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Big guns seek to spike 'loose cannon' Ahmadinejad's armoury

In a bravado performance, Mahmoud Ahmadinejad made the presidency his own in his first year in office. Now, this uniquely Iranian politician is under pressure from a range of sources, with both key elements of the Islamic revolutionary hierarchy and hawkish voices in Washington seeking to reassert some control over an apparently 'loose cannon'.

Mahmoud Ahmadinejad's latest undiplomatic comments on his country's nuclear programme – comparing it on 25 February to a train with no brakes – have led to a new bout of criticism, at home as well as abroad, reflecting a wider perception that the domestic political honeymoon is truly over for Iran's president.

Tehran sources have spoken for more than a year about plans by the Islamic Republic's senior leadership – from *Rahbar* (Supreme Leader) Ayatollah **Ali Khamenei** down – to rein in Ahmadinejad, once the outspoken president's grandstanding over the nuclear industry, **Israel** and other issues became a burden. Now that seems to be happening, with Ahmadinejad falling foul of rivals in the power elite and assailed by some of the populist forces that put him in government, as economic pressures mount. He is increasingly dependent on his allies from the *Islamic Revolutionary Guards Corps* and *Basij* tradition.

With **US** *Special Forces* apparently working underground with regional secessionists as a potential prelude to an armed strike – the Bush administration's last card, as advocated by Vice President **Dick Cheney** – and Iran increasingly isolated even from its natural friends on the *UN Security Council* like **China** and **Russia**, a range of domestic forces have lined up to hobble a president who showed, in his first year in office, the extent to which a bold politician could use the executive office to gain real power *(GSN 795/8, 781/1)*.

Ahmadinejad's comment is worth repeating: "The train of the Iranian nation is without brakes and rear gear… we dismantled the rear gear and brakes of the train and threw them away some time ago." It led prominent journalist **Mohammad Atrianfar** to accuse the president of using the "language of the bazaar", while making it harder for nuclear negotiator **Ali Larijani** to reach a compromise with foreign negotiators.

Atrianfar has been a senior political advisor to former president *Ali Akbar Hashemi Rafsanjani*, now first deputy chairman of the *Assembly of Experts*, which began its fourth term on 20 February, as well as heading the powerful *Expediency Council*.

Other political figures weighed in, with *Islamic Iran Solidarity* party head **Fayaz Zahed** criticising Ahmadinejad for modelling himself on **Venezuelan** President **Hugo Chavez** – rather than **Nelson Mandela**.

A loose anti-Ahmadinejad coalition is emerging, given teeth by the setbacks received in the December 2006 Assembly of Experts and city council elections, when the president's supporters faired very badly *(GSN 796/Online)*. The municipal polls especially were seen as a referendum on Ahmadinejad's popularity.

Reformist figures have said the new

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informal regroupings are based on concern over Iran's future with Ahmadinejad at the helm. They are centred around two former presidents – **Mohammad Khatami**, reduced to a toothless onlooker during his second term, and the wily Rafsanjani, who surprisingly lost out to the near unknown Tehran mayor in the mid-2005 presidential poll *(GSN 761/20)*.

Rafsanjani threatening

Rafsanjani believes Iran must negotiate on the nuclear case. In January, he told MPs the Expediency Council would scrutinise Ahmadinejad's budget and criticised senior officials for under-estimating the international threat.

He also reportedly narrated an incident where a top-level official – assumed to be Ahmadinejad – had been slapped down by the *Rahbar*. According to Rafsanjani, "we had a session with the Supreme Leader and a group of officials," where somebody "said 'the threats are not serious and there is no need for concern'," to which Khamenei replied: "The threats are serious."

Khamenei's views remain little known – he has been notable for his public absence of late, leading some US neo-conservative and other analysts to conclude he is really ill.

Rafsanjani also recently criticised Ahmadinejad's economic performance and for failing to privatise state enterprises – warning that Iran's economy would be overtaken by poorer neighbours if national assets remained under state control.

This appears to be an issue close to Khamenei's heart – in late February he again urged the government to speed up privatisation, for which decrees have been issued in his name *(GSN 787/8)*. Khamenei was quoted as saying: "The actions undertaken are not satisfactory. This problem either stems from the fact that not enough attention is being paid to the policy to create a major evolution in the economy or from different interpretations from the different organs of power."

Khamenei previously ordered the privatisation of 80% of public and state institutions; some officials – including the deputy minister responsible for privatisation **Ghomlamreza Heidari Kord Zanganeh** (a reformist survivor of the Khatami administration) want to make progress, but Ahmadinejad's government has dithered on the issue.

A recent *International Crisis Group* report, *Ahmadinejad's Tumultuous Presidency*, noted the president's puzzling relationship with Khamenei. At times the *Rahbar* was openly supportive of the president, describing his administration as the "most popular government in Iran since the Constitutional Revolution" of

Ahmadinejad in clash with Qom clerics?

It is a signal of the extent to which key elements of the Islamic revolutionary establishment have fallen out with **Mahmoud Ahmadinejad** that local newspapers have been commenting on the increasingly fragile relations between Qom's powerful theologians and a president, whose populist manner has not sat well with clerics concerned with public morals.

Allowing women to watch football matches and Ahmadinejad's presence at the opening ceremony of the Doha *2006 Asian Games*, where the **Qatari** organisers laid on 'dancing girls', have apparently drawn the clerics' ire. But in less tense times the *ulema*'s concerns may not have received such a public airing.

Analysts have noted Ahmadinejad's absence from Qom on 9 January, when past presidents had attended ceremonies commemorating a 1978 uprising in the holy city.

In late January, senior cleric Ayatollah **Hossein Ali Montazeri** attacked Ahmadinejad for his "radical and provocative slogans" , and argued that Iran's rights could be defended without giving "pretexts" to the **United States**. Montazeri played a central role in the Islamic revolution only to find himself pitted against Ayatollah **Ali Khamenei** and his allies, doomed to spend the last two decades as a venerable member of the Iranian 'awkward squad'. But the old ayatollah still carries huge weight, and his views seem to reflect wider sentiments, even in the cradle of the Islamic revolution and Twelver Shiite values that Ahmadinejad seems so concerned to defend.

1906. He has chastised past and present officials for being "too critical" of an administration that is "trying to serve the people." More recently, however, Khamenei appears to have cooled towards Ahmadinejad; he snubbed a request in January to meet to discuss the nuclear programme.

Much attention has surrounded comments in *Jomhuri Islami* – widely seen as reflecting Khamenei's views – which in January rejected Ahmadinejad's comment that a UN sanctions resolution was merely "a scrap of paper". The newspaper wrote that "turning the nuclear issue into a propaganda slogan gives the impression that you are exaggerating its importance, to cover up flaws in the government. If people get the impression that the government is exaggerating the nuclear case to divert attention from their demands, you will cause this national issue to lose public support."

Other newspapers have been equally critical, including *Hamshari*, whose director **Hossein Entezami** is a member of Iran's nuclear negotiating team, led by Larijani, another key member of the Khamenei circle (and thus Iran's unofficial 'foreign minister').

Economic woes

Ahmadinejad's economic policies are under heavy attack. MPs have criticised the president – described as an "economic illiterate" by one international official – over his budget preparation *(GSN 798/12)*.

An inflationary budget, submitted to parliament on 21 January, led to a group of MPs, formerly allied with the president to create a new political faction, ***Osoulgarayan Khalaaq (Creative Conservatives)***, to mark their disagreement with his policies. Among them is Majlis Economic Commission deputy chair **Mohammad Koch Shehreh**.

In an unprecedented rebuke, 150 MPs in mid-January signed a letter blaming the president for raging inflation and high unemployment. The signatories reportedly included a majority of the president's former allies, now seeking to distance themselves from his waning star.

Significantly, Majlis deputy speaker **Mohammad Reza Bahonar** – who helped Ahmadinejad choose his cabinet – denounced his economic policies as "wrong" and told the president to stop blaming others for these problems. Bahonar in early January warned that spiralling inflation meant "the general level of prices seems to have got out of control."

Meanwhile Ahmadinejad also faces criticism over his inability to carry through populist electoral promises. ***National Trust Party*** member Hadi Baluki said that while "Ahmadinejad claimed he would bring oil money on to people's tables", people were instead being deprived of bread.

This followed criticism by Ayatollah **Hussein Musavi-Tabrizi** that the government was not paying enough attention to Iranians' material problems.

And pointing to unexpected criticism from senior clerical ranks, Musavi-Tabrizi is not the only member of the *ulema* to make clear his disapproval of the presidential style *(see box article, above)*.

Energy crises highlight policy chaos, need for nuclear power

Much recent attention has focused on the economic tensions being created by Iran's malfunctioning energy policy, with ultra-cheap petrol costing the government tens of billions of dollars in subsidy payments – all but wiping out the oil price windfall – and the threat of sanctions and a sometimes hostile business environment that is cutting back much needed foreign investment.

Adding to the debate, ***Johns Hopkins University***'s **Roger Stern** predicted, in a *Proceedings of the National Academy of Science (PNAS)* paper, that Iran might run out of oil for export by 2015. Stern's report, together with Iran's other increasingly visible energy problems – there were protests in Western Iran in early January over energy cuts – is adding to the debate over the Islamic Republic's claims to need nuclear power.

According to Stern, "the **US** case against Iran is based on Iran's deceptions regarding nuclear weapons development. This case is buttressed by assertions that a state so petroleum-rich cannot need nuclear power to preserve exports, as Iran claims. The US infers that Iran's entire nuclear technology programme must pertain to weapons development. However, some industry analysts project an Iranian oil export decline. If such a decline is occurring, Iran's claim to need nuclear power could be genuine. Because Iran's government relies on monopoly proceeds from oil exports for most revenue, it could become politically vulnerable if exports decline."

While Iran is guilty of *Non-Proliferation Treaty (NPT)* deceptions. Stern argued that the government's dependence on export revenue suggested it could need nuclear power as badly as it claimed. This has also been *GSN*'s view.

Recent analysis from former ***National Iranian Oil Company (NIOC)*** officials suggested that oil exports could reach zero in anything from 12 to 19 years at their calculated rates of reserves depletion and demand.

Stern writes that since 1980, energy demand has exceeded supply, with exports stagnant since a 1996 peak; Iran has failed to meet its ***OPEC*** quota.

Over-optimistic forecasts

According to Stern, Iranian forecasts of future production figures are optimistic.

One obvious example is the Azadegan project, which is scheduled to produce by 2009. But reports from the trade press, and Iranian and **Japanese** sources, agree that no Azadegan contract exists.

"Therefore, the project cannot produce by 2009 or even 2010 unless a contract is agreed almost immediately, which seems unlikely. Problems of a long negotiation have been compounded by Japan's displeasure with Iran's NPT violations," Stern wrote.

Equally questionable is the Ahvaz expansion, scheduled for 2009, which Stern doubts will be built on time. NIOC is building this expansion alone.

Buyback problems

Stern is in line with industry sentiment when he says that Iran's problems are worsened by its unique buyback investment vehicle. "In most exporting countries, foreign exploration and development firms offer capital, technology, and management in exchange for some share of the resource to be extracted. Iran's constitution considers such arrangements as foreign ownership, which it prohibits. This prohibition has affected disinvestment and deterioration in Iran's petroleum infrastructure, most of which was built before the Iranian Revolution. Compounding the problem is NIOC's inability to lead major project construction."

Buybacks have become so unattractive that negotiations now take years, he commented.

On future foreign investment, Stern said Iran's petroleum investment climate deteriorated since the 1988-2004 period – and even then investment was insufficient to offset the production decline – so that "zero future foreign investment thus appears plausible."

Reinjection and the anti-gas lobby

The *PNAS* paper looks at attempts to increase existing capacity, noting that Iran's OPEC quota shortfall is due in part to a shortage of gas for reinjection – an important maintenance technique in ageing fields. "It seems enigmatic that a state with such large gas reserves cannot lift enough to sustain production of its most valuable export, oil," Stern wrote: "NIOC has sought to expand gas exports, which allows it to turn a profit. In contrast, selling to the subsidised domestic market generates a loss. Gas was therefore committed to export in what is also a geopolitical strategy to cultivate allies in Asia. This strategy takes no account of reinjection shortfalls or exploding domestic gas demand, which already conflict with oil export. In response, an anti-gas export faction has arisen in the Majlis casting doubt on Iran's ability to perform on gas export contracts."

Generous petrol subsidies – gasoline is priced at $0.08/ltr (only **Libya**, with its much smaller population, is cheaper) has led to 11%-12%/yr demand growth. However, "because refining gasoline for domestic consumption is unprofitable because of the subsidised price, imports are favoured over refinery expansion."

Thus shorn of cash, NIOC must import petroleum products at market prices – which have become the focus of a showdown between NIOC and Majlis conservatives. As past attempts to raise prices or ration fuel have proven politically impossible, the import funding shortfall will probably be found in another raid on the ***Oil Stabilisation Fund (OSF)***, as happened in 2005. The management of the OSF's depleting funds is an extremely sensitive topic.

'Substantial economic consequences'

According to Stern's analysis, export extinction in 2014-15 will be preceded by a decline to 33%-46% of 2006 exports by 2011. Stern wrote that: "export declines are substantial, even in the least likely, most optimistic scenario… Our survey suggests that Iran's petroleum sector is unlikely to attract investment sufficient to maintain oil exports."

This would require foreign investment to increase when it appears to be declining.

Other factors contributing to export decline are also intensifying, notably demand growth – which Stern put at 11%–12% for petrol, 9% for gas and 7%–8% for electric power.

Meanwhile, oil recovery rates have declined, and, "with no remedy in sight for the gas reinjection shortage, this decline may accelerate." Depletion rates have also increased, and will accelerate further without much more investment.

On paper, the booming gas export sector offers enormous prospects, but here too Stern is gloomy. "If the regime actually proceeds with LNG exports, oil export decline will accelerate for lack of reinjection gas," he concludes. "In summary, the regime has been incapable of maximising profit, minimizing cost, or constraining explosive demand for subsidised petroleum products. These failures have very substantial economic consequences."

