



## Qatar and Libya open a new geopolitical axis in North Africa

The wide-ranging roles played by Gulf states in supporting the uprising against Muammar Qadhafi reveals a new regional diplomatic axis at work. The influence of Qatar and other NTC allies will continue to be felt as Libya remakes itself following Tripoli's fall to the rebels, with Islamist politicians expected to play a prominent part

Far from being window-dressing, helping to cover for a western-led assault on the Qadhafi regime, as some critics have argued, the activities of the United Arab Emirates, Kuwait and most of all Qatar have proved decisive at key moments in the Libyan conflict. These states are also likely to play a significant part in shaping what kind of Libya will emerge from the revolution.

Qatar has been the leader in this new geopolitical development. As GSN reported in April, Emir Sheikh Hamad Bin Khalifa Al-Thani's prominent wife Sheikha Mozah Bint Nasser Al-Misnad spent part of her childhood in Benghazi and may have felt common cause with the people after they liberated themselves from Qadhafi rule (GSN 899/7). One observer described Qatar's backing for the rebels as "a personal decision" on the part of the Emir. It led to diplomatic, military, political and financial support on a number of levels.

For all its proximity to the West and its alignment with Nato over the campaign to oust Qadhafi, Qatar has also maintained a strong connection to the Islamist wing of the National Transitional Council (NTC). According to an informed Libyan source, Tripoli military command leader Abdelhakim Belhaj and head of the Union of Revolutionary Forces in Benghazi Fawzi Bu Kitf met senior Nato officials in Doha on 28 August. Belhaj, a former Libyan Islamic Fighting Group (LIFG) leader, was rendered back to Libya by the CIA in 2004, imprisoned in Abu Slim jail and rehabilitated in 2007. Another aspect of this connection is the two highly influential brothers: Ali and Ismael Al-Salabi.

Ali Al-Salabi is arguably the most influential Libyan cleric today. He lives in Qatar and maintained a difficult relationship with the Qadhafi regime. Salabi's works were banned by the Jamahiriya (State of the Masses) regime, but he was eventually rehabilitated when he started working with Saif Al-Islam Al-Qadhafi's

CONTINUED ON PAGE 3

### Bahrain storms Syria sanctions

Hard for Bahrain to do anything right at present. Comments by the Bahrain Independent Commission for Inquiry's chairman that seem to exonerate officials of any responsibility for rights abuses have cast doubts over the credibility of the commission – and may work against King Hamad's interests if factions become more entrenched. Attempts at reconciliation have been further undermined after a teenager died on 31 August on the Shia island of Sitra. Activists claim he was killed in a police crackdown.

—SEE PAGE 5

Consensus has built behind the EU's threatened embargo of Syrian state oil companies, crude exports and products imports, as more nations fall in behind the effort to squeeze President Bashar Al-Assad's regime. With the prospect of even tougher measures to come, the economic outlook is grim for a regime that seems incapable of compromise. And adding further to Assad's discomfort, a number of Arab states have been unusually vocal in their criticism of the recent repression.

—SEE PAGES 4-5 AND 11

### Kurds under pressure on several fronts

Turkish and Iranian military strikes on separatist groups inside Iraq's Kurdistan Regional Government (KRG) area threaten to undo years of patient diplomacy at a crucial moment. KRG President Masoud Barzani has been forced to publicly chastise Turkey after years of quietly building relations with Ankara, after the bombardment of Kurdistan Workers' Party (PKK) fighters in KRG territory killed civilians including children.

The KRG has so far taken a less confrontational view of the shelling by Iran's Islamic Revolutionary Guard Corps. When KRG vice president Nechirvan Barzani met President

Mahmoud Ahmadinejad in Tehran recently, he said that "Iraq will oppose any action that is against Iran's security". For more on this see *Defence and security*.

Meanwhile, the KRG leadership – and especially its ruling families led by the Barzanis – are the focus of growing popular discontent, which sparked violent protests in Sulaymaniyah earlier this year. Government opponents plan to use Facebook and other media to organise a 'Kurdish Spring' to rival the wave of popular protests across the Arab world. Recent trends in Iraqi Kurdistan are tracked in *Risk management report*.



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## GULF STATES NEWSLETTER

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## Qatar and Libya's new geopolitical axis

CONTINUED FROM PAGE 1

*Qadhafi International Development Foundation* on a project to rehabilitate former LIFG militants. Dr Ali's ability to write freely and to issue coded criticisms of Qadhafi was dependent on the sanctuary offered to him by Qatar.

Ismael Al-Salabi has risen to prominence in recent months as leader of a rebel militia, the *February 17 Khatiba*, which according to one informed source has acquired the reputation as one of the "best-supplied" of the militias supporting the anti-Qadhafi cause. Its smart new vehicles, believed to have been supplied by Qatar, caused it to be nick-named the 'Ferrari 17 Brigade' by its rivals. Ismael's militia were reported to have been linked to alleged acts of retribution against a shadowy militia named the *Obaida Ibn Jarrah*, which NTC oil and finance minister **Ali Tarhouni** accused of assassinating NTC army chief of staff and former Qadhafi regime interior minister General **Abdel Fatah Younis Al-Obeidi**.

The Al-Salabi relationship is a link to and a potential source of leverage for Qatar on part of the Islamist contingent within the NTC, which has been a key part of the Libyan revolution's success, but which the West is inevitably wary of. But it also takes Qatar dangerously close to some of the underlying divisions and conflicts within the NTC. In the dying days of the regime, Saif Al-Islam told *The New York Times*, in an interview published on 3 August, that he had been negotiating a ceasefire with Dr Al-Salabi. Another Libyan cleric resident in Doha, **Khalid Al-Werfelli**, recently accused Al-Salabi of relentlessly attempting to contact Saif al-Islam.

Qatar's support for clerics and militias does not mean the emirate is supporting an Islamist future for Libya; rather, it is keeping its options open and behaving in what one analyst described as a "traditional Gulf way – keeping a few potential future leaders in its back pocket". In the same way, Doha is also home to **Abbasi Madani**, exiled founder of **Algeria's** now banned Islamist movement the *Front Islamique du Salut*. Qatar has provided \$19m to fund all Islamist militias in Libya, but also supports a number of leading secularists in the NTC.

