on them against their better judgement.

But it takes two to tango, and Gulf arms buyers and commissions agents may find it harder to attract dancing partners if their transactions continue to attract the spotlight.

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