BAHRAIN

Regulatory crackdown on societies amid tensions

Civic campaigning groups have been warned by government that they must cease their operations until they register under the *1989 Societies Law,* which will allow the authorities to ban all activities that are deemed political.

Leading feminist **Ghada Jamsheer** has received a warning letter, while similar warnings are being issued to groups representing former torture victims, the unemployed and those needing new housing. The issue has received little attention from the local media – preoccupied mainly with clashes between security forces and youthful demonstrators.

Regulation of societies that are not political quasi-parties is the responsibility of Social Affairs Minister **Fatima Al-Belushi**. She recently rejected allegations that she had links to the ***Muslim Brotherhood.*** Relations between the Brotherhood and government are said to be warm and there are suggestions that government is becoming more willing to indulge Sunni Islamists – some of whom have secured recent judicial appointments – because of the huge and growing importance of the Islamic finance sector for the Bahraini economy.

Royal Court Minister Sheikh **Khalid Bin Ahmed Al-Khalifa** – brother of Defence Minister Sheikh **Abdullah Bin Ahmed Al-Khalifa** – is a key player. He works closely with his cousins, Royal Court Director Sheikh **Mohammed Bin Ateyatullah Al-Khalifa** and Cabinet Affairs Minister Sheikh **Ahmed Bin Ateyatullah Al-Khalifa**, who was in charge of electronic voting in last year's elections and was the subject of allegations in the controversial **Al-Bandar** report.

Tensions have also been heightened by claims that the government is recruiting **Iraqi *Baathists*** from **Jordan** to work in the security forces. This is said to have caused some concern among government circles in **Kuwait**.

Meanwhile, ***Bahrain Centre for Human Rights (BCHR)*** president **Abdulhadi Al-Khawaja, Haq** leader **Hassan Al-Mushaima** and **Shaker Mohammed** are still waiting to learn when they will face trial *(GSN 799/3)*. They have been charged with campaigning to change the political system, incitement of hatred against the government and spreading false news and rumours. Al-Khawaja could be called to court within weeks, but he has so far received no official notification. Indeed, he has been allowed to visit the **United States** and was preparing to travel to brief ***United Nations*** officials in Geneva as *GSN* went to press.

Recriminations as Kuwait slides back to stalemate

Arguably the Gulf's most advanced political system, Kuwait's democratic structures may need further overhaul if the country is to break out of its current stalemate.

Rumoured threats demanding that Prime Minister Sheikh **Nasser Al-Mohammed Al-Ahmed Al-Sabah** and some of his senior ministerial colleagues submit themselves to interrogation in the *Majlis Al-Umma* (Parliament) and the risk of a no-confidence vote confirm the depth of mutual suspicion and disenchantment that now characterise Kuwaiti politics.

As yet, no formal warning has been made to Sheikh Nasser – and MPs (*Al-Nawab*) are disowning responsibility for the speculation now circulating in Kuwait City. But some of his most senior ministers are already the target of open demands for a grilling by the National Assembly (*Majlis Qomi*).

One year after elections appeared to clear the way for a new mood of pragmatic co-operation between government and legislators, the country risks sliding back into stale confrontation. The always uncertain hopes for a positive partnership have been soured by a lack of willingness by either side to take risks. Opposition MPs remain unpersuaded that Emir Sheikh **Sabah Al-Ahmed Al-Jaber Al-Sabah** is really willing to give a greater voice to the National Assembly and curb the role of traditional patronage and tribal networks, through which the palace has sought to maintain its back-channels of influence.

Meanwhile, government leaders and their technocratic advisers remain exasperated at many MPs' reluctance to accept the need to modernise the public sector-dominated economy and lavishly funded but creaking bureaucratic machine.

At worst, the situation has the makings of a repeat of the head-on clash that led Sheikh Sabah to dissolve the National Assembly last year, only to see his allies suffer a decisive defeat to an opposition alliance of the major political blocks *(GSN 798/15, 785/1)*. But the rumour and divisive speculation could just be the latest manifestation of the irritations and questioning that make up the Kuwaiti system *(GSN 796/6)*.

The past two months have seen the ministers of health and education threatened with parliamentary grilling. Now it is the turn of Cabinet Affairs Minister **Ismael Al-Shatti** and Finance Minister **Bader Al-Humaidhi**. The latter is a quietly competent former head of the ***Kuwait Fund for Arab Economic Development***. Both men have been targeted by **Ahmed Al-Saadoon**'s ***Popular Bloc***, whose agenda is defence of the welfare system and public sector employment traditions. Sadoon has claimed that grilling Al-Humaidhi will expose the extent of supposed scandals connected to the *Public Properties Law*.

Al-Shatti has been accused of spreading speculation about a possible dissolution of parliament, in an attempt to dissuade MPs from insisting that ministers present themselves for grilling – a tough procedure, the mere threat of which has sometimes provoked cabinet members into resignation. Al-Shatti denies the claim, insisting there is no case for dissolution, which would anyway be solely the prerogative of Sheikh Sabah.

Deeper causes

So far, so routine: Kuwait appears to be perpetually on the brink of political crises, but deeper factors are also at work.

Last year's battle over electoral reform provided a most significant moment, in which Sheikh Sabah's parliamentary allies suffered election defeat, effectively obliging the administration to accept the oppositions' demand for a new constituency system. For years the interaction between parliamentarians and ministers had consisted of specific wrangles over issues such as privatisation, the *Project Kuwait* northern oilfields development or pruning of housing subsidies; typically these saw government allies citing the case for economic efficiency, while critical MPs pressed demands for transparency measures to curb corruption.

But the clash of mid-2006 was qualitatively different: confrontation had moved beyond issues-based arguments to a genuine tussle over the balance of power between executive and legislature. For some reformists this marked a key stage in modernising the system.

The clash was given added edge by the fact that it followed the

Al-Saadoon: Kuwaiti populist

In earlier parliaments, ***Popular Bloc*** leader **Ahmed Al-Saadoon** could have been painted by government allies as an irresponsible populist unwilling to face up to the need for fundamental reforms – needed to ensure the long-term financial viability of the Kuwaiti state and the stimulation of job-creating private sector business. However, he is less easily isolated these days because of the links he has established between the Popular Bloc and other political groupings.

Saadoon earned himself the quiet but sincere gratitude of liberals and feminists through his surprise conversion to the cause of female suffrage in the last legislature. Arguably, his was the decisive voice that finally delivered women's political rights. There has been talk of developing a new progressive axis that would bring together the Popular Bloc and the liberal ***Democratic Bloc*** (itself an alliance between the scions of well-heeled economic liberal merchant families and a local strand of Arab leftist nationalism dating back to the 1960s).

At the same time, Al-Saadoon's commitment to lavish welfarism plays well with the more traditional and tribally oriented strand of Kuwaiti Islamism where he has found allies with more populist preoccupations. For example, Islamist MP **Dhaifallah Buramia** has pitched in with corruption allegations against Finance Minister **Bader Al-Humaidhi.**

However, Al-Saadoon has not had everything his own way, although his is a powerful voice. Even his widened spread of political connections was insufficient to secure his election to the parliamentary speaker's chair when the present national assembly took office last year. The government pulled out the stops to ensure a victory for the more emollient and compliant incumbent, **Jassem Al-Khorafi**, who has a good working relationship with the Emir, **Sheikh Sabah Al-Ahmed**.

Al-Sabah succession crisis early last year – when parliament showed itself as both responsible and powerful in intervening to resolve the internal wrangles within the ruling family over the choice of a new Emir to follow the late Sheikh **Jaber Al-Ahmed Al-Jaber Al-Sabah** *(GSN 776/5, 775/1).*

In forcing the much-loved but ailing Crown Prince Sheikh **Saad Al-Abdullah Al-Sabah** to stand aside in favour of then premier Sheikh Sabah Al-Ahmed, parliament proved it was ready to wield the clout which it was formally endowed with under the constitution. Had there been any doubt, MPs soon demonstrated that their decision to confirm Sabah Al-Ahmed as head of state could in no way be taken as an endorsement of the government programme he had developed in his previous incarnation as prime minister.

In particular, the main political groups – mainstream and Salafi Islamist, liberal and popular – were all frustrated at the cautious approach to electoral reform. They argued that the system for National Assembly elections through 25 two-member constituencies, some with tiny electorates, allowed the Al-Sabah to exercise undue influence.

The political blocs, though divided on many other issues such as economic liberalisation or the shape of educational reform, were united in their determination that the old voting system should be replaced with a much smaller number of multi-member constituencies, in which personal connections would be more limited and it would be much harder for the palace to pull strings. They wanted to move to a less personalised system, based around programmes and ideology.

The political groups formed an alliance to press their case. After an exasperated Sheikh Sabah had opted for dissolution, and new elections, this opposition alliance won a clear majority of the 50 elected seats. A humbled government was forced to implement electoral reform. MPs and government officials hoped this might open the way for pragmatic co-operation, but so far the logjam remains – with a reversion to traditional confrontations and the threat of a slide back into the *status quo*, at least for the next three years.

Sheikh Sabah has little interest in calling an election that might simply reinforce the opposition. As Al-Shatti suggested, there is no reason why an election should be called. But there is a dual price to be paid for such immobilism: constant squabbling lowers politicians in the eyes of an already disenchanted public. And it produces policy paralysis. With oil prices softening, has Kuwait already missed the most favourable moment to sign contracts for the northern oilfields.

Kuwait looks for greater transparency

A parliamentary report into the possible mismanagement of oil sales to the **Americans** in **Iraq** has emerged as a crucial issue in testing the scope for a more productive relationship between Kuwaiti parliamentarians and their government.

Former oil minister Sheikh **Ahmed Al-Fahd Al-Sabah** has already been the target of severe criticism by MPs who want government to pursue further enquiries.

Brushing the matter under the palace carpet will only stimulate new suspicions about the ruling family's role in state affairs. But were Emir Sheikh **Sabah Al-Ahmed Al-Jaber Al-Sabah** and Prime Minister Sheikh **Nasser Mohammad Al-Ahmad Al-Sabah to** authorise an effective and transparent investigation, that may convince wary MPs that they have accepted that Kuwait has moved into a new era.

For now, Kuwait languishes in uncertainty. Last year's succession crisis and election demonstrated parliament's power and self-confidence. But this remains power without responsibility: the government's composition remains the personal choice of the Emir and his appointed prime minister.

This fosters frustration and, critics would say, irresponsibility among MPs, who can scrutinise and complain, but are not publicly answerable for challenges that require positive action, such as the weakened educational system or developing new ways of funding public infrastructure and services.

This shortcoming was exemplified by a court ruling over build-operate-transfer (BOT) contracts for work to be carried out by logistics company ***Agility*** at Mina Abdullah port. After the ***Audit Bureau*** identified contract violations, the government cancelled these contracts, only to see them reinstated by a lower court; an appeals court has since over-ruled this, confirming the cancellation. Sheikh Nasser has ordered a review of all possible BOT contract violations. The

Parliamentary Committee for the Protection of Public Funds is remains the scrutineer. MPs will not get involved in decisions about what to do next, in deciding which contracts should be scrapped or reinstated. "The committee's duty is to monitor the performance of the government and to point out loopholes," said one member, **Ahmed Lari**. This typifies the strength and weakness of current arrangements. Elected politicians ask questions and spot failings, but they aren't forced to take positive action to ensure implementation.

SAUDI ARABIA

Shootings show extremism is still a serious force

This is not 2004, but radical violence is not yet defeated despite security force and intelligence successes, and the late February incident in which **French** citizens were killed reinforces pressure on King **Abdullah Bin Abdelaziz** to set a clear sense of political direction.

The opportunistic roadside murder on 26 February of four French expatriates near the historic ruins of Madain Saleh in north-west Saudi Arabia brutally highlighted the challenge of reversing the tide of youthful recruits to *jihadi* terrorism.

Pointing to the extent that incidents are increasingly focused on soft targets in remote areas, some of the victims were believed to be Muslims heading to Mecca on a pilgrimage. As far as is known, no one could have known in advance that the victims would be in the area; they got out of their vehicle for a short walk and came under fire an automatic weapon fired from a passing car.

The shootings are a setback to efforts to enhance internal security and Saudi Arabia's image, but should not be over-stated in assessing the global security threat – there had been no fatal attacks on foreigners since 2004, when three died: a Frenchman shot dead in Jeddah, a **US** contractor beheaded, and ***BBC*** cameraman **Simon Cumbers** killed in Riyadh, along with reporter **Frank Gardner**, who was badly wounded.

Saudi authorities have learned that covering up such events is counter-productive. National television was quick to announce details of the attack.

The attack can hardly be blamed on government policy, but some analysts were quick to note that it came during as period when there is a palpable sense of slowing momentum in the government's reform drive *(GSN 799/4)*.

Reformists divided as petitioners squabble

It is not just King **Abdullah Bin Abdelaziz**'s reform programme that may be running out of steam. Reform campaigners have also shown signs of flagging, undermined by their own internal divisions in disputes over the most recent reform petition.

This was launched by a dozen confirmed Islamists, led by **Abdullah Al-Hamed** and **Misfer Al-Maymouni**, its signatories ranging from hard-line voices like **Moussa al-Qurni** to the moderately conservative Sheikh **Abdulhamid Al-Mubarak**, a non-Wahhabi Sunni from the eastern oasis city of Al-Hofuf, whose extended family includes Shia and Sunnis.

Despite their confirmed religious orientation, these men wrote a document that had relatively wide appeal to reformist circles, calling for a state with an Islamic constitution and based on justice and consultation (*shura*). It cited King **Abdullah Bin Abdelaziz**'s statements in favour of public participation to underpin its call for elections.

It was hardly surprising that such an appeal attracted would-be signatories from beyond the mainstream Islamist camp. But as liberals, Shiites and Islmailis expressed interest in signing up, the organisers appeared to lose their nerve. They feared that, if endorsed by other constituencies, the petition might come to be seen by the authorities as subversive – although with possible *Majlis Ash-Shura* (Consultative Council) elections now frequently discussed, it could hardly be regarded as radical.