### Special forces activity

Since the fighting in Tripoli has largely come to an end, the presence of Qatari and other special forces on the ground has been widely reported. A military expert on the *First Post* news blog said that members of the *Qatari Special Forces*, trained by the UK, could be seen clearly directing the final assault on the Bab Al-Aziziya barracks in Tripoli. However, for most of the conflict, the emirate's military contribution was underplayed. At the outset of the No Fly Zone, some critics of the action derided Doha's participation as amounting to little more than a handful of aircraft which mostly didn't work.

In fact, as well as planes and men, Doha was able to provide

support of a kind that the West could not, including the supply of huge amounts of military equipment. In just one example, a Qatari plane landed in Misrata on 6 August to provide anti-Qadhafi fighters with ammunition. It is rumoured that as many as six trucks of armaments were unloaded from the plane and distributed to rebel fighters.

### ...diplomatic manoeuvres

This did not mean that Doha had no interest in a negotiated settlement. Qatari peace-brokers were rumoured to have been present at a meeting between representatives of the rebels and regime on the **Tunisian** island of Djerba days before anti-Qadhafi forces entered Tripoli. In retrospect, this was the last moment when Qadhafi could have settled with the rebels on potentially reasonable terms.

Gulf states also provided crucial diplomatic and organisational 'back office' support to the rebels. NTC executive chairman **Mahmoud Jibril** was largely based in Doha throughout the conflict, as this was a better place to co-ordinate matters than the official headquarters in Benghazi. Rebel satellite channel *Libya TV* was also based there. Likewise, the Libyan consulate in **Dubai** was the headquarters for the stabilisation team whose spokesman was the NTC-affiliated Libyan ambassador to the UAE **Aref Ali Nayeb**. It became a location where dozens of pro-NTC Libyans carried out planning and scenario-building exercises over the course of the conflict, so that when Qadhafi fell they had organisation ready to put in place.

### Energy requirements

On 23 August, Nayeb told journalists that he expected both Qatar and the UAE to be very involved in Libya's reconstruction. He also spoke of the role that Gulf states could play in meeting Libya's energy requirements in the short term. "We need heavy fuel, we need gas... and the United Arab Emirates and Qatar particularly, and Kuwait, are well placed to supply such fuel. Fuel consumption in Libya is very, very large and electrical generations are now depending on heavy fuel rather than gas because of the interruption of gas production."

Qatar also appears to have played a crucial behind-the-scenes role in ensuring that the Libyan rebels were supplied with fuel, which is likely to extend into the post-Qadhafi reconstruction phase. Oil trading sources say that further import deals have been set up to tide the country over until it can start its own oil production and processing facilities – these all require financing.

The company which is most involved is Geneva-based *Vitol*. As *GSN's* sister publication *African Energy* reported on 15 July, "Eastern Libya has become almost entirely dependent on international oil trading company Vitol for its energy needs." According to an oil trading source, the company could not have done this alone: "Vitol's balance sheet is not that big". Although nothing has been confirmed, traders are convinced that "Qatar provided them with some sort of credit line". The bill is about £500m (\$815m), and is likely to rise over the next month.

In the period before Libya's sovereign wealth can be unfrozen, members of the international contact group on Libya, who most recently met in Doha in late August, offered additional support through a temporary finance mechanism to pay civil service and police salaries.

### Peace dividends?

Observers expect that Qatar and Gulf neighbours that have provided support will reap rewards from their support of the NTC. However, there is less precision about exactly how this will work. Several of the smaller Gulf states have shown interest in North Africa as a possible venue for business and investment for some time. Qatar's earlier attempts to set up investment and financial joint ventures with the Qadhafi regime came to nothing. Gulf companies in the oil and other sectors may now

look at the country again. *Qatar Petroleum* does not have much of a track record in international oil and gas exploration. However, its downstream and marketing expertise could open up potential development opportunities. Other companies from the region are already looking at the opportunities. Sharjah-based *Crescent Petroleum* president Jafar Badr told *AP* that "regional Arab companies such as Crescent Petroleum... should be well placed to contribute".

Such companies may benefit from a strategic shift away from companies whose governments supported the old regime. An official from Benghazi-based *Arabian Gulf Oil Company* (*Agoco*) told *Reuters* that "the company may have difficulties working with China, Russia and Brazil which opposed tough sanctions on Qadhafi".

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## Syrian crisis enables GCC states to reconfigure regional alliances

Qatar, Bahrain, Kuwait and Saudi Arabia have all condemned the crackdown on opposition protesters in Syria. For Riyadh in particular, the crisis has thrown up the opportunity to damage Iranian influence in the region

Members of the *Gulf Co-operation Council* (*GCC*) usually reluctant to interfere in fellow Arab states have condemned the Syrian regime's crackdown on protesters. Qatar broke ranks in July by suspending operations at its Damascus embassy, apparently in response to attacks on the mission by militiamen loyal to President **Bashar Al-Assad** who are unhappy about *Al-Jazeera's* coverage of the crisis. Doha and Damascus had long had decent relations, with President Assad a regular visitor to the emirate. There have been reports that Qatari investments in Syria have been frozen, and rumours that some Gulf states have sent financial support to Syrian opposition groups.

Riyadh finally spoke out in early August, with King **Abdullah** threatening to recall the Kingdom's ambassador for consultations, denouncing the Syrian "killing machine" and calling on Damascus to implement swift and all-out reforms. Bahrain and Kuwait quickly followed.

King Abdullah's strong words should not be taken as a reflection of his sudden concern for human rights – although there was genuine pressure from ordinary Saudis, outraged at the abuse of fellow Sunnis, the King had only a few months before authorised a military intervention to quash demonstrations in Bahrain. Instead, the situation has given the Kingdom an opportunity to damage Iranian influence in the region. Some analysts believe Riyadh is prepared to strike a blow at Iran, even at the cost of undermining an established ruler.