Backpedalling rapidly, the petition organisers even tried to prevent liberals and Shiites from adding their names. There are claims that at a support meeting at the ***Moussa Al-Qurni*** hotel indulged in a broadside of venomous criticism of Shiism, although a number of Shia were present.

However, this move backfired. There were angry protests at such Wahhabi Islamist exclusivism and eventually the organisers had to back down. They agreed to allow others to sign, albeit with their names categorised in separate groups.

Besides the 12 leaders, and 38 confirmed Islamist signatories, the petition now also carries the names of 19 'supporters' who are mostly Ismaili, including **Saad Al-Salem**, who was among the group of Ismailis recently released on the orders of King Abdullah during his visit to Najran.

Supporters log on

There are also 123 individuals who have added their names via the petition website. The organisers claim they cannot verify their identity, but they do include **Ali Al-Ahmed**, a high-profile exiled dissident who set up the ***Saudi Institute*** campaign group based in Washington DC.

A further 14 would-be signatories are waiting to discover if their names will be accepted as verified. Such organisational confusion and wrangling is of course reassuring to **Al-Saud** traditionalists who prefer to believe that the reform camp has no real base of popular support and can safely be ignored.

But it may be too early to brush the petition aside as entirely inconsequential.

It is gaining attention week by week and it is significant that the petition has attracted the name of the liberal **Matrouk Al-Faleh**, one of three reformists released from jail in August 2005 under an order issued by King Abdullah at his first cabinet meeting after acceding to the throne.

UNITED ARAB EMIRATES

MBZ gains clout in court revamp

The court of **Abu Dhabi** Crown Prince Sheikh **Mohammed Bin Zayed Al-Nahayan (MBZ)** takes on a new status and a clearly defined role under reforms announced by the emirate's Ruler and UAE President Sheikh **Khalifa Bin Zayed.**

Sheikh Mohammed is now officially charged with promoting the external image of the emirate, in a move that draws lessons from **Dubai**'s spectacular success in self-promotion. He has been formally put in charge of protocol for official events and the reception of foreign dignatories.

Khalifa has endowed the Crown Prince's Court with formal status as a corporate body, with 'financial and administrative independence' and 'complete legal powers to carry out its activities'. Headed by a chairman, under-secretary and director, together with a range of specialised departments with appropriately qualified staff, it is a significant government entity in its own right.

Officially, the court's prime role is to manage the Crown Prince's domestic and external affairs, to advise him and cultivate his ties with the public across the UAE. Further development of the CP's role is on the cards.

Khalifa's new policy empowers the court to work on a strategy to 'upgrade' its own activities in future. Nor will the court's clout be restricted to its titular head; MBZ can also be represented by the chairman at major events, and in dealings with local and international officials and senior public figures.

In formalising an expanded role for his deputy's court, Sheikh Khalifa has drawn on his own long experience as heir apparent to Sheikh **Zayed Bin Sultan Al-Nahayan**, the UAE's founding head of state who died in 2004.

As Zayed grew older Khalifa took on a steadily growing role in the day-to-day leadership of government, at the federal and emirate level. By the early years of this century his was the key voice on major spending and investment decisions, such as military procurement – building a reputedly vast fortune in the process. Khalifa also frequently held talks with visiting dignitaries and his court became a major centre of policy-making, supported by its own research department.

However, the extent of Khalifa's responsibilities was not officially defined, which may have complicated his task in exercising power – and being seen, publicly, to be doing so.

During his father's final years, insiders would explain that Khalifa was cultivating connections with key tribal players and the other ruling families, but this was a relatively private affair – which meant that when he did become national leader Khalifa was still a rather unknown quantity; it has taken time for him to establish his profile, especially outside Abu Dhabi.

Counterbalancing MBR

By endowing his own crown prince with a clearly defined institutional base, through *Law No 4* of 2007, Sheikh Khalifa has modernised the role and operational structure of the Crown Prince's court, and has given Mohammed two key tasks – public relations and diplomatic protocol.

Strengthening MBZ's formal role will be seen by many as a further consolidation of the 'Sheikha Fatima sons' – Sheikh Khalifa's half brothers. It certainly underlines MBR's growing role in public, as well as business, life. By most accounts he is already a much more robust representative of Abu Dhabi and UAE interests than the low-profile Sheikh Khalifa.

This seems essential to counterbalance the rising dominance of Dubai's Sheikh **Mohammed Bin Rashid Al-Maktoum (MBR)**, who has transformed the role of federal prime minister from courtesy title for the ruler of his emirate to serious executive government position. MBR has brought several of his closest Dubai colleagues into the federal cabinet and he takes an active role in shaping national policy.

This has altered the dynamic of inter-emirate relations, and it seems that even the slow-moving Khalifa has seen fit to act to give a boost to Abu Dhabi's position, as the traditional fulcrum of UAE politics and influence-broking.

The move will help MBR to reinforce his already impressive UAE and international connections, with traditional elites and beyond. Khalifa's reform law enjoins the Crown Prince's Court to "co-ordinate with other government and local bodies to study issues, needs and complaints of nationals and suggest solutions to them." This will further position MBZ as the man who delivers solutions.

In the limelight

The public relations assignment is an Abu Dhabi response to the dynamic publicity machine that has helped Dubai establish itself on the world stage.

The Crown Prince's Office will take on the task of promoting the image specifically of Abu Dhabi; its stable also includes a number of media outlets, including ***Abu Dhabi TV***, a sports channel, ***Abu Dhabi Radio*** and ***Emirates FM***, *Zahrat Al-Khaleej* and *Majid* magazines, and *Al-Ittihad* newspaper.

This new media operation is a local outfit, specific to Abu Dhabi, and should not be confused with the federal information and media structure overseen by the ***National Media Council*** – chaired by Foreign Minister Sheikh **Abdullah Bin Zayed**, with **Ibrahim Al-Abed** as director – which is responsible for the ***Emirates News Agency (WAM),*** external information, press and publications and censorship. Its job is to serve the needs of the country as a whole.

Modernising 'traditional' institutions

The reform also represents a significant modernisation of the government machine, by allocating specific high profile roles to officials who need not be from the ruling family.

The court chairman will be a particularly significant player – who may soon come to be seen as holding a rank with the same importance as that of a senior minister. This role has been taken by Sheikh **Hamed Bin Zayed Al-Nahayan** *(see box article, below)*.

Abu Dhabi family politics: Sheikh Hamed and the Crown Prince's Court

Sheikh **Hamed Bin Zayed Al-Nahayan** was appointed head of the Abu Dhabi Crown Prince's Court in an 18 December reshuffle of the ***Abu Dhabi Executive Council (ADEC)***, the emirate's government. The reshuffle was ordered by Abu Dhabi Crown Prince Sheikh **Mohammed Bin Zayed Al-Nahayan** and formally endorsed by **UAE** President and Ruler of Abu Dhabi Sheikh **Khalifa Bin Zayed Al-Nahayan**.

The president's son, Sheikh **Sultan Bin Khalifa Al-Nahayan**, headed the Crown Prince's Court up until this reshuffle. He appears to remain an ADEC member but apparently without portfolio, according to titles given to Sheikh Sultan in recent dispatches from the official ***Emirates News Agency (WAM)***.

Sheikh Hamed lost his chairmanship of the Department of Economy and Planning in the December reshuffle to **Nasser Ahmad Al-Suwaidi**. Around two years ago Sheikh Hamed lost the chairmanship of the emirate's ***General Authority for Health Services (GAHS)*** He had held both portfolios simultaneously. Sheikh Hamed and Sheikh Mohammed Bin Zayed have worked together closely over recent years, with Hamed sometimes delivering speeches on his older half brother's behalf. While it may have been inspired by personal or family reasons, the appointment of Sheikh Hamed to head the Crown Prince's Court indicates that the pair will stay close.

The head of policy and chief executive will be the under secretary. His role will be to develop policy and over see its implementation. The court director will run-day-to-day operations and co-ordinate activities with those of other government departments.

In another modernising feature, the court's staff will not operate as private family retainers but as ordinary civil servants, governed by the standard rules of the Abu Dhabi emirate administration. Their pension arrangements will be the same as for other emirate civil servants (although some provision is made for exceptions to this general rule).

The court will be funded out of a budget allocated by the *Abu Dhabi Executive Council*, supplemented with extra resources chipped in by the crown prince himself.

YEMEN

United States backs Saleh in Houthi confrontation

US ambassador **Thomas Krajeski** has assured the government of Washington's backing in its struggle to quell the Houthi rebellion in the north of the country *(GSN 799/1)*.

Despite reports of heavy casualties, and allegations that the army has directly targeted civilian homes and markets around the regional capital Saada, Washington appears to have no qualms in maintaining its support for President **Ali Abdullah Saleh**, a key strategic ally in the 'war on terror'.

"We are ready to hear and welcome Yemen's request for support," Krajeski told the newspaper *September 26* in what was the first clear US declaration of support for the government's northern military campaign.

Although he hoped for a peaceful outcome – "We hope the rebels surrender their arms and end the crisis" – Krajeski made plain the solidity of America's commitment to Saleh and his strategy: "We've worked hard with the military and security forces in Yemen for about five years and I think this co-operation is due to last for some time… The Saada issue is very difficult for the Yemen government, which we back."

The authorities continue to maintain a media blackout on events in the north, but information on casualties is trickling in. Up to 71 government troops were said to have been killed in the last week of February, with a further 202 wounded.

Rebel losses are not known because relatives cannot take wounded fighters to Saada hospital. But it seems there have been significant casualties among the local civilian population, extending beyond 'collateral damage'. Sheikhs complain that the army has fired artillery and mortar shells on villages and the homes of people who did not back the rebellion led by **Abdulmalik Al-Houthi**.

There was outrage after government forces killed **Al-Talh** tribal leader **Jarallah Fardan** and his daughter, when they mortared a road from Saada to a nearby market. Repeated army strikes damaged 26 homes in one of Saada's markets. Local sheikhs are demanding that the government limit its bombardments to Houthi fighters' positions; they warn that the generalised bombardment risks driving embittered locals into active support for the rebellion.

Al-Houthi accuses the government of stirring up religious sectarian feelings against the north's Zaidi Shiite population. He has repeated his denial of any links to **Iran** or **Libya** and confirmed his readiness to form a peaceful political party.

National crackdown

But the government remains committed to a tough line, cracking down on individuals suspected of links to Al-Houthi across the country. The authorities have arrested up to ten people in Dhamar governorate, south of Sanaa, and five students at the ***Badr Religious Centre*** in the capital; the centre is run by Zaidi cleric **Al-Murtadha Zaid Al-Muhatwari**.

Other detainees include individuals who have studied at Sanaa's Great Mosque, and members of the ***Al-Haq*** movement and ***Popular Forces Union Party***. The government also threatened punishment for the associated *shoura.net* website after it alleged that new jihadist movements had joined the rebellion. Some detainees, including **Amiraddin Badraddin Al-Houthi** – a relative of the rebel leader – are mentally ill.

In defence of their harsh policy, officials insist that talks have got nowhere and point to evidence of rebels seeking to disguise themselves as army troops and mount ambushes. There are unconfirmed reports that local Jewish populations in villages around Saada might have been threatened, although it is not clear which side made the threats.

The opposition ***Joint Meeting Parties (JMP)*** alliance continues to press both sides to set aside their guns and opt for negotiation. Meanwhile, as discussed at length in the last issue, the government continues to hope that its campaign against the Houthis will earn the goodwill of ***Al-Islah*** and undermine the Sunni Islamist party's commitment to the JMP.

At Islah's recent biennial conference in Sanaa, a guest speaker from the ruling ***General People's Congress***, **Abdurrahman Al-Akwaa**, reminded his audience how the GPC and Islah had been allies during the 1994 civil war.

This historical reference had the added benefit of providing an oblique dig at Al-Islah's ***Yemen Socialist Party*** allies, whose roots are in the formerly separate South.

However, YSP secretary-general **Yassin Said Noman** was also a guest at the conference, and these is no sign that Islah – which has just re-elected Sheikh **Abdullah Bin Hussein Al-Ahmar** as its head – is about to abandon the JMP.

Among Yemen's most powerful individuals thanks to this commercial and political interests, Sheikh Abdullah is far too canny a player for that, unless the deal offered carries a really big dividend.

Kuwait takes delivery of Apaches as new threats to helicopters proliferate in Gulf

The KAF has upgraded its helicopter fleet, but the challenges of airborne security remain daunting, as jihadists and insurgents in Iraq refine their targetting of Coalition helicopters. So-called complex attacks are on the increase, posing significant problems for defence planners across the region, as well as in Washington.

The ***Kuwait Armed Forces (KAF)*** took delivery of their initial six ***Boeing*** *Apache AH-64D* helicopter gunships on 17 February, the first of 16 such aircraft that will be delivered during the next year. Yet as the upgraded airframes and their **American** training technicians arrived at the port of Shuaiba, the increasing lethality of anti-aircraft defences in **Iraq** will give the Kuwaiti defence establishment a whole new set of issues to deal with as its plans to deploy the Apache force along the border.

The $2.1bn KAF Apache upgrade deal was signed in 2002 as the centrepiece of Kuwait's defence relationship with the **United States**. The deal includes four spare engines and about 300 Hellfire missiles, and provides for maintenance, supply of necessary spare parts and the training of 48 pilots and instructors, plus 200 Kuwaiti technicians.

To fully exploit the added capabilities secured in the recent fleet upgrade, Kuwait has ordered the *AN/ASQ-170 Target Acquisition Designation Sight (TADS)* and the *AN/AAQ-11Pilot Night Vision Sensor (PNVS)*.

The AH-64D were built to defend the anti-tank berm separating Iraq and Kuwait, as well as key points such as Mutla Pass and thereafter the road junctions at Al-Jahra, to allow US forces time to deploy.

Although Iraq is on its knees, Kuwaitis are apt to have long memories concerning the 1990-91 invasion and occupation.

Kuwait has also upgraded all its major fleets of European helicopters. An ***EADS/Thales*** partnership will upgrade the *SA-330/332 Puma* and *Super Puma* fleets for $43m. **French** defence maintenance company ***Cofras*** carried out full airframe and engine rebuilds on the ***Aerospatial****e SA-432K Gazelle* attack helicopter fleet.