*University of Vermont* professor of political science **Gregory**

### Syrian protesters arrested in Riyadh

Some 164 Syrian expatriates who rallied against violence in their home country were arrested in August for violating a Saudi ban on protest. A *fatwa* issued at the height of the Arab Spring in March by Saudi religious scholars prohibits public mass demonstrations, deeming them anti-Islamic. The protesters may have hoped for the support of King **Abdullah** following his denouncement of President **Bashar Al-Assad's** crackdown, but Riyadh will not tolerate anti-regime protests, even those directed at a foreign state. According to one Saudi political analyst, the government's fear of civil society activism is too great to allow protests, even when such protests support its aims.

**Gause** told *GSN* that Saudi foreign policy decisions were primarily driven by balance of power concerns. "They were relatively passive for months in the face of the Assad crackdown. I think that they came to a point where their worry about regional instability came to be trumped by the balance of power benefits of seeing Iran's major Arab state ally removed from power," he said. He said Riyadh had had very good relations with the former government of **Hafez Al-Assad** (Bashar's father). "Both the balance of power consideration (check and roll back Iranian influence) and the sectarian question (support Sunnis) push in the same direction," he said.

The roots of Iran's political alliance with Syria go back to the 1980s Iran-Iraq war, when Syria was the only Arab country to support Tehran. Their relationship progressed as the two co-operated in supporting **Lebanon's** *Hizbollah* and **Palestine's**

**Hamas** against **Israel**. The weakening – or removal – of Assad’s government would hurt Iran’s ability to make financial and arms transfers to these groups and damage its ‘street credibility’ as the region’s most activist anti-Israeli state.

Some analysts believe Riyadh is keen to use the current crisis to redraw regional alliances in its favour and is happy to play the ‘sectarian card’. President Assad’s Alawite sect, which has strong leanings to Shia teachings, is deemed heretical by Saudi Wahhabi clerics. Riyadh may hope that, if Assad falls, the subsequent government would be Sunni-dominated, thereby strengthening the regional anti-Iranian coalition.

But is Saudi Arabia prepared to take on a much bigger role? Gause thinks not. He said: “I do not think that this presages a major new Saudi regional role. I see the invitation to **Jordan** and **Morocco** [to join the GCC] as a defensive move, an effort to bolster fellow monarchs at a time of regional upheaval. The Saudis have been relatively unsuccessful in their recent regional political initiatives, whether it be on Palestine, Lebanon, Iraq or even **Yemen**. I think that the Arab upheavals are leading them to a more defensive (Bahrain, GCC expansion, Yemen) stance

rather than an effort to increase their regional position. With the exception of their recent turn on Syria, they seem more to be trying to hold on to allies and areas of influence rather than expand.”

Riyadh-based *King Faisal Centre for Research and Islamic Studies* senior fellow **Nawaf Obaid**, in May wrote an attention-grabbing piece in the *Washington Post*, describing an about-turn in Saudi foreign policy (*GSN 901/8*). Obaid warned that Riyadh was prepared to pursue a more assertive foreign policy, and that it was fighting a “cold war” with Tehran. Observers told *GSN* at the time that the article reflected fears that Riyadh was being encircled by Iranian proxies and/or Shia.

Former ambassador to Washington and London Prince **Turki Al-Faisal** has been increasingly vocal on Saudi policy concerns. While he has no official position, some believe he is working more closely with King Abdullah despite past differences. Prince Turki, speaking at a **UK** airbase in June, said that if Iran continued to advance its nuclear programme, Saudi Arabia would be forced to follow suit (*GSN 904/16*).

## Bahrain commission chief’s comments raise questions over impartiality of inquiry

The storm over comments made by the chair of the body set up to investigate human rights abuses since February, has cast doubts over its credibility. Some observers believe this could work against the interests of the king, who may have a vested interest in the panel digging deep and its findings being deemed credible

A series of ill-judged media interviews may have compromised the reputation of the *Bahrain Independent Commission for Inquiry (BICI)* before it has even finished gathering testimonies.

Initial fears over King Hamad appointing his own commission, rather than inviting an official inquiry by the *UN High Commissioner for Human Rights*, were largely allayed when the BICI panel was announced on 29 June. The appointed commissioners commanded respect, with *Amnesty International* describing them as “an impressive line-up of independent international experts”.

Head of the commission Professor **Cherif Bassiouni** chaired the drafting committee at the diplomatic conference on the establishment of the *International Criminal Court (ICC)* and has worked on UN commissions in **Libya**, **Afghanistan** and the former **Yugoslavia**. Commissioner **Philippe Kirsch** was the first president of the ICC, Sir **Nigel Rodley** was a UN Human Rights Committee special rapporteur on torture for eight years, while Dr **Mahnoush Arsanjani** and Dr **Badria Al-Awadhi** are respected lawyers.

But the commission’s credibility has been called into question after Bassiouni gave a series of interviews that implied he had concluded, just weeks into the inquiry, that systematic abuses and torture were not sanctioned by the leadership. He told *Al-Ayam* newspaper: “I have not found an order from any minister or military leader or head of security forces or police forces that says torture people. I did not find, for example, an agreement between the leaders of the police stations that they would all work in accordance of the same system, therefore I am not saying that this is not possible or isn’t occurring, however between the period of 1 July until now I have not found any evidence to prove this.”

Perhaps more surprising were his comments to *Reuters* in which he said interior minister Sheikh **Rashid Bin Abdullah Al-Khalifa** had an “extraordinary willingness” to listen to the commission and acted on anything it brought to his attention. “It leads me to believe that on his part there was never a policy of excessive use of force or torture... that doesn’t mean it didn’t happen. I think it was a case of people at the lower level acting, and there not being an effective chain of communication, control.”

**Jane Kinninmont**, a Bahrain analyst at *Chatham House* in London, described the interviews as “astounding”. “You presume you wouldn’t just find memos around with instructions to torture,” she told *GSN*. “The actions of the security services were praised at the highest levels; if the security services are found to be excessive, then it’s hard to see how they government officials cannot be implicated.” The most notable example of senior government endorsement of the actions of the security services came from *Bahrain Defence Force* head Sheikh **Khalifa Bin Ahmed Al-Khalifa**. *Bahrain News Agency* quoted him as saying: “I say to all those who did not get the message, ‘if you return we will come back, stronger this time’.”

Bassiouni’s comments sparked an angry response from Bahraini human rights groups. In an open letter to BICI, *Bahrain Centre for Human Rights* president **Nabeel Rajab** said: “I hope you can appreciate that your comments to *Reuters* that ‘there was never a policy of excessive use of force or torture’, even if taken out of context, were highly prejudicial and created much anxiety and anger among the victims of this policy.”

As anger mounted, hundreds of people forced their way into the commission’s Manama office on 15 August, according to BICI, where it said there were “verbal and physical attacks” on staff. Since then, the office has remained closed to ‘walk-ins’ and has refused media interviews.

A member of the BICI panel told *GSN* that commissioners had been making “too many comments” to the media “some capable of honest as well as dishonest misinterpretation”. “Accordingly, we have imposed on ourselves a vow of silence, with a view to letting our report speak for itself,” he said. The report is due to be submitted on 30 October, after which it will be made available to the public. The commission has heard 5,200 testimonies since it began work on 24 July, and the deadline for submissions is 30 September.

Comments at a recent seminar held at **Britain’s** House of Lords and hosted by Lord **Avebury** indicated the damage done to BICI’s international reputation. He said: “Bassiouni has already exonerated the king, his sons and the military prosecutor. He is reported to have said that there were no signs of torture.” Although Lord Avebury conceded that Bassiouni may have been misquoted, he said he regarded him “as naïve to speak to the local media in the way he did”.

However, it is not the case that questions over the commission’s reputation, and indications that the panel may not implicate senior members of government for directing abuse, would necessarily suit the Bahraini leadership. A hard-line clique consisting of prime minister Sheikh **Khalifa Bin Salman**; interior minister Sheikh **Rashid Bin Abdullah**; Sheikh **Khalifa Bin Ahmed** and his brother Sheikh **Khalid Bin Ahmed**, the head of the ruler’s court, has been gaining influence since February, with the more progressive King Hamad and Crown Prince **Salman Bin Hamad Al Khalifa** becoming side-lined.

As several Bahrain-watchers pointed out, if BICI implicated

these more conservative factions, whom many blame for the crackdown, it would give the king and crown prince an opportunity to wrest back power.

“There is definitely a potential for the inquiry to facilitate the shift of power away from the hardliners who have gained more power in recent months back to more progressive forces around the crown prince,” said Kinninmont. Another Bahraini observer agreed that it was a plausible strategy: “The hardliners are now very powerful in Bahrain, and Bassiouni’s commission could help to tame them by strengthening the king and crown prince, who could utilise the conclusions and recommendations to pinpoint blame.”

There have been gestures of reconciliation from the leadership in the past few weeks. In a speech to mark the end of Ramadan, King Hamad said he would dismiss charges against some of those detained during the crackdown and pay compensation to prisoners abused by the security forces. No figures are available on the number of detainees pardoned, but the authorities have confirmed that they will include **Ayat Al-Qurmezi**, the 20-year-old jailed for reciting poetry critical of the leadership during the unrest.

The government had also promised to move the trials of protesters out of military tribunals and into civilian courts, but there has as yet been no action – a possible indication of the fractious splits at the top. According to decree number 28, published in the *Official Gazette* on 18 August, “the ordinary courts take over all the cases of misdemeanours and appeals relating to them that were not adjudicated in a final verdict by the *National Safety Court*”.

However, a teenager died on 31 August on the Shia island of Sitra, with activists claiming he was killed by police clamping down on renewed demonstrations, raising tensions over the Eid holiday. It also appears that the trials of medical staff and the appeal hearing of 21 prominent activists, scheduled for 6 September, are also still destined for military tribunals.

Regardless of the damage done to BICI’s reputation, most observers hope that the commission’s flaws do not run much deeper than a series of misjudged comments, but a difficult task lies ahead. As **Mansoor Al-Jamri**, editor-in-chief of the independent *Al-Wasat* told *GSN*: “I believe it is unfair for anyone to pass a judgement on BICI commissioners. They have done many good things up until now. However, I feel that their mission could be changing from fact-finding to mediating in a very difficult situation.”

### QATAR/ISRAEL

## Relations deteriorate further

Qatar’s role in the preparation of **Palestine’s** formal *UN* bid for statehood, and its continued support of *Hamas*, has caused its once cordial, if low-key, relations with Israel to deteriorate

beyond repair. A confidential Israeli Foreign Ministry report outlines the government's plan to sever all remaining ties with Doha and lists a series of punitive measures against it, according to an article in the Hebrew-language daily *Maariv* on 25 August.

The report outlines several other measures to be implemented in the "near future", including hurting Qatar's influence in the Palestinian territories by restricting access for officials and non-governmental organisations due to "widespread and ongoing anti-Israeli activity". Israel recently denied the president of *QTEL* entry to the territories, the report said.

An Israeli diplomatic source declined to comment directly on the Foreign Ministry report but told *GSN* that there had been no change in Israeli policy to Qatar, and that there were no relations to sever because Qatar had terminated diplomatic relations in 2009. Israel's trade attaché in the country, **Roi Rosenblit**, had been asked to leave in January 2009 as pressure mounted on Qatar to take action against Israel after Operation Cast Lead (*GSN 847/1*).

However, Qatar had allowed the mission (a low key property in a residential area) to remain open so as not to completely sever relations, according to *Maariv*, which said the office was only shut in March when two local staff were dismissed.

The Israeli source admitted that his government had been increasingly angered by Qatar's support for Hamas. "Because

of the recent attacks from Gaza that left eight people dead, it's obviously going to sharpen the reasons for us being unhappy with someone that supports Hamas," the source said. Qatar has always had strong ties to Hamas, with Hamas figurehead **Khalid Mishaal** regularly visiting Doha, most recently on 9 August, when he met Emir Sheikh **Hamad Bin Khalifa Al-Thani** at the Wajba Palace. In the late 1990s, Mishaal was based in Doha after **Jordan** deported him. There have been some media rumours that the Hamas HQ will move from Damascus to Doha.