To boost lethality, the SA-432Ks will carry new night vision targeting equipment and ***Euromissile*** *HOT-2* ordnance.

Kuwait has also increased its stocks of ***Raytheon Corporation*** tube-launched optically-tracked wire-guided missiles (TOWs). In August 2005, the Pentagon notified the US Congress that Kuwait was interested in purchasing 436 TOW-2A and 2B anti-armour guided missiles, associated equipment and services. Kuwait has requested 288 helicopter-launched TOW-2A missiles.

New threats

From 20 January to 21 February, an unprecedented eight US helicopters were shot down in Iraq, with 28 fatalities – exceeding the total of Coalition aircraft lost to hostile fire in 2006. Statistically, there has not been a noticeable spike in anti-helicopter attacks in 2007.

Private security contractor figures suggest that an average of 20.6 incidents (attacks or missile seeker lock-ons) have been reported each month since the start of 2004, and the January and February 2007 totals are only marginally higher (28 reported in January). Instead, the key difference has been lethality. Insurgents saw their fatality/attack ratio rise from 1/49 in 2004 to 1/25 in 2005. This has risen to the anomalous ratio of almost 1/1 in 2007.

Two different phenomenon appear to have accounted for the losses. The first type, accounting for two incidents and the loss of three helicopters, could be classified as 'normal'. In these cases, in Baghdad and Najaf, helicopters were drawn into high-threat environments to undertake critical missions.

The remaining five losses involved dedicated anti-aircraft ambushes in areas around Baghdad. ***Multinational Forces Iraq (MNF-I)*** intelligence analysts have told *GSN* there are insurgent cells in the Taji-Balad area capable of 'complex attacks' against aerial targets, meaning they specialise in man-portable air defence systems (Manpads).

The insurgents are known to have both *Strela-2 (SA-7 Grail)* and *Igla-1 (SA-16 Gimlet)* Manpads. Both these systems are relatively old and Coalition aircraft are equipped with early-warning and counter-measure systems capable of defeating them. Deputy US Commander in Iraq Major General **James Simmons** publicly announced that a ***US Marine Corps*** *CH-46 Sea Knight* downed on 7 February may have been hit by a *SA-16* shoulder-fired missile, which is more sophisticated than the *SA-7*s normally used and with a longer range.

Bringing down a helicopter, especially an armed one, with a Manpads is still a challenge, as the target has to be within certain ranges and it takes up to 20 seconds for the system to lock on, leaving the operator vulnerable. Video evidence suggests Iraqi insurgents are using small-arms, heavy machine guns, rocket-propelled grenades (RPG) and Manpad to distract helicopter gunners and increase their chances of success.

Of the seven shoot-down incidents, American troops were hit in follow-up attacks in five instances in which they rushed to the scene of aircraft that had been shot down.

Responses to the threat

Kuwait will closely watch such developments; there has been recent cross-border skirmishing between Iraqi tribesmen and Kuwait security forces, as well as more serious incidents such as cross-border incursions by insurgents wishing to smuggle weapons and attack US facilities just over the frontier.

There are unconfirmed reports that a Katyusha rocket was fired across the border into the northern desert.

Kuwait uses its SA-432K Gazelles to patrol the border, but in time the AH-64D Apaches will take their place, and Kuwaiti defence officials will be mindful of the vulnerabilities of the expensive airframes. After all, in a single disastrous low-technology ambush in Iraq on 23 March 2003, the US Army had more Apaches disabled than the KAF will eventually own.

Recent experience in Iraq demonstrate the vulnerability of the Apache to a carefully-laid ambush. An AH-64D went down north of Najaf on 28 January as it supported Iraqi forces in their high-intensity fight with the Shia cult ***Jund Al-Sama (Army of Heaven)***. The helicopter was exposed to intense small-arms fire and hit with a volley of close-range RPG shots

Designed to be used against ground targets, RPG can be turned into primitive anti-helicopter weapons by adjusting their self-destruct fuse so that they 'air burst' at shorter ranges; aAs they have no form of guidance, they are immune to the countermeasures deployed on US and Kuwaiti Apaches.

A more sophisticated downing of an Apache took place on 2 February, when insurgents successfully fired a Manpads. The Sunni jihadist group responsible claimed: "We tell the enemies of God that the airspace of the Islamic State in Iraq is prohibited to your aircraft just like its lands are. God has granted new ways for the soldiers of the State of Iraq to confront your aircraft."

Though there are relatively low levels of Sunni militancy in the deep south of Iraq, the prevalence of Manpads among Shia groups and the small Sunni communities along the Iraqi side of the border may give the KAF greater incentive to adopt the tactics used by US forces to reduce the threat.

The 48 Kuwaiti pilots undertaking AH-64D training at the ***US Army Aviation Centre*** at Fort Rucker, Alabama will be well-positioned to receive the newest tactical advice alongside their American colleagues. These will include the more mobile tactics of the ***US Marine Corps*** aviators. Key survival techniques include teamwork between pairs of helicopters, variation of routes and altitudes, high-speed low-level day/night movement and effective use of countermeasures.

These tactics are being used throughout Iraq and also being taught at Rucker. Alongside improved tactics, Kuwait's Longbows will also boast the advanced *ALQ-211 Suite of Integrated RF Countermeasures* to complement their Longbow millimetric radar and fire control systems.

The *forward looking infra-red (FLIR)* sensors in the AH-64D's turret-mounted TADS will assist with night operations and make border policing during the vital night hours all the more effective.

GSN view: IDEX 2007

Continued from page 24

second Baynunah corvette at its facility in Mussafah.

This will be the largest steel-hulled naval vessels ever built with a water jet main propulsion system.

IDEX 2007 took a number of national delegations on shipyard tours and demonstrations. ADSB vice president (marketing) **William Stewart** summed up the Bayunnah's capability set: "These vessels incorporate the latest weapons and sensor technologies. Their shallow draft and maneuverability gives them an operational advantage in Gulf waters."

At least as important as the large vessels, there was a large expansion in the marketing of unmanned aerial vehicles and – significantly – underwater vehicles.

AAI Corporation and Marine Robotic Vessels International unveiled the *Interceptor Unmanned Surface Vessel (USV)* for the first time in public. The USV can be used to provide a fleet of small harbour vessels outfitted with sensors and detection systems and linked to land-based computer networks. The vessels can be equipped with measurements and signatures intelligence (Masint) sensor loads to provide accurate data concerning whether arriving ships are carrying human cargos, drugs, contraband or even radioactive materials.

With rising concern over the commercial impact of contraband and the economic security threat of illegal immigration, plus proliferation and counter-terrorism concerns, such systems are likely to receive growing attention in the Gulf.

Three decades of Gulf politics: perspectives on continuity and change from the archives

Reading through this *Centrepiece* section gathering a selection of the oldest articles remaining in the *GSN* archive, one might be forgiven for thinking we were reporting on current issues in the Gulf region. Many of the issues that defined Gulf politics in 1974, when *Gulf States Newsletter*'s antecedent first appeared, and that are recorded in the articles below from 1978-79 (when the publication was called *Middle East Newsletter*) remain of real pertinence today – be it Iran's tortured international relations or the manoeuvres of GCC dynasties. These are exactly the sort of issues *GSN* expects to be covering in its next 800 issues as well.

18 DECEMBER 1978

Gulf security: unity in the Arab peninsula?

The **Kuwaiti** Crown Prince and Premier Sheikh **Saad Al-Abdallah Al-Sabah**, has now completed the tour of **Saudi Arabia** and the Gulf littoral that he had been about to undertake for the past 16 months. Throughout the period of waiting, the declared aim of the visit was related to vague regional consultations that have taken the name of "Gulf security".

The concept Gulf security was an ill-defined response to **Iranian** and Saudi apprehensions of an imagined "Communist threat". It was rendered all the more shadowy by mutual suspicions between some countries (especially Iran and Saudi Arabia) about the intentions of others in the region.

But whereas individual Gulf countries had spoken of Gulf security without really thinking about being understood, Sheikh Saad's visit has brought to the fore a different political language in regional thinking. In the face of the events in Iran and the possible emergence of a powerful **Syrian-Iraqi** axis, Gulf countries led by Kuwait and overseen by Saudi Arabia are talking about integration, and even of eventual unity.

Social coherence

If developments go as planned after Sheikh Saad's visit, the countries of the Arabian peninsula may well achieve a degree of economic and political coherence which will complement the social coherence of the region.

One very important barrier to co-operation between Gulf countries (and, indeed, a basic manifestation of provincial jealousy and ill-will) has been the laws barring the acquisition of property and of substantial business interests for all non-nationals. These protectionist laws were originally conceived to lessen the impact of the vast numbers of migrants in all countries of the peninsula.

Naturally they enjoy much support in all the countries of the area because they have created substantial benefits for many nationals and therefore generated vested interests. But now the Saudis and Kuwaitis appear to be nervous enough about developments outside the peninsula area to want legislation allowing nationals of different countries to own property and stocks wherever they want in the peninsula.

A joint Saudi-Kuwaiti commission, led by the two foreign ministers, has been formed to supervise the progress of this initial move to break barriers between the Arab countries of the Gulf and provide some rudiments of coherence and integration.

Security obsessions

Another gesture in this direction is the agreement in principle between Kuwait and the countries visited by Sheikh Saad (Saudi Arabia, **Qatar**, **Bahrain** and the **UAE**) that travelling restrictions between these countries should be eased. Obsessed with security and immigration, Gulf countries have an enervating and discouraging system of entry controls which Kuwait wants to see eased.

Whether this agreement in principle will be translated into a concrete arrangement – and how long this process will take – remains to be seen. Nor is it certain however, that bilateral agreements between Kuwait and various other countries will encourage other countries to arrive at identical agreements between themselves.

Of equal importance to Kuwaiti and Saudi plans is the introduction of some uniformity in economic, commercial, and fiscal legislation (along with the much discussed project of a unified Gulf currency).

All these matters were taken up during Sheikh Saad's visit – with even broader suggestions such as the establishment of a Gulf financial market and stock exchange. But the resistance to such ideas is bound to be stiff for they imply the necessity of eroding many provincial interests among pressure groups that the rulers cannot afford to antagonise.

Sovereignty squabbles

Even more troublesome territory than this was covered by Sheikh Saad. Border disputes in the peninsula are apparently endless, and it has been reliably learned that Saudi Arabia and Kuwait have agreed on at least some of the territories disputed between them. Sheikh Saad and Saudi Crown Prince **Fahd** have now set up a committee which will meet within a month to finalise their agreement over the continental shelf (whereby Kuwait will have sovereignty over the Umm Al-Maradem and Qaruwah islands, and the two countries will share the mineral wealth of the shelf).

Of course, Saudi Arabia and Kuwait see themselves as examples of magnanimity, maturity and good behaviour to other countries in the region. Not all countries, however, are rich enough or large enough or, indeed, secure enough to show so much goodwill. The Huwar islands disputed by Qatar and Bahrain are a case in point. It is reported that Sheikh Saad, in agreement with the Saudis, has sought to mediate on this issue (probably without much success).

Even more intractable are the parish-pump jealousies that bedevil the UAE's federal members and militate against integration. In order to mediate Sheikh Saad understood the arduous task of visiting each one of the emirates that make up the UAE and suffered the hospitality of all the princes.

Again, it is unlikely that Sheikh Saad has succeeded in stemming the divisive tendencies of the union; Sheikh **Saqr** of **Ras Al-Khaimah**, for one, is not noted for his inordinate federal spirit, and many of the rulers of the lesser emirates complain of ill-treatment and the lack of aid from their richer brothers. Last but by no means least, Sheikh Saad heard complaints about **Omani** incursions into UAE territory, both at Ras Al-Khaimah and, more recently, in the Al-Ain area of **Abu Dhabi**.

Untrustworthy

So far, the other decisive forces in the region (**Iraq** and the **Yemens**) have not been included in Sheikh Saad's recent efforts. This may partly be due to the intractability of the Yemeni confrontation between Aden and Sanaa, and to the desire to exclude Iraq at this stage at least.

Saudi Arabia has never trusted Iraq, and its fledgling regard of last year and earlier this year must have been slightly bruised by the renewed obscurity about Iraqi intentions (especially that Baghdad no longer has to worry particularly about reactions from Tehran).

But the Saudis did in fact draw one benefit from the Iranian crisis after all: Oman has certainly been weakened. Oman, Iran's Arab ally, was regarded with much suspicion because it acted very much independently of Saudi Arabia. Now that the Iranian sanction of Omani pretensions has been removed, it is unlikely that in territorial and other disputes Sultan **Qaboos** will be able to bargain as effectively as hitherto.

29 JANUARY 1979

Syria and Iraq: a new power bloc

Despite the sceptics, Syria and Iraq are pressing ahead with determination towards their rapprochement. This month's announcement that the two countries planned to unite may be treated as an expression of eventual hopes rather than immediate plans – but it testifies to the new-found enthusiasm for close relations which has gripped Damascus and Baghdad.

The reconciliation makes sense for both sides: with **Egypt** virtually discounted from the anti-**Israel** line-up, Syria needs new front-line allies; with **Iran** in turmoil, Iraq feels more than ever the vulnerability of its isolation.

Indeed, the Syria-Iraq tie-up could prove to be something of a stabilising force in an area suddenly threatened with uncertainty. Iran is unlikely to be a positive force again in the Gulf for a long time (Premier **Bakhtiar** has officially renounced the role of "gendarme").

The Saudis are extremely nervous of the threat posed to their fragile money power by Gulf instability and apparent lack of **American** will. Financial needs, Western cash offers and the Iranian crisis are all sending **Turkey**'s **Bulent Ecevit** scurrying back to *NATO*.

Made for Moscow

The Syrian-Iraqi alignment then represents a new centre of gravity in the Middle East after the confusion of the **Sadat** peace initiative. It is also a power bloc with which the Saudis and their conservative allies must reconcile themselves. The conservatives have not been impressed by President **Carter**, and American influence has been further battered by the impasse in Egyptian-Israeli peace talks.

All this adds up to a major opportunity for the **Soviet Union**, and one which they have not been slow in grasping. Moscow will lose no sleep over the increased isolation of President **Sadat** in the Arab World if Saudi Arabia is attracted towards the radical Syrian-Iraqi bloc. The Soviets are also encouraged by events in Iran and in the Horn of Africa, where there are indications that **Somalia** wants to normalise relations again with Moscow after they were disrupted during the **Ethiopian**-Somali conflict in the Ogaden.

Such a development, incidentally, would remove one source of friction between Moscow and Somalia's Arab allies led by Baghdad.

26 FEBRUARY 1979

Saudi Arabia: Americans fight back for contracts

American businessmen dispirited with the loss of US trade in the Middle East to European and Asian competitors have at last decided to take direct action. A group of about 100 major US firms in Saudi Arabia have banded together to draft responses to what they see as disincentives on the administration's part to American business in the Kingdom.

A steering committee of 12 US directors will be presenting to Ambassador **John West**, a list of complaints they have tabulated for presentation to the **Carter** Administration and to individual congressmen. West leaves for Washington in April and will take the letter to the Commerce Department.

The list of companies signing their names to the unusual petition reads like a random selection from *Fortune* magazine's top 500 companies. The normally low-profile ***Vinnell Corporation*** (charged with training the ***Saudi Arabian National Guard***) has even joined the ranks of the dissident businesses.

Little help

The businessmen's complaints are not altogether new. Most of their grievances have been mentioned before, but a spokesman for the steering committee said it was high time they did something for themselves as there was little encouragement coming from official Washington.

The recent visit of Commerce Secretary **Juanita Kreps** to Saudi Arabia apparently did little to tackle the difficulties facing the US contingent. Defence Secretary **Harold Brown** whose department is directly related to the presence of many major transnationals in the kingdom – accomplished hardly any more to assuage business fears.

Businessmen in Saudi Arabia are convinced that most of the US legislators are quite unaware of the gravity of the problem and the percentage of large Saudi development projects which American companies are losing to competitors who have massive governmental assistance and back-up.

Construction contracts (an American mainstay) will probably decline for US firms by more than 7% this year, and some companies say that their losses are much higher. One contractor told *Middle East Newsletter* that the US tax laws, lack of official assistance with bonding requirements and the 8% cash guarantee forced American bids so high that the ***US Corps of Engineers*** (which has billions of Saudi riyals at its disposal for development contracts) has been pressured by the Saudi authorities to steer clear of American bidders.

State intervention

Korean companies are a considerable threat to the Americans. US businessmen are particularly riled at Korean success since so much American aid flows to South Korea, which is in turn used against American competition in the Middle East.

Korean contracts are guaranteed by the Seoul government. Once a Korean fim identifies a contract, the government proscribes any other South Korean company from bidding on the contract and throws its full support behind the lucky firm.

26 MARCH 1979

UAE: democracy rears its head

In an unprecedented outburst last week, 3,000 demonstrators gathered in **Abu Dhabi** to protest against the slow pace of unification and political development in the UAE. The incident coincided with an important meeting of the Supreme Council of the federation's seven rulers who had gathered under growing public pressure to resolve their differences. But the UAE is only one of the Gulf states which is beginning to feel the draught from the **Iranian** debacle.

After months of disbelieving stupefaction at the spectacle of the Iranian revolution, several Gulf rulers are turning their gaze towards their home territory. The degree of determination (or indeed awareness) impelling them to safeguard their future varies from ruling family to ruling family.

But there is no question that the Iranian upheaval has given rise to a new atmosphere in the Gulf which could portend major changes in the way some of these small and traditionally-organised states run their affairs. And that could open the door to far reaching consequences forcing foreign observers to re-assess their calculations about security and stability in the region.

A month ago, *Middle East Newsletter* reported that the **Kuwaiti** leaders were thinking again with renewed urgency about the reintroduction of a measure of democracy into political life two and a half years after the assembly was disbanded. Within the space of two weeks in February, two Kuwaiti papers published editorials on democracy, Iran was reported to be planning a parliament this year and the UAE publicly faced the dangerous possibility of being the weak link in the Gulf chain of Arab states.

The fact that the UAE is facing internal disturbances is dramatic testimony to the impact of the Iranian crisis.

Slow progress

So far the UAE has moved sluggishly. When ideas about the future of the federation of lower Gulf sheikhdoms were being widely debated last year, both Sheikh **Zayed** of **Abu Dhabi** (the UAE president) and Sheikh **Rashid** of **Dubai** (the vice-president) were relaxing on their vacation estates in **Pakistan**.

But whereas noisy press comment is a fact of life Kuwait's rulers have learned to live with, similar expression of independent views is quite unprecedented in the UAE. So seriously was it taken by the authorities that Foreign Minister **Ahmad Khalifa Al-Suweidi** had to fly to Pakistan to persuade the country's rulers to return home.

Dubai has always had a strong Iranian connection, and many Iranian Shiites have Dubai citizenship. The sheikhdom has also seen its own small but disturbing demonstrations of sympathy with development in Iran *(MEN, 12 February 1979)*. Of more significance, however, is the way in which the Iranian crisis has awoken dormant problems of the federation.

Most important of these are the perennial frontier problems afflicting the group of emirates which only formally entered into union seven years ago. **Sharjah** and **Ajman** have now delimited their common frontiers without reference to the old maps showing "historical claims", while Sharjah and **Fujairah** have delegated a similar demarcation to a federal UAE committee.

But **Ras Al-Khaimah** lays claims to territory almost everywhere, including (embarrassingly enough for the federation) in neighbouring **Oman**.

Abu Dhabi and Dubai, the main constituents of the federation, are still not clear as to how far their borders extend, either between themselves or (in Abu Dhabi's case) with **Saudi Arabia**.

Tribal atmosphere

Border disputes covering often only a few miles of sand are not the stuff of international news. But in the tribal political atmosphere of the UAE they provide the focus for political and economic resentments and jealousies between the constituent states, generally based on Abu Dhabi's overwhelming preponderance as the federation's oil producer and Dubai's determination to carve out an independent niche as the union's commercial and service centre.

Such traditional preoccupations with territorial claims not only pose a long-running threat to the cohesion of the UAE, but also provoke the dissatisfaction of the emergent intelligentsia. Public appeals by journalists and professionals for a reform of the UAE's archaic political organisation are startling enough in such a conservative and traditional country. But they are unlikely to lead anywhere towards democratic forms, even on the **Kuwaiti** model.

The UAE's rulers are now however being forced to sit up and take notice. It is noteworthy that the chief demands of last week's demonstrators in Abu Dhabi were for an abolition of all internal borders, an end to border disputes, greater representation of the people on the ***Federal National Council*** and an end to foreign domination of the economy.

In effect, the rulers have been warned that reform is a necessity: the real question is how far these very traditional figures can bring themselves to adapt to a new reality.

9 APRIL 1979

Kuwait: scandal in high places

One upshot of the **Iranian** revolution has been to provoke some soul-searching in nearby Arab states. The Kuwaiti press, with a fairly vociferous tradition, has taken to exposing business scandals in the state, the most dramatic of which provoked the resignation at the end of last month of the Electricity and Water Minister.

The combination of greater press freedom and a crackdown on commission-taking has had considerable effect in Kuwait, where the government is especially sensitive to political dissatisfaction (with a large and influential **Palestinian** community), and the ruler, Sheikh **Jaber Al-Ahmad Al-Sabah** is well-known as an austere opponent of corruption.

The Kuwaiti press has generally sounded off most noisily about foreign topics, and the government has had to codify measures to prevent outside infiltration of the local press. But now some papers are getting a taste for investigative journalism on domestic Kuwaiti matters.

Articles in recent months have pointed out anomalies in contracts for new buildings at the university, and for new ***Boeing*** 707s for the state airline.

The son of a prominent minister has been implicated in a scandal over the purchase of books for the ministry.

Most recently, **Abdullah Al-Ghanem**, Minister of Electricity and Water, was obliged to resign amid reports in *Al-Rai Al-Aam* of irregularities in the tenders for the $1.1bn Doha West power/desalination project.

Dubai: sitting in judgement

Considerable doubts hang over the prospects for Dubai's economic development, with the debt servicing ratio on the increase and questions about the viability of major industrial projects. ***Lloyd's Bank International***'s decision whether to go ahead with a $230m loan will be widely taken as a reflection of the outlook for Dubai.

Sheikh **Rashid**'s economic problems centre on the massive Jebel Ali port and industrial zone development, originally scheduled to cost $1.6bn but now thought to be running at a considerably higher figure.

Dredging has proceeded apace by ***Gulf Cobla (Private) Ltd***, a consortium composed of the ***Dubai Transport Company*** and ***Costain-Blankevoort***. The main civil works are also proceeding well, but not without some recriminations between the **British** and **Dutch** companies involved in ***Mina Jebel Ali Construction Company*** (***Balfour Beatty*** and ***Stevin Construction***).

The real problems surround finance for the industrial projects which provide the economic rationale for the port development and civil works nearing completion.

Leading UAE figures are eagerly awaiting a decision from Lloyd's Bank International (LBI) as to whether it will go ahead and raise the $230m required to finance the ***Dubai Aluminium*** (***Dubal***) smelter, a joint venture of the Dubai government (80%) and ***Alusmelter Holdings*** (20%) – representing ***Alcan*** and Georgia-based ***Southwire Corporation***. Cost of the project – the centrepiece of Jebel Ali industrial city – has risen from an original estimated $600m to well over $1bn.

Bank hesitancy

The $230m which the Dubai government wants is part of a larger $540m package, of which the balance is being provided by an LBI-led loan with a guarantee from the British official ***Export Credits Guarantee Department***. The problem surrounding the $230m tranche is symptomatic of the apprehensions concerning the future of Dubai's ambitious development plans.

LBI was originally slated to handle the loan, but the responsibility was shifted to the Paris-based ***Banque Arabe et Internationale d'Investissement (BAII)*** when Lloyd's asked for information on the financial state of Dubai and on the escalating costs of the scheme. The official reason given in Dubai was the need for speed in raising the loan.

But LBI's apprehensions were not unfounded. Dubai is heading towards a budgetary deficit, while its debt servicing ratio may be anything between 20% and 35% of oil revenues – the confusion arises because of the lack of a clear division between state finances and Sheikh Rashid's personal finances.

The situation has been further complicated because BAII backed out of the loan in February. UAE observers are angrily convinced that a conflict of interest arose between the shareholders of BAII, who number the *National Bank of Bahrain* (49% owned by the **Bahraini** government).

Bahrain already had is its own operational smelter – *Alba* – which would be in direct competition with Dubai. It is by no means certain that there is room for two aluminium smelters to operate commercially in the Gulf anyway: there are not even firm figures on the profitability of Alba. Quite apart from highlighting the competition between the two projects, BAII's withdrawal raises pointed questions about Dubal's viability.

LBI has now taken charge of the loan again apparently with the financial information it wanted in the first place . But at the beginning of April it was still not certain that the British-based bank would be going ahead. LBI's decision about whether or not to raise the loan for Dubal will be a significant reflection upon the viability of Dubai's development plans and foreign indebtedness.

Cash crisis?

Sympathetic observers admit that Sheikh Rashid is experiencing a cash flow problem but are certain he can cope with immediate demands. His income for 1979 will probably rise to $1,675m after the recent rises in oil prices, with current expenditure slated at only $532m, including debt repayments of $300m. Project expenditure is calculated at $911m for 1979. But next year, current outgoings should be down to $260m leaving only Jebel Ali as a major drain on finances.

In fact, Sheikh Rashid is so confident of his financial position that he felt able to advance $100m to **Iran** in the last days of the **Shah**'s rule while simultaneously refusing a very favourable offer of a $100m loan from a **Japanese** consortium with cash to spare.

In the longer term debt repayment and project costs will probably be supplanted as Dubai's main cash problem by the price of subsidising commercially shaky industrial ventures. Dubal joins the ambitious drydock scheme (officially opened by **Queen Elizabeth II** during her Gulf tour in February).

Doubts about its financial viability have been widespread ever since it was first mooted as a rival to Bahrain's drydock; with the Gulf tanker market unlikely to expand dramatically in the foreseeable future.

To make matters worse, its commissioning has had to be delayed following the discovery of faults in two 125-tonne cranes supplied by the British company *Clarke Chapman.* There is also speculation that the constructors, *Costain-Taylor Woodrow,* have built the dock too low with the result that sea water could seep in leaving behind a silt residue. The dry dock's problems are symptomatic of Dubai's difficulties.

UAE: unity outcry

The debate on the unity of the UAE that has so suddenly emerged continues to be acted out with considerable energy and fanfare *(MEN, 26 March 1979).*

Demonstrations by various professional groups have taken place almost everywhere except **Dubai** – even the women of **Fujairah** walked the streets demanding real union rather than a shaky federation between the separate rulers. But growing demands (in part officially inspired) for produced a backlash from the emirates opposed to greater unification – Dubai and **Ras Al-Khaimah**.

Simultaneous with the spate of demonstrations was a joint statement by the Federal Cabinet and National Council (the nominated parliament). This called for a number of measures which would seem to be absolutely necessary conditions for the continued viability of the UAE the armed forces should be unified, the judicial systems of the seven constituent emirates should be streamlined; federal income should be centrally received, held and allocated for equitable expenditure, and laws concerning citizenship and nationality should be made uniform throughout the federation.

In a direct answer to this, the rulers of Dubai and RAK, Sheikh **Rashid Bin Said Al-Maktoum** and Sheikh **Saqr Bin Mohammed Al-Qasimi**, decided they should not attend the meeting of the *UAE Supreme Council* (which groups the rulers of all emirates), called to discuss these issues.

Sheikh Rashid then issued a statement accusing the Higher Council of acting unconstitutionally by confirming the decision taken by the UAE President, Sheikh **Zayed** of **Abu Dhabi**, to appoint his own son (rather than Sheikh Rashid's) as Commander-in-Chief of the federal armed forces.

He also accused other emirates of acting against common sense in aiming for property, immigration and naturalisation laws which go counter to the narrower interests of Dubai.