Qatar has also long-been accused of channelling large amounts of funding to the organisation. *Al-Jazeera* has also been a source of underlying tension between the two countries, and was cited in the report as being responsible for "worsening international criticism" of Israel.

Qatar's offer to provide legal expenses for claims against Israel relating to the attack on the **Turkish** flotilla *Mavi Marmara* in 2010, and a conference for jurists in Doha to discuss the issue, was also reportedly detailed in the report.

However, Qatar's leading role in assisting the Palestinians with legal preparations for their formal bid for statehood at the UN, due to be submitted on 20 September, seems to have been the final straw.

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## REGION

### SANDHURST: Passing out

The Sovereign's Parade at the *Royal Military Academy Sandhurst* was held on 12 August. There were several overseas cadets who passed out with a view to being commissioned into the armed forces of their countries, including **Bahrain's** Sheikh **Abdullah Bin Mubarak Al-Khalifa**, and the UAE's Sheikh **Abdullah Bin Faisal Bin Saqr Al-Qasimi** and Sheikh **Khalifa Bin Saeed Bin Mohammed Al-Nahyan**. Other UAE cadets included men from the **Al-Marri**, **Al-Sharqi** and **Al-Dhaheri** families. **Jordanian** **Hisham Mohammed Nasser Alidmat** received the Overseas Sword.

## SAUDI ARABIA

### SENIOR PRINCES: Home and away

Prince **Salman Bin Abdelaziz** returned home from his annual holiday in **Marbella, Spain**, in early August to receive condolences on the death of his wife, **Sultana Bint Turki Al-Sudairi**. He stayed for several days before again leaving the country. *Allegiance Commission* chairman Prince **Mishaal Bin Abdelaziz** also returned home on 2 August. He stayed in **Jeddah** before travelling to **Mecca** with his son, **Saud**, on 18 August, joining King **Abdullah** for the last few days of **Ramadan**. The King held a reception at the **Al-Safa** palace on 22 August.

### AL-SAUD: Funerals

Prince **Mohammed Bin Abdullah Al-Faisal** died on 20 August while undergoing treatment for ill health in the **United States**. Mohammed, 68, was the son of **Abdullah**, the eldest son of King **Faisal**, and spent most of his career in the education ministry. He was a well-known poet and many of his works have been used as lyrics by Saudi singers. Prince Mohammed was also an honorary member of the *Al-Ahli* football club and was also involved in his family's *Al-Faisaliah Group* and the *Arab Thought Foundation*. One wife was King **Khalid's** daughter **Nuf**. Funeral prayers were held in the Grand Mosque in **Mecca** and attended by King **Abdullah** and many other relatives. He was buried at **Al-Adl** cemetery, close to his father. Crown Prince **Sultan's** wife **Princess Munira Bint Abdelaziz Bin Musaid Bin Jiluwi** died in a **Paris** hospital on 25 August. She was the mother of assistant defence minister Prince **Khalid**, **Tabuk** governor Prince **Fahd**, and **Badr, Turki** and **Faisal**. Sultan's sons received condolences at a reception attended by **Munira's** brother **Abdullah**, who is governor of the **Northern Province**, but Sultan remained in **New York**. **Princess Hessa Bint Mohammed Bin Abdelaziz** died aged 80 on 9 August. She was a daughter of **Mohammed**, a son of **Ibn Saud**, and was married to her cousin Prince **Bandar Bin Khalid Bin Abdelaziz**. **Princess Hessa Bint Fahd Bin Faisal** of the **Al-Farhan** branch died on 20 August. Her father, who had 35 children, was mayor of **Riyadh** in the 1950s. Funeral prayers were led by Prince **Sattam Bin Abdelaziz**, acting **Riyadh** governor in **Salman's** absence.

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# Militant threat adds to pressures on Kuwait and Iraq over Mubarak port project

While Kuwait and Baghdad have been edging towards compromise in the war of words over Iraq's Mubarak Al-Kabir port mega-project, tensions are being stoked by threats from an Iraqi militant group with strong Iranian connections. Washington shares Kuwait's concerns about Kataib Hezbollah's potential to further inflame tensions in the region

The Kuwaiti and Iraqi governments are moving towards compromise over the issue of Mubarak Al-Kabir port, but the war of words between hotheads on both sides has left lasting concerns about the security of Kuwaiti projects along the border (*GSN 906/5, 905/1*). The potential for tensions to flare up again was highlighted by Iranian-backed militant group *Kataib Hezbollah's* 17 July warning to **South Korean** companies working on the project on Bubiyan island to stop work.

The group's statement said: "We are warning the companies working on the Kuwaiti port against continuing the project... The Iraqi people will not forget what the government of Kuwait is doing by building a port to strangle Iraq economically." According to *GSN's* soundings among Iraqi and US security forces, gathered on a recent visit to Basra, the issue of securing the northern Arabian Gulf is likely to outlive the current brouhaha over Mubarak port.

### Kataib Hezbollah: 'capable militants'

Washington designated Kataib Hezbollah a terrorist movement in 2008. According to US government sources canvassed by *GSN*, the Iraqi group is the most capable militant group operating in Iraq. Although much of the data on it remains classified, even open-source information shows the connections between the group and the *Islamic Revolutionary Guard Corps (IRGC's Qods Force* in a well-established chain of mutually supporting evidence. (The Qods Force sponsors militants in **Lebanon, Iraq, Afghanistan and Israel**.) The West Point *Combating Terrorism Centre (CTC's* Harmony database has made public significant amounts of interrogation data from captured Kataib Hezbollah members, including detailed descriptions of training programmes and cross-border smuggling operations through which the Qods Force has established, financed and armed Kataib Hezbollah cells in Iraq.