18 JUNE 1979

Princes, parliaments and cabinets

The example of **Iran** has alerted Gulf rulers to the necessity of providing some channels for political expression in their own countries. **Kuwait** has some tradition of parliamentary politics, but its rulers are being very cautious. In the **UAE**, hereditary divisions between the federation's members present another obstacle to political progress which the **Kuwaitis** have tried to resolve.

The Kuwaiti authorities believe that the ultimate insurance of the country's stability lies in the restoration of parliamentary life *(MEN, 26 February 1979*). On this matter there is unanimous agreement among the important figures in the ruling **Sabah** family, headed by Sheikh **Jaber Al-Ahmed**, but there are plenty of indications that disagreement exists in senior Kuwaiti circles about the urgency of restoring even a semblance of democracy. Official and semi-official talk of reviving the constitution suspended in 1976, precipitated by the Iranian upheaval, has stimulated political appetites anew in Kuwait – appetites which the government wishes to dampen.

The real problem is just how far the Sabah family is prepared to go in political liberalisation. Deputy Premier Sheikh **Jaber Al-Ali** is reported to favour postponing action until excitement in Iran has died down. Prime Minister, Crown Prince **Saad Al-Abdullah** is understood to have adopted a more positive approach.

Three proposals form the guidelines of the debate about parliament. The first advocates the election of a lower house by universal suffrage to be balanced by a senate consisting of government appointees. The majority of the ruling family are thought to be against the idea, not least because it is too unwieldy to be practical in so small a country as Kuwait.

The second project, more favoured among the Sabahs, is that parliament should consist of both elected and appointed members. But there are inherent dangers here too, particularly over tribal manipulation of the electoral process and the authorities' fear of the same lively independence among elected members which proved so provocative in the first parliament.

What is most likely to emerge will be a compromise between the two projects whereby elections will take place in two stages. The population will elect a college which in turn will elect the parliament. That way the Sabah family can exert greater control on the electoral process and the different points of view within the family can be reconciled.

UAE truce

The Kuwaitis have also been instrumental in reorganising the paralysed politics of the UAE. The federation's seven years of existence have been bedevilled by rivalry between **Abu Dhabi**, the major producer, and **Dubai**, the aspirant commercial centre. The intervention of members of the Sabah family has brought UAE President Sheikh **Zayed** of Abu Dhabi and Vice President Sheikh **Rashid** of Dubai to the brink of agreement. Zayed has been a fervent advocate of federal integration, while Rashid has been anxious preserve Dubai's freedom of manoeuvre.

The shrewd Sabah solution was to persuade Zayed to appoint Rashid as federal premier, in return for a promise by the Dubai ruler that he would contribute at last to the federal budget and permit the gradual integration of the federal members' armed forces.

Total integration is still a long way however. Sheikh Rashid apparently takes his premiership to be a post on much the same level as the presidency, which may reconcile him to the concept of federal unity if he feels overshadowed by Abu Dhabi. But his new position could also be employed to promote Dubai's own interests in the UAE. It is too early to tell whether Rashid is about to become a pillar of federal unity (particularly as squabbles among the member emirates has so far prevented Rashid forming a cabinet).

The Kuwaitis are apparently prepared again to intervene in finding a solution to the UAE's political difficulties. Kuwait's concern is far from misplaced, since the UAE federation represents one of the conservative Arab Gulf's weakest links.

The parochial feuding of its leaders both undermine the federation's cohesion and block progress towards more sophisticated politics. The appearance of emissaries from **Khomeini** in UAE is a portent of the risks of disintegration.

16 JULY 1979

UAE: gas for Dubai

The long-mooted closer relationship between the neighbouring emirates of Dubai and **Abu Dhabi** (consecrated by the recent completion of a UAE Cabinet) is finally taking a practical form. Abu Dhabi has promised Sheikh **Rashid**, Dubai's ruler and Prime Minister of the UAE, to provide all the gas Dubai needs for industrial purposes. This is primarily to fuel the $1.3m aluminium smelter being built at Jebel Ali.

Although Abu Dhabi has fabulous supplies of gas, relations between it and Dubai had not, until now, been good enough for this vital transfer. Proof of better relations will come as a great relief to foreign bankers, who had been eagerly anticipating news of the cabinet. Not only were they concerned by the large amounts outstanding from the northern rulers (estimated at a conservative $4bn to contractors) but they realised the direction of spending of the UAE's $10bn revenues would depend on the new government.

It would vitally affect the future of the poorer, oil-less emirates and their ability to repay debts. In fact, only four changes in government were made while the distribution of portfolios between all seven emirates remains the same.

This seems to indicate Sheikh Rashid wishes to keep a loose federation rather than forge close unification.

22 OCTOBER 1979

Saudi Arabia watches the threat on its back doorstep

Saudi Arabia and its conservative Gulf allies are not only worried about developments in **Iran**. They are also increasingly concerned that if **Ethiopia** succeeds in suppressing the **Eritrean** rebellion on the Red Sea coast, the regime in Addis Ababa will look further afield to stir up subversion – even though Ethiopia's leaders are probably more interested in their own domestic problems.

The Arab moderates of the Red Sea and the Gulf are demonstrably worried that, with massive **Soviet** and **Cuban** assistance, the Ethiopians will emerge triumphant from the insurrections and invasions which threatened to wrench the country apart only three years ago. In the Ogaden, Cuban troops have so successfully held down the incursions of **Somali**-backed rebels that they have even begun to withdraw some contingents. In Eritrea, the war against the divided freedom fronts is steadily going the way of Ethiopia's Colonel **Mengistu**.

A victorious Mengistu looking beyond Ethiopia's borders to spread the message of socialism and revolution is gradually becoming a very real threat in the eyes of the conservative rulers in Riyadh, **Kuwait**, **Abu Dhabi**, Khartoum and Cairo.

With **Khomeini**'s excitable ayatollahs raising the temperature in the Gulf, **Saudi Arabia** and the UAE are frightened of a confrontation developing on two fronts.

The threat of wider adventures from Mengistu is discerned in his determination to form a new Marxist party in Ethiopia which the Saudis are frightened might one day develop the dangerous proselytising attraction in the region that once accrued to Nasserism and the Baath party.

Their fears may be exaggerated: Mengistu has made it clear that army will continue to play the dominant role rather than the ideologues supported by the **Soviet Union**. This has come as something of a disappointment to Soviet Premier **Alexei Kosygin** who visited Ethiopia in September. Instead of receiving obeisant thanks for all Moscow's help (as he had expected), Kosygin was met by a barrage of demands from the Ethiopians for economic assistance. The clear implication was that if the Russians could not rebuild the economy as they rebuilt the army, then Mengistu would look elsewhere.

17 DECEMBER 1979

Saudi Arabia: social cohesion under the Sauds can no longer be taken for granted

Even while the siege of the mosque at Mecca continued, further unrest manifested itself among **Saudi Arabia**'s Shiite minority. The juncture of the incidents caused major concern, but the real dangers are more fundamental than immediate. Saudi Arabia must now begin to adjust its massive development commitment to social ends, or else the warning signs will prove the precursors of massive upheaval.

The Saudi authorities were a little too well prepared for the Shiite demonstrations on the Ashoura feast day at the end of November. After the shock of the Mecca mosque siege (which more foresight might have prevented), they were determined not to be caught short on traditionally somewhat violent mourning celebrations for the Shiite saint, **Hussein Bin Ali**.

Massive police reinforcements were despatched to Shiite areas of Eastern Province (notably Hofuf and Watif), which was more provocative than restraining – with the result that some five or six people were killed and a bank sacked.

The repetition on a lesser scale of unaccustomed violence in Saudi Arabia while the mosque siege was still in progress only served to confirm the worst fears of many who saw the Kingdom on the brink of social disintegration.

But immediate fears of upheaval should once again be discounted for much the same reasons as in the mosque incident *(MEN, 3 December 1979)*. First, a degree of resentment at the uneven spread of sudden wealth among the dispossessed is nothing new, although its extent must now be reassessed; second outbreaks on each of two specific occasions might have been expected, and in Eastern Province expectation probably served to exacerbate matters.

In the complete absence of permitted avenues for public expression of grievances, any outburst of opposition is bound to shine out all the more glaringly. Exposed to an influx of cassettes from **Iran** (the propaganda medium which proved so lethal to the **Shah**), the restiveness among the Shiites of Saudi Arabia seems inevitable. This minority of some 250,000 has traditionally been deprived in comparison with the Sunni Wahhabis, has not (until recently) shared proportionately in the national wealth despite making up a third of ***Aramco***'s Saudi employees, and has (as a consequence?) always been much more politicised than the rest of the population.

But if the immediate importance of the events of the past month must not be exaggerated, the longer-term implications for the Saudi authorities cannot be discounted. It is now abundantly clear that widespread resentment does exist in Saudi Arabia and bland assumption that rule by imposed consensus is eternally possible must be re-examined.

The resentment of the atavistic hijackers of Mecca against the pace of modernisation and of the Shiites against relative discrimination are far apart in their origins but focus on the same authority (and are ultimately inspired by the same Iranian example).

The real dilemma for the Saudi rulers is what to do now. Beyond enforcing a stricter observance of Islamic rules, it is hard to see how the direction or even pace of modernisation can be changed. Even though the next Five-Year Development Plan will provide less capital investment in real terms, rapid modernisation and development is now locked into too many local interests to be reversed (whether those interests are expectation of subsidies or development-generated incomes for the poor Bedouin, or government commissions or contracts for the merchants). Complete upheaval rather than the Saudi leadership can alone approach the demands of the Mahdi in the mosque.

At the same time, the existence of foreign labourers among the mosque attackers and the resentment of the Shiites points to an awareness of exploitation (particularly vicious among immigrant workers) which only a more equitable sharing of the fruits of continued development can overcome.

What is at risk is the maintenance of social cohesion between Sunni tribesmen, government technocrats, the Shiite minority and the army of foreign workers which the traditional methods of Saudi leadership can no longer ensure.

Liquidity pressures, emerging asset classes force open the potential financing base for GCC projects

The Gulf is enjoying enormous liquidity, while at the same time the demands for capital from banks, property, equity and other investors are rising, as ever more project and other investment opportunities present themselves within the region. This dynamic is increasingly reflected in project financiers' search for new sources of capital; the market's traditional standbys, of bank and ECA financing, are being accompanied by newer instruments in complex PF structures – and this trend will accelerate further in 2007.

Islamic bonds and private equity are likely to be increasingly used by ***Gulf Co-operation Council*** region project sponsors, as unprecedented demand for finance for big ticket schemes puts greater pressure on the available financing liquidity.

In 2006, some $70bn of the financing raised globally for projects ended up in the Middle East, according to data compiled by ***Dealogic***. Bankers are predicting that 2007 could be equally busy, as fresh funding is sought for new refining, petrochemicals, power and other infrastructure schemes. Most active is expected to be the now vibrant **Saudi** market.

"Projects are costing a lot more, so there are more demands on liquidity," said ***HSBC Bank***'s regional head of project finance **Darren Davis**: "Capacity can vary from project to project, and country to country, but existing financing sources are not sufficient."

Davis predicted that more project finance (PF) debt sources would be tapped in 2007, as the sheer size of projects now coming to the implementation stage pushes the parameters of what the markets can provide beyond the bank (conventional and Islamic) and export credit agency (ECA) money typically used for most GCC deals. "There will be more project bonds, of which there have been very few in the last ten years, as well as a move to tap into equity investment flows, and to seek new equity instruments," Davis told GSN.

The potential market gap for bonds was illustrated in late 2006, when ***Qatar Gas Transportation Company (Nakilat)*** issued a benchmark-shattering $850m, 27-year, Rule 144a bond. This was part of a giant debt programme to finance the cost of 16 large LNG carriers, to be built in **South Korea**.

Islamic bonds (*sukuks*) should also play a key role in 2007, especially in the Saudi market, which was the world's single largest PF user in 2006. "We are hoping to put in place a sukuk for a major utility company," another project financier reported; he cited the success of the SR3bn ($800m) *sukuk* issued last July by ***Saudi Basic Industries Corporation (Sabic)***.

"A *sukuk* is ideal for refinancing a completed project, or for financing asset-intensive projects," said **HSBC Amanah Finance** director **Hissam Kamal**, in Riyadh.

The size of the financing market's expectations is reflected by a recent forecast from ***Dubai Islamic Bank*** that it expected to arrange up to $5bn in loans and Islamic bonds this year for Gulf Arab firms looking to finance acquisitions and infrastructure projects.

More broadly, **US**-based PF consultancy ***Taylor-DeJongh*** has estimated a regional investment requirement through to 2010 for new energy projects alone of over $50bn, of which about $30bn is concentrated in Saudi Arabia.

Yet this market is "fragile", said Davis. "It would take just one shock – and not necessarily even in the Middle East – to make this liquidity disappear. So it is best to look at biggest number of financing sources."

Cost drivers

Spiralling project costs – which led to the recent cancellation of the gas-to-liquids project planned in **Qatar** by ***ExxonMobil*** and ***Qatar Petroleum*** – are driving the need for fresh liquidity.

"$2bn seems a relatively small amount now for a major project," observed Davis. The economies of scale being incorporated into power and petrochemicals schemes, and a shortage of capacity in the construction industry, are causes of project cost inflation. But the rising cost of raw materials and equipment is the main reason some projects have become unaffordable or, at least, must be restructured.

As financing requirements are heading north, pricing has drifted south over the past couple of years. One example is a 61/2-year, $235m refinancing loan arranged in late 2006 by ***Gulf International Bank (GIB)*** for ***Oman Gas Company*** (chaired by **Oman**'s Oil and Gas Minister **Mohammed Bin Hamad Al-Rumhy**), where the margin came to just 0.5% over the London Interbank Offered Rate (Libor).

The downward pressure of pricing – also apparent in major Qatari project financings, a benchmark for the PF market in recent years – has been a trend monitored by *GSN* over the past two years. Can they go lower still? "Our view is that pricing has now bottomed out," said Davis.

IWPP drive

The Gulf's independent power and water project (IWPP) drive shows no sign of letting up, with several projects at various stages of development.