Kataib Hezbollah differs from other Shia Iraqi militant groups because it is a direct extension of the Qods Force in Iraq, and senior Kataib Hezbollah members are themselves card-carrying Qods Force members. Kataib Hezbollah is, in effect, a new iteration of the **Saddam-era Badr Corps**, which formed thousands of exiled Iraqi Shias living in Iran into a paramilitary wing that Iran used to launch anti-*Baathist* cross-border attacks into Iraq. Kataib Hezbollah formed in early 2004 as a vehicle through which the Qods Force could deploy its most experienced operators and most sensitive equipment in Iraq. Its 400-man cadre is drawn from the lower ranks of the 12,000-

strong Badr Corps. It receives equipment commensurate with IRGC and Lebanese Hezbollah commando units, including Iranian copies of western small arms and body armour, optical sights and night-vision equipment.

Kataib Hezbollah has been associated with sensitive operations (such as the December 2009 interception of a US Predator UAV imagery downlink); lethal attacks (including a range of improvised rocket-assisted mortar attacks on US bases); and fielding of advanced Iranian systems (particularly anti-armour weapons, including the RPG-29, which have penetrated the most heavily armoured US battle tanks in Iraq).

### Political connections

One of the more intriguing aspects of the Kataib Hezbollah threat against Mubarak port is the way that old Badr Corps connections seem to tie the pieces of the jigsaw together. Kataib Hezbollah does not generally become involved in Iraqi politics, particularly not peripheral issues such as the placement of ports or other infrastructure. Even politically connected leaders such as **Abu Mahdi Al-Muhandis** are focused on narrower near-term goals such as ensuring the removal of most US forces from Iraq (*see box*). However, old Badr Corps ties seem to have drawn Kataib Hezbollah into the issue of Mubarak port.

Iraqi transport minister **Hadi Al-Amiri**, who has direct responsibility for the success of Al-Faw Grand Port, opposite Bubiyan, has been one of the most outspoken critics of Kuwait in recent months. He has even threatened to revoke Iraq's acceptance of the 1993 *United Nations* delineation of the Iraq-Kuwaiti border. The connection between Kataib Hezbollah and Al-Amiri is tied to the minister's former role as the head of the Badr Corps (he remains the head of the *Badr Organisation*, a political movement that emerged from the Badr Corps in 2003). As the Harmony files show, Al-Amiri is a long-term confederate of Al-Muhandis, serving as Badr Corps intelligence chief for many years while al-Muhandis was chief of operations.

### Protecting Bubiyan

The threat has caused the Kuwaiti government to reach out to the US military and Iraqi security forces for assessments of Kataib Hezbollah's capabilities. The results are not reassuring. The Qods Force put considerable effort into improving the capabilities of Kataib Hezbollah indirect fire cells during 2006-08. During the Saddam era, the Qods Force trained Badr Corps

members in GPS surveying to increase their accuracy, a feature that Kataib Hizbollah has continued (indeed, some captures of rocketeers have included *Garmin* GPS devices, US military 1:25,000 mapping and spirit levels for accurate sighting).

Iran has provided Kataib Hizbollah with numerous new rocket systems. The workhorse of cells remains the 107mm rocket, usually Iranian-made Haseb variants. Iranian-made Falaq-1 rockets of 240mm calibre are an Iranian variant of the Russian BM-24 rocket artillery round, throwing a heavier munition than the 107mm rockets. Both these systems have a range of 8-10km, but Kataib Hizbollah regularly strikes targets at ranges of 15km using Iranian-produced 122mm rockets (copies of the Russian BM-21 rocket artillery round).

Kataib Hizbollah is on top of its game. Indirect fire in Iraq has increased significantly during 2011, though it remains difficult to confirm the actual amount of rocket and mortar fire hitting US bases due to incomplete reporting of such incidents. According to anecdotal reporting from US military intelligence analysts canvassed by the author, Shia groups carried out as many as 40-50 rocket and mortar attacks on US bases in Iraq in June, none of which were recorded in unclassified US attack statistics.

According to a number of diplomatic residents of Baghdad's International Zone canvassed by GSN, the area was struck by 17 salvoes in July, a major increase on the two to three salvoes usually fired into the zone each month. Basra Air Station and other US outposts witnessed a doubling of indirect fire throughout the second quarter of the year.

During August, the Kuwaiti military deployed a number of military units to the border and Bubiyan island, including an additional infantry brigade (to back up border guards and the small permanent army garrison), plus special forces. Kuwait's muscular coast guard and naval special forces also came to alert. Working alongside US force protection advisers, the aim of the Kuwaiti mobilisation appears to have been to create a zone around the Mubarak port site (and its contractors) where rockets cannot be launched. This is a tall order, as the insurgent maxim notes, because militants only need to get lucky once, while the defender needs to be lucky all the time.

In a sign of growing Iraqi-Kuwait security co-operation, fostered by close US mentoring of both sides, the Kuwaiti military has also reached out to the Iraqi command in Basra to create an additional layer of security over the border.

### Border tensions

Ongoing confidence-building measures are required due to the potential for increased tension. Iraq-Kuwait relations remain very sensitive. In part, this is based on historic tensions ranging back to the role that Kuwait played in fracturing Anglo-Iraqi relations in the 1950s and early 1960s, and more recently Saddam's invasion and occupation of Kuwait. Iraqis living in southern Basra province have never fully accepted the 1993 UN delineation of the border near Umm Qasr, nor Kuwait's erection

### Abu Mahdi Al-Muhandis

One reason why the **Kuwaiti** government is taking the port threat seriously is the personality of **Kataib Hizbollah** leader **Abu Mahdi Al-Muhandis**, whose real name is **Jamal Al-Ibrahimi**. Al-Muhandis is the most senior **Iraqi** serving as an active duty member of the **Islamic Revolutionary Guard Corps Qods Force** (see main article). He became a senior **Badr Corps** commander in the 1980s, and chose in late 2002 to stay with the Qods Force instead of integrating with the Shia opposition as they politically engaged with the **US** occupation.

Much can be gleaned from the positioning of Al-Muhandis as the leader of Kataib Hizbollah. Born in Basra, Al-Muhandis was persecuted by the **Baathist** regime for being a member of the outlawed **Daawa Party**. He left for exile in **Iran** and was quickly recruited into paramilitary cells being formed by the post-revolutionary Iranian regime to spread revolution across the Islamic world.

Al-Muhandis was directly involved in terrorist operations against the Kuwaiti royal family and the **US** and **French** embassies in Kuwait in the early 1980s, according to the US Treasury. He then joined the **Badr** movement while living in **Iran** in 1985, becoming one of the Iraqi deputy commanders of **Badr** by 2001.

A strategist with extensive experience dealing directly with the most senior Iraqi politicians, Al-Muhandis was, until the March 2010 elections, an elected MP, albeit spending most of his time in **Iran**.

of significant physical barriers along the new border, which have disrupted traditional cross-border trade. Kuwait's attempts to recruit Iraqi military officers as informants does not help to reassure Iraq of Kuwait's good intentions.

Indeed, Kuwait's efforts to defend itself against Iraqi predation often cause more offence in Iraq than was intended or expected. Kuwait's effort to develop oilfields along its northern border, to enmesh international companies into the border area, has caused tensions in the past, notably in August 1990. Iraqi security forces are closely monitoring Kuwaiti drilling less than 150 metres from the border at three points between Safwan and Umm Qasr. Kuwait's alteration of the border security trench, berm, barbed wire and service roads is causing further disquiet on the Iraqi side. Around half a dozen large demonstrations have taken place on the Iraqi side since July, further straining Basra's overstretched security forces during the testing Ramadan period.

Most recently, the deployment of additional Kuwaiti forces to the border sparked a minor furore in the Iraqi Ministry of Defence, which described it as "aggressive posturing", according to GSN's sources in Basra. It required visits and over-flights of the border by Iraqi helicopters to confirm that an eight brigade deployment by the Kuwaiti Army was illusory. With significant elements of the Iraqi government aligned against the Mubarak Port project, and with close ties between these elements and Shia militant groups, there is plenty of room for mischief and rumour-mongering to keep the issue of Mubarak Port on the boil.

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# Kurdish regional entente falters as bombardments continue

Recent Turkish and Iranian military strikes on Kurdish separatist groups inside Iraqi Kurdistan threaten to undo years of patient diplomacy at a crucial moment

**B**oth of the *Kurdistan Regional Government (KRG)*'s northern neighbours have launched heavy bombardments of bases used by Kurdish separatist groups inside Iraq's borders, forcing the KRG to abandon its normally restrained stance over such attacks. Pressure on the KRG to respond increased following the accidental killing of seven civilians, including two babies, by a stray Turkish bomb.

The KRG has so far taken a more emollient view of the shelling carried out by Iran's *Islamic Revolutionary Guard Corps* against the *Party of Free Life of Kurdistan (PJAK)*, which official Iranian media says has resulted in the death of 150 PJAK fighters and the displacement of more than 1,000 Iraqi Kurds. Kurdistan regional vice president **Nechirvan Barzani**, who is also a son of KRG President **Masoud Barzani**, recently met Iranian President **Mahmoud Ahmadinejad** in Tehran and said that "Iraq will oppose any action that is against Iran's security", and that any problems "must be solved through co-operation".

On 30 August, the Turkish military said its bombardments in the Qandil Mountains had killed between 145 and 160 *Kurdistan Workers' Party (PKK)* fighters. In a statement it said it had its targets "definitely confirmed as belonging to the separatist terrorist organisation" in the Zap and Gara areas in a pair of sustained raids, each lasting several days. According to *Reuters*, Iraqi foreign minister **Hoshiyar Zebari** – one of the most senior Kurdish politicians in the federal government – summoned the Turkish ambassador to an audience on 25 August to demand an immediate halt to the attacks.

Ankara has lost patience with the presence of PKK bases in northern Iraq following the resumption of terrorist activity in the past two months, which has claimed the lives of more than 40 Turkish soldiers and policemen. After a landmine killed eight soldiers and a guard in the town of Cukurca, Prime Minister **Recep Tayyip Erdogan** declared that "the time for words is over. Now is the time for action."

The possibility of escalating violence now threatens to derail years of careful US-sponsored regional diplomacy and peace-making just months before US troops are withdrawn from Iraq. Media reports suggest that over 3,000 Turkish soldiers have been transferred to the border area and that a ground operation, such as that carried out in 2008, could be in the offing. The Turkish army's decision to cancel its Victory Day banquet on 30 August – an event often attended by all senior officers – has fed speculation that a more serious attack may be in the offing.

## Erbil's steady shift towards Ankara

The US has invested a lot of diplomatic capital in the developing relationship between Erbil and Ankara, which it identified as vital to its Iraq strategy before the 2003 invasion to topple **Saddam Hussein**. Troop withdrawal means that Washington needs this relationship to work more than ever. It has been a strong supporter of Ankara's efforts to control the PKK and supplies it with satellite intelligence. Meanwhile, it has exerted strong pressure on both sides to build a dialogue.

According to US State Department cables released on *WikiLeaks*, Barzani briefed US embassy staff on his meeting with government officials during a January 2003 visit to Ankara. At that stage, he was implacably opposed to Turkish intervention over the border. By December 2006, Barzani said he would remain neutral in an armed conflict between Turkey and the PKK. With US encouragement, he had earlier pressured the PKK to declare a unilateral ceasefire. These were the first signs that Erbil's relationship with Ankara might eventually trump its sympathy for the PKK cause.

In February 2007, the regional president suggested a "two-part strategy for solving the PKK issue that combines an amnesty with military action". Barzani said that a purely military response without a Turkish amnesty for Kurds returning to southern Turkey from northern Iraq would not work. In July of that year, Turkey began air strikes inside the borders of Iraq, when a "highly agitated" Barzani told US ambassador to Iraq **Zalmay Khalizhad** that the strikes "were provocative and if continued would generate an armed Kurdish response". The attacks continued, however. The Turkish army launched an eight-day incursion in February 2008, killing about 240 PKK fighters (*GSN 825/1*). These raids were preceded by airborne attacks, which started in late 2007 and continued over that winter. Despite Barzani's private warning, the KRG maintained its disciplined restraint, even tolerating the presence of quasi-permanent Turkish army forward positions inside its territory.

This time, Masoud Barzani has condemned the attacks in much stronger and more public terms than he used during previous offensives. He is obliged to balance internal political demands with the need to maintain a strategic relationship with Ankara. Although the KRG cannot afford to be seen as supporting or protecting the separatists, as this would rapidly undermine its position both in Ankara and Baghdad, Barzani cannot ignore domestic public sympathy for the PKK cause.

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## Syrian crude exports, products imports at risk as EU sanctions threat gathers momentum

Consensus has built behind the EU's threat to embargo Syrian state oil companies, crude exports and products imports in an effort to seriously squeeze the Assad regime

Even before the new embargo is in place, markets have been responding to the *European Union's* plans to place sanctions on state companies *Syria Petroleum Corporation* and *Sytrol*, along with the purchase of Syrian crude and the sale of petroleum products. Some traders have already declined to bid for Syrian liftings and European refiners have been looking to source the crude elsewhere, understanding that – this time – EU sanctions are intended to be punitive, adding a new degree of pressure on President **Bashar Al-Assad's** regime.

However, in the run-up to a formal decision on the sanctions package – expected as *GSN* went to press – EU government officials anxious to install a tough embargo on Damascus reported heavy lobbying by international oil companies, business groups and factions within member state governments (including within the Damascus diplomatic corps) to water down the package. On 30 August, it was reported that Italy was insisting that sanctions should be delayed until end-November, when existing supply contracts expire.

Although Syria is not a major producer by global standards – with crude output at around 390,000 b/d and exports of 150,000 b/d – oil earns the government about \$4bn/yr, an official working on the package said. “The benefit of [an embargo on crude exports] would be that the sanctions would be directly imposed on government revenue which is used to support the regime,” one EU member government source involved in the process told *GSN*. “The sanctions could be imposed without punishing the general population – as more general sanctions would be likely to do,” he concluded.

The United States has already imposed oil sanctions, signed by the White House in mid-August, and continues to apply pressure. The US Treasury Department on 30 August added foreign minister **Walid Muallem**, Assad's adviser **Buthaina Shabaan** (for long seen as a link to the West) and ambassador to **Lebanon Ali Abdelkarim Ali** to its lengthening blacklist of Syrian officials and business interests. But analysts say that recent US sanctions will have little real impact on the Syrian economy as most US involvement ended with President **George W Bush's** sanctions package of 2004, after which major players *ConocoPhillips* and *Marathon Oil Corporation* withdrew from their Syrian operations.

European-based companies, meanwhile, have come to play the leading role in developing the Syrian upstream, joined by **Chinese** state firms. Virtually all of Syria's exports go to European refineries; these now mainly comprise 23° API

Souedieh (Syrian Heavy) crude. European officials observe that companies that would be affected by the EU measure include *Royal Dutch Shell* (which operates *Al-Furat Petroleum*), *Total* (operator at Dayr Az-Zawr) and London-listed *Gulfsands Petroleum*, which has said it “is fully compliant with all applicable sanctions and is committed to continuing compliance with any sanctions that may apply from time to time” (see below).

Western officials say the sanctions will not specifically prevent the operations or production of any company, but they will block sales – a major blow for Damascus, whose crude is currently sold almost exclusively to European countries. Damascus is hoping to divert some of these cargoes to Asia. China already produces 30,000 b/d in the country, although this heavy sour crude is sold on the market, rather than imported into China. Traders say that, even if all or part of the current production can be diverted to Asian and other consumers, Syria will have to sell at a discount to its European liftings.

Specialist publisher *Energy Intelligence* has reported that three cargoes, totalling 1.1m bbls of Syrian Light crude are due to be lifted at Baniyas by *Total* and *Petraco* in September, when 11 cargoes (6.2m bbls) of Souedieh will go from Tartous to Shell, *Total*, **Spain's Repsol YPF**, **Turkey's Tupras**, **Italy's Saras**, **Austria's OMV** and traders *Arcadia*, *Galaxy* and *Petraco*. It reported: “One US company, due to load a cargo last week, was already hit by Washington's new sanctions.” Other big companies with substantial Syrian import-export links include *BP*, *Trafigura* and *Vitol*.

Syria imports some 150,000 b/d of refined products, which may come from Damascus' remaining friends, including **Iran**, both formally and informally. **Germany** and **Italy** were the main market for exports in 2010, followed by **France**, the **Netherlands**, **Austria** and **Spain**.

Political violence has not spared oil-producing areas. Violent incidents across the country as Ramadan ended included security forces shooting on protesters and rounding up large numbers of residents in Dayr Az-Zawr, a hub of opposition in the east, activists reported.

### Gulfsands under pressure

*Alternative Investment Market*-listed *Gulfsands* has attracted particular attention because of its longstanding association with Assad's controversial businessman cousin **Rami Makhoul**. The company, which has secured acreage and projects in Syria,

Tunisia and Iraq, has been built up by executives, including the politically well-connected **Mahdi Sajjad**, with Makhlouf in the background.

Gulfsands on 24 August issued a statement saying it had “behaved at all times with absolute propriety” in Syria and was in compliance with international sanctions. This followed a major hit on Gulfsands share price, which had lost over one-third of its value in the previous month. Gulfsands said its relations with Makhlouf and his various interests represented “constructive commercial relationships” since it first entered Syria in 2000. “All such relationships have been conducted on arms-length commercial terms, have been properly documented and have been disclosed as required by pertinent laws and regulations,” said the company’s statement to AIM. “The group has fulfilled all contractual obligations pertaining to such commercial relationships and has behaved at all times with absolute propriety.” Otherwise its operations in Block 26, remained “unaffected” by the Syrian political crisis.

A Makhlouf-led vehicle owns 5.75% of Gulfsands through *Al-Mashrek Global Invest*, acquired in 2007. Makhlouf is not represented on the board and “has no influence over or involvement in the management of the group’s affairs”, Gulfsands said. The company rents offices in Damascus owned by Makhlouf interests and other entities controlled by the magnate – who recently said he had withdrawn from business to focus on charity (*GSN 903/12*) – are routinely engaged by Gulfsands for operations in Syria.

Gulfsands said: “Following the imposition by the UK in May 2011 of sanctions against certain individuals and organisations in Syria, including Mr Rami Makhlouf