The international bidding process has begun on two major IWPPs in Saudi Arabia, Shuqaiq and Marafiq. The latter is expected to cost around $3.4bn, and has been touted as the world's largest IWPP, with a capacity of approximately

2,750MW and 800,000 m^3/d of water. ***BNP Paribas***, ***Samba Banking Group*** and GIB have already underwritten a debt financing, which will be complemented by equity capital.

At Mesaieed, in Qatar, one of the biggest independent power projects in the world, a $2.3bn, 2,000MW thermal power plant sponsored by *Qatar General Electricity and Water Corporation* and *Marubeni* will come to market in 2007.

Project finance is also expected to be put in place for **Yemen**'s $3bn-plus *Yemen LNG* project, on which *Citigroup* is advising. ECAs from **France**, **Japan** and South Korea have been involved in financing discussions.

SAUDI ARABIA

A vibrant PF market emerges

Project financiers are eyeing Saudi Arabia's massive programme of downstream development with great interest, buoyed by what is likely to be the biggest inflow of petrodollars in the Kingdom's history – estimated at $163bn by *Samba Financial Group*. Bankers say that more than $10bn in PF deals are already in the pipeline for early 2007, and as much as $200bn could be spent on projects by 2011.

"The Kingdom will be very important this year, in areas such as oil, gas, power, water, petrochemicals, telecoms, transport and even the education and health sectors," *HSBC Bank*'s regional PF head **Darren Davis** told *GSN*.

HSBC – which has the Kingdom's first locally-registered investment bank, as well as its traditional business through *SBB (Saudi British Bank)* – was very active in 2006, when it took a major hand in financing *Saudi Aramco*'s $9.9bn Petro-Rabigh project – one of the world's biggest oil refining and integrated petrochemicals projects – and the $5bn debut *Saudi Basic Industries Corporation (Sabic)*-sponsored Yansab project. It also advised the first Saudi project financed completely on an Islamic basis – a $631m facility for the Al-Waha dehydrogenation project in Jubail.

Sabic has at least six major projects in the planning stages, while Aramco has committed to spending a breathtaking $133bn through 2010. Over and above its search for new oil and gas reserves, the money will be spent on building a raft of refineries integrated with downstream petrochemical plants that will be surrounded by industrial cities.

One of these projects, the *Saudi Kayan Petrochemical Company* scheme, is expected to seek over $5bn in PF later this year, to fund its project in Al-Jubail Industrial City.

Also in Jubail will be the *Saudi International Petrochemical (Sipchem)* joint stock company, which is due to build a world-scale ethane cracker and derivative unit. "This will come into the market for around $6bn, will be the largest-ever private sector deal in the region, and in the world for the petrochemicals sector," said Davis. HSBC has an advisory role in this project – which "should have some interesting liquidity sources."

QATAR

QIA, HBJ expand portfolios

French Foreign Trade Minister **Christine Lagarde**, vising Doha in late February, said she looked favourably on the Qatari government's efforts to increase its stake in *European Aeronautic Defence and Space Company (EADS)*. Lagarde couldn't confirm the sellers' identity, but they were "probably **German**… what's clear is that shareholders plan to sell their stakes, and Qataris are buyers… This is a good sign because the investors in that region invest for the long term and generally in products or companies in which they have confidence and for which they consider there is a long-term potential."

The low-profile, state-owned *Qatar Investment Authority (QIA)* already owns a 7% stake in one of EADS' core shareholders, French media company *Lagadère*. QIA's head, Foreign Minister **Sheikh Hamad Bin Jassim Bin Jabor Al-Thani (HBJ)**, said recently the $40bn investment fund might buy as much as 10% of EADS. "If we think it's at the right value, we don't mind taking a stake even up to 10%," he said.

HBJ – who has been featuring large in the UK and other international business pages of late – also said QIA was seeking a "strategic" stake in **British** supermarket giant *J Sainsbury*. QIA's *Three Delta* venture in February spent £90m ($175m) on Sainsbury's shares.

The past year has seen a flurry of investments by QIA. It recently failed in an £8bn bid for the UK's *Thames Water*. QIA-owned *Qatari Diar Real Estate and Investment Company* – also chaired by HBJ – has been in talks with the UK Ministry of Defence to buy the 13.5-acre Chelsea barracks in central London *(GSN 795/12, 791/2)*.

Last year, Three Delta, a joint venture between QIA and entrepreneur **Paul Taylor**, paid £1.4bn for the UK's second largest nursing home company, *Four Seasons*. Three Delta also spent £1.5bn on a care home portfolio and on an education business for children with learning difficulties.

In September, QIA bought a stake in *Industrial and Commercial Bank of China*, and HBJ recently said itwas in talks with three more banks – in **China**, **South Korea** and **Vietnam** – in which it aimed to buy pre-IPO stakes. "We think there is still a rally to go on the upside," in Asia, HBJ said: "We have a lot of dealings with Asia for energy so this could be something good for both sides."

Sheikh Hamad has long been linked as a private investor with sibling property tycoons **Christian** and **Nick Candy**, who told *The Financial Times* HBJ was the financial backer of their £1.5bn One Hyde Park development, reportedly be the world's most expensive apartment block.

HBJ is understood to have invested from his own vast wealth; he is the only outside investor – with Christian Candy's **Guernsey**-based *CPC Group* – in One Hyde Park, to be built opposite *Harvey Nichols* at the north end of Sloane Street., and in the *21 Chesham Place* development in Belgravia.

Events around the region

12-13 March. Project Delivery in the Oil & Gas Sector

To be held in Abu Dhabi. Contact MEED Conferences. Tel: +971 4 390 0699. Email: *conferences@meed-dubai.com*.

14-15 March. Finance & Investment in Qatar, London

Speakers include Foreign Minister Sheikh Hamad Bin Jassim, Energy Minister Abdullah Al-Attiyah, and Finance Minister Yousef Hussain Kamal. Contact IBC. Tel: +44 (0)20 7017 5518. *energycustserv@informa.com*.

24-25 April. World GTL Summit, London

The seventh annual staging of this CWC-organised event, also includes the inaugural *CWCWorld TL Award*. Speakers from Oryx GTL, Sasol Chevron, PetroSA, US Department of Energy, BP, Shell and Qatar Petroleum. Plus executive briefing and seminar. Tel: +44 (0)20 7978 0000. *bookings@thecwcgroup.com*.

8-9 May. Lloyds List Middle East LNG Shipping Forum

To be held in Qatar under the patronage of Energy Minister Abdullah Bin Hamed Al-Attiyah. Contact Jessy Varghese, IBC Gulf. Tel: +971 4 336 9992. *marketing@ibc-gulf.com* *www.ibcgulfconferences.com*.

21-22 May. Syndicated Loans Middle East, Dubai

Tel: +44 (0) 20 7779 8999. Email: *registrations@euromoneyplc.com*

21-22 May. Commodities Week MENA 2007, Dubai

Terrapinn event featuring two co-located conferences: *Commodities Investment World Middle East* and *Gold and Precious Metals Investment World Middle East*. Tel: +44 207 092 1224.

21-22 May. Project Finance in the Middle East, Dubai

Jacob Fleming Gulf's third annual regional PF conference will discuss the changing LNG world, Islamic financing, and case studies on the Saudi Shuqaiaq IWPP, Yansab and Kayan projects. Speakers include HSBC's Darren Davis, Standard Chartered's Ravi Suri, Suez Energy Middle East's Rajit Nanda, Al-Waha Petrochemical Company president Saleh Bahamdan and representatives from Apicorp, Dana Gas, Qalhat LNG, Samba Financial Group, Fitch Ratings, PricewaterhouseCoopers, Clifford Chance, and ABN Amro. Tel +971 4 3616112. Email: *events@jacobfleming.com*. *www.fleminggulf.com*.

4-5 June. Gulf Petrochemicals 2007, Bahrain

MEED's fourth annual event. Contact Anthony Andrews. Email: *anthony.andrews@emap.com*.

20-21 June. Energy Risk Management, London

Speakers include risk specialists such as BP's Olivier Herbelot, Marsh's James Cunningham, Repsol YPF's Juan Manuel Martin Prieto and executives from OMV, Statoil, MOL Group, British Energy, Petrobras, Technip and RWE Trading. Early bird discount available for delegates who book before 30 March. There is also a half-day post-conference workshop on 22 June titled *Qualitative Risk Management*. Tel: +44 (0)870 9090 711. *www.smi-online.co.uk/erm.asp*.

26-27 June. Iraq Banking, Finance and Development, London

Held under the auspices of the Iraq Ministry of Finance and with the official support of Trade Bank of Iraq, this CWC-organised event is themed as *Enhancing and Developing Long-term Trade and Investment Partnerships with Iraq*. Speakers include Industry and Minerals Minister Fawzi Hariri, TBI chairman Hussain Al-Uzri and Central Bank of Iraq governor Sinan Al Shabibi. Tel: +44 (0)20 7978 0000. *bookings@thecwcgroup.com*. *www.thecwcgroup.com*.

DATA: Stock markets, trade payments and exchange rates

Stock Market (Index)	Index value (5 February 2007)	Index % change One week local currency		Index % change Since 01.01.07	Collection experience	Preferred terms	Exchange rate $	Exchange rate £	Exchange rate €	Exchange rate ¥
Bahrain[1]	2,159.47	–1.00	↓	0.45	Fair-Good	ULC	1 Dinar = 0.37710	0.73260	0.49070	2.6525
Iran[2]	9,846.50	–1.38	↓	–2.20	Fair-Good	CIA	1 Rial = 9241.00	17954.3	12025.8	0.0108
Iraq	—	—		—	Poor	CIA	1 New Dinar = 1,287.68	2501.83	1675.79	0.0777
Jordan[3]	6,397.17	6.35	↑	20.01	Fair-Good	ULC	1 Dinar = 0.70840	1.37640	0.92190	1.4124
Kuwait[4]	9,602.80	–1.21	↓	–3.76	Fair-Good	ULC	1 Dinar = 0.28930	0.56200	0.37640	3.4566
Oman[5]	5,768.08	0.60	↑	3.72	Fair-Good	ULC	1 Riyal = 0.38500	0.74800	0.50110	2.5977
Qatar[6]	6,462.54	–1.26	↓	3.57	Fair-Good	ULC	1 Riyal = 3.64010	7.07240	4.73700	0.2747
Saudi Arabia[7]	7,118.78	2.92	↑	–13.69	Fair-Good	ULC	1 Riyal = 3.75060	7.28700	4.88080	0.2666
Syria	—	—		—	Fair-Good	CLC	1 £ = 52.2100	101.439	67.9461	0.0912
UAE	10,520.56	–0.86	↓	0.36	Fair	ULC	1 Dirham = 3.67270	7.13560	4.77940	0.2722
Yemen	—	—		—	Fair-Good	CIA	1 Rial = 198.590	385.841	258.435	0.5109

[1] Bahrain Stock Exchange Index. [2] Tepix Index. [3] Amman Stock Exchange Index. [4] Kuwait Stock Exchange Index. [5] Muscat Securities Market Index. [6] Commercial Bank of Qatar Index. [7] Tadawul All Shares Index.

ULC—Unconfirmed letter of credit. CLC—Confirmed letter of credit. CIA—Cash in advance.

Sources: *Reuters. Bakheet Financial Advisors, Riyadh. Global Consultants, New York. Cross-border Information, Hastings. Financial Times, London.*

GSN Risk Grade — B+/2: Kingdom at the centre of efforts to save the Middle East

Political and social developments

Overview: The advent of the more active (compared to the late King Fahd) King Abdullah Bin Abdelaziz has contributed to the buoyant and confident mood underpinned by a booming economy. The monarch is determined to undercut the challenge of radical Islam – whose continued threat was highlighted in late February by the murder of four French nationals *(see Politics and security)* - and ensure the longevity of Al-Saud rule by not wasting the enormous windfall from high oil prices, and by promoting a cautious but genuine reform agenda. This will be accelerated by moves such as Saudi Arabia's full membership of the World Trade Organisation (WTO), which was finally signed in November 2005. There is ongoing speculation that King Abdullah will soon carry out his first government reshuffle. Abdullah is well aware of the need to produce serious improvements in public services and employment prospects if he is to sustain longer-term public support. Thus there is talk of appointing a capable new face to the education portfolio, held by Khalid Al-Anqari.

Iran: Relations with appear publicly cordial, although underneath a high degree of mutual suspicion remains. Saudi concerns over regional crises have gained urgency, with Riyadh trying to counter Iranian influence, including the Islamic Republic's emergence as the single biggest donor to the Palestinian Authority – replacing the European Union. Reports in late February that Iranian President Mahmoud Ahmadinejad would soon visit Saudi Arabia followed Iranian Supreme National Security Council head (and chief nuclear negotiator) Ali Larijani's visit. Iranian state media said Larijani was in Riyadh for a "very short and unofficial visit… to discuss Iran's nuclear case and review regional developments with political and security officials." When in January King Abdullah met Larijani it was reportedly in response to an Iranian initiative to ask for Saudi help to counter rising tensions with the United States. National Security Council head Prince Bandar Bin Sultan Al-Saud has been heavily involved in these moves. In a oblique reference to potential US demands for support, Saudi Arabia has said that it will not use oil as a political tool to pressure Iran.

Iraq: Iraqi Foreign Minister Hoshyar Zebari visited Riyadh in mid-February to reopen his country's embassy after a gap of 17 years. He called on Saudi Arabia to open a mission in Baghdad. Riyadh is monitoring the situation very closely, amid deep concerns that meltdown in Iraq could eventually destabilise the Kingdom.

Economic outlook

Overview: Money continues to flood in and very significant private sector growth is predicted, stimulated by reforms accelerated since King Abdullah's accession. This will become more apparent as a new generation of privately-financed petrochemical projects emerge. In an interview last year, King Abdullah spoke about economic reform, commenting that "the state has been revising its economic laws to improve them further and make them compatible with the demands of the current phase… by revising economic laws, we intend to achieve a qualitative economic development." Attracted by the Saudi boom, Western companies are looking for opportunities – especially as security fears that deterred investors in 2003-05 have eased. They face increased Asian competition.

Unemployment: Saudi officials are considering increasing the cost of expatriate workers for the private sector as a way of tackling increasing unemployment – now officially standing at around 12% – and making the recruitment of young Saudis more attractive. Senior labour official Abdulwahed Al-Humaid said the presence of 6.5m foreign workers had created a "lower equilibrium wage" that was pricing Saudis, who tend to seek higher salaries, out of the market. With some 65% of the population under the age of 25, creating employment is an increasingly important issue. Although Saudi-isation exists, the Ministry of Labour has recently had to relax its rules on foreign workers to support huge infrastructure projects. In the past 11 months, the ministry has appr oved 758,809 visas for foreign workers, compared with 352,924 in 2005. Foreign employers across the Gulf often complain that local youths do not have the necessary skills to compete in demanding jobs; the Saudi government has increased the number of students it is sending abroad, targeting fields like engineering, finance and medicine. In February, it approved a £1.2bn programme to improve the public education system.

Foreign assets and budget: A recent Saudi Arabian Monetary Agency (Sama) report said the government's total foreign assets reached SR833bn at end-2006, with a state budget surplus of SR265bn. The government holds SR93bn in foreign currency, has some SR120bn in foreign banks, and SR620bn invested abroad – the highest figure in five years. Saudi Arabia's 2007 budget has projected revenues at SR400bn, with spending at SR380bn. Forecast revenues are 38.9% lower than 2006's SR655bn – although conservative government estimates are usual in the Saudi budget.

SAUDI ARABIA: Energy developments

Oil output up: Efforts to raise the performance of existing fields and output are making progress, with Saudi oil production increasing to over 10.5m b/d. Saudi Rounding up last year's performance, Saudi Aramco president Abdullah Jumah said that "among the company's accomplishments in 2006 were the optimisation of upstream operations and development and depletion strategies to meet crude demand and increase maximum sustained capacity to 10.7m b/d."

New finds will add to reserves: Aramco's exploration programme continues to identify new fields. Petroleum and Mineral Resources Minister Ali Al-Naimi said in February that Aramco had discovered a new oil field south-east of the giant Al-Ghawar field in Eastern Province. He said "On 11 February, oil from the Dirwazah-1 well ... flowed at a rate of 3,915 b/d, [together with] 11.9m ft^3/d of gas.

Chinese activity: As with other leading energy producers, there has been considerable recent focus on relations with China (along with Russia and India). China would like a strong upstream position, while Saudi Arabia is looking for investment opportunities. However, the path of co-operation does not always run smooth: Saudi Basic Industries Corporation has indicated it might shift its planned petrochemical plant in north-eastern China to another location if Beijing keeps delaying approval of the $5.2bn project. Aramco has a 25% interest in an integrated oil and ethylene complex in Fujian province and is reportedly keen to take a stake in Sinopec's 200,000 b/d refinery in Shandong. Sinopec is active in the Rub Al-Khali desert as part of a Chinese-led consortium; its joint venture with Aramco is called Sino Saudi Gas.

GSN Risk Grades

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

SAUDI ARABIA: Economic indicators
($ bn unless otherwise stated)

	2003	2004	2005	2006
Nominal GDP	212.53	250.34	309.53	349.90
% change	12.70	17.80	23.60	12.40
Real GDP % change	6.40	5.30	6.50	4.20
Current account surplus	29.66	51.90	87.80	114.20
Oil price Saudi avge ($/bbl)	27.00	35.17	51.00	62.50
Govt domestic debt (SR bn)	660.00	614.00	475.00	366.00
as % of GDP	83.00	65.00	41.00	28.00
Official foreign assets (SR bn)	–	–	–	833.00
Population (m)	22.13	22.67	23.10	23.86
Saudi male unemployment*	8.20	8.50	8.80	8.00

* As % of labour force (other estimates are higher).

Sources: Samba Financial Group; Saudi Arabia Monetary Agency, Global Finance House.

GSN Risk Grade — D-/4: Political doubts persist, but investors attracted with new investment law in works

Political and social development

Overview: President Bashar Al-Assad continues to face pressure from abroad, despite periodic reports that the United States may adopt a more conciliatory stance. The Baathist government remains defiant, typified by Assad's recentl observation that "colonialism has not ended… in the past they used to call it colonialism. Today it is called liberation. Names differ but the essence is the same. As colonialism continues, revolution and resistance continue." Observers are unsure how much power and room to manoeuvre 'Dr Bashar' really enjoys – members of his own Alawite family and inner circle are also highly influential. One senior British official said recently that Assad, "cannot change overnight, but we think he has significant power to take steps… the common view across the region is that Bashar could have done more."

Shifting regional perspectives: Syria will take part in a regional meeting focused on Iraq in March, with Iranian and US officials in attendance. Iraq's Foreign Minister Hoshiyar Zebari said that "we want to put them [Syrians, Iranians and Americans] all in the one hall first, then explore the other possibilities." In December, the Baker/Hamilton Iraq Study Group recommended that the USA held direct talks with Tehran and Damascus, but President George W Bush apparently rejected coolly that proposal. But reports in February suggested that Syria's recently restored relations with Iraq – crowned by President Jalal Talabani's six-day visit, the first by an Iraqi head of state in three decades – were already under strain. Iraqi leaders are voicing growing frustration over Syria's continued failure to stem the flow of militants across the border; Iraqi government spokesman Ali Al-Dabbagh said half the violence was the work of outsiders infiltrating from Syria.

Iranian relations: Bashar Al-Assad has been in Tehran, developing Syria's burgeoning relationship with the Islamic Republic. In many respects this seems like business as usual: in mid-February , Assad and President Mahmoud Ahmadinejad pledged they would work together to confront US and Israeli "plots" in the Middle East. "We should co-operate and work to make the public aware of the sinister aims of the United States and the Zionists," Bashar reportedly said. He also met former president Ali Akbar Hashemi Rafsanjani and was reportedly set to meet Rahbar (Supreme Leader) Ayatollah Ali Khamenei. Economic ties continue to expand; a plant for manufacturing the Iranian-made car, Samand, will open in Syria soon, with plans to initially manufacture 10,000 units/yr.

Economic outlook

Overview: The difficult geopolitical situation has affected some Western businesses with fears of regime instability and US sanctions, causing some international firms to pull back – while others move in, like French explorer Maurel & Prom and investors from the Gulf. In November, Deputy Minister for Economic Affairs Abdullah Dardari said "Syria envisages economic growth of 5% in 2006, 5.2% in 2007, and 7% in 2010, according to the provisions of the [2006-10] five-year plan ." The plan foresees a gradual evolution to a market-based economy, the government's arch 'liberal' observed. The reforms involve the law on investments, fiscal policy, the energy sector, telecommunications, finance, education and health, as well as the creation of a stock exchange, industrial cities and renewal of infrastructure. Dardari said recently that unemployment had fallen to 9.5% at end-2006, while foreign debt stood at only £5bn, compared to £25bn in 2005. Officials have said Syria needs $37bn of investment in the coming five years to achieve a growth rate of 7% and a reduction in unemployment and poverty.

Banking incomers: Bank of Jordan (BOJ) has announced that it will set up Bank of Jordan-Syria, with capital of $30m. BOJ is taking a 49% stake in the new bank, with the rest being allocated to local businessmen. – a typical Syrian formula for those institutions now allowed to operate onshore. The bank expects to receive a license, and start operations, with headquarters in Damascus by Q4 07. Meanwhile deputy chairman of Qatar International Islamic Bank (QIIB) and chairman of the new Syrian International Islamic Bank (SIIB) Sheikh Khalid Bin Thani Al-Thani has been in Damascus to meet President Assad. SIIB is holding an IPO for 51% of its capital; QIIB holds a 30% stake,with Qatari investors taking 19%.

New investment law: President Assad in late January passed a decree caling for the creation of an investment authority to operate under the Prime Minister's OFfice. Investors will be entitled to export profits from capital brought into the country through Syrian banks and "to become owners if necessary and for the duration of their projects" . It also exempts customs duties on the means of production, including transport. The law's stated aim is to boost the investment climate, with political backing and by "establishing principles to ease administrative procedures... and a roadmap for investments." Dardari was quoted as saying it signalled a "new era".

MOTHER RUSSIA CALLS: Syria is again cultivating its old – and, in Damascus, still lamented – ally Russia. Israeli newspaper *Ha'aretz* reported that it could soon receive thousands of advanced anti-tank (Kornet AT-14 and Metis AT-13) missiles. In late February, Russian Foreign Minister Sergei Lavrov denied reports of a bilateral agreement to create Russian navy bases at Tartus and Latakia. A Syrian-Russian Joint Ministerial committee is due to be held in April.

SYRIA: Selected economic indicators

($ m unless stated)	2002	2003	2004	2005p	2006pr
Real GDP (% change)	3.7	1.0	3.1	2.9	3.2
Inflation (CPI - % change)	–0.5	5.8	4.4	7.2	5.6
Crude oil production ('000 b/d)	496	477	462	431	405
Oil exports ('000 b/d)	339	282	187	130	123
Oil balance ($bn)	3	2.4	1.3	0.7	1.0
Current account balance ($bn)	1.6	1.1	0.0	-0.6	-0.6
Overall balance ($bn)	2.4	0.8	0.2	-0.2	0.5
Debt service ratio (%)	14.7	14.0	11.4	16.1	10.4

p – preliminary. pr – projection.

Sources: International Monetary Fund from Syrian authorities and IMF World Economic Outlook, September 2006

SYRIA: Gulf investment boom

Kuwait: Oil Ministry officials have held talks with Nour Financial Investment Company to establish a $1.5bn, 140,000 b/d oil refinery, probably at Deir Al-Zour.

Qatar: Qatar's Diar Real Estate – owned by the Doha government - has signed an agreement with Tourism Minister Sadallah Agha to develop a $224m holiday complex on a 228,000m² site at Lattakia , with a five-star, 3,700-bed hotel.

Saudi Arabia: The Transport Ministry has held talks with Belkis Holding Company over plans to restore the railway link from Damascus to Jeddah. Belkis has reportedly paid a bid bond of $1m and is negotiating for a build-operate-transfer scheme to upgrade several railways – linking Damascus and Daraa, Qattaneh, and Amman (and then on to Jeddah). Saudi Binladen Group is launching a joint venture holding company – Construction Products Company-Syria – with capital of $100m, to be financed with Syrian, Saudi, Kuwaiti and Emirati investors. CPC-Syria will comprise nine units including several manufacturing companies for building materials – in its first phase of investment, the company will set up a 260,000m² construction industry park in the Adra industrial zone for $85m. In the second phase, CPC-Syria will build two iron and aluminium plants. Construction will start in June.

Real estate law: Damascus is planning new laws to simplify regulations over land permits and real estate financing. Gulf developers that have started to focus on the local market have welcomed the planned new laws. One quoted by *MEED* said, "at the moment buying land and getting permits are very complicated and take up a lot of time."

GCC military buyers are less big spenders than prudent investors

Under new ma`nagement, the 18-22 February eighth bi-annual *International Defense Exhibition (IDEX)* attracted the usual mixture of hyperbole and fanciful speculation concerning the multi-billion dollar deals being mulled by the Gulf States. Yet there remained the undeniable impression that the cash-rich *Gulf Co-operation Council (GCC)* states were in fact relatively frugal and highly-discerning shoppers in the defence marketplace.

Though defence consultants bandied around enormous figures such as **Saudi Arabia**'s "$50bn requirements," mega-deals were notably absent. The IDEX yield shows, as if more evidence were needed, that the financial slumps and over-spending of the 1990s taught all the GCC states a degree of prudence in their defence economics – even Saudi Arabia.

This did not stop the United Arab Emirates from enjoying the bright spotlight of world attention – led by **Abu Dhabi** Crown Prince and Deputy Supreme Commander of the *UAE Armed Forces* Sheikh **Mohammed Bin Zayed Al-Nahayan**, who formally opened the exhibition.

Reed Exhibitions, a subsidiary of ***Reed Elsevier***, recently acquired the IDEX show and made the first official use of the new state of the art *Abu Dhabi National Exhibitions Centre* to host the event. IDEX 2007 attracted more than 900 exhibitors from just over 50 countries, with 20 national pavilions and over 90 national delegations.

At *IDEX 2005*, an estimated $2bn-worth of deals were done in five days and with oil prices remaining high, this year was expected to break all records. Even by the organisers' grossly inflated estimates, it is unclear that this was achieved.

However, no one can accuse the UAE of flagging: the Emirates announced a total $917.8m-worth of contracts, spread between a dizzying number of smaller deals. This, once again, illustrated the growing maturity of defence procurement in the Gulf through its focus on maintenance, training and technology, rather than large expensive platforms such as vehicles, aircraft and ships. According to UAE President Sheikh **Khalifa Bin Zayed al-Nahayan**, "the UAE is set on reinforcing its defense capacity through the acquisition of the most sophisticated equipment in the military industry world-wide. Our country is a country of peace… but we think that peace needs a force to protect it."

Probably the clearest signal of Gulf security procurement's future direction was *IDEX 2007*'s naval and littoral focus, with maritime systems attaining greater profile and generating greater interest than air, missile defence and ground systems.

IDEX 2007 director **Mohammed Nabhani** made sure to highlight the show's naval vessel berthing at the Free Port near Port Zayed. According to Nabhani, "this new location has plenty of space for shore demonstrations and… we anticipate more than 15 visiting ships, from submarines to many classes of surface vessels to attend IDEX. The armaments and weapons integration systems on these warships comprise some of the latest technologies and are of immense interest to countries looking to enhance naval capabilities."

IDEX representatives had joined maritime strategists and marine defence contractors at the *20th International Naval Defence Show (Euronaval)* in Paris to build anticipation for these naval and littoral exhibits.

Although the vessels could not be displated quayside at *IDEX 2007*, *Abu Dhabi Ship Building (ADSB)* continues to focus attention on its beefy *Baynunah* corvette programme, which marks the construction of the largest warship ever to be built in the Gulf. With technology and design from **French** partner *Constructions Mechaniques de Normandie (CMN)*, ADSB is attaching the sleek bow section to the keel of the

Continued on page 11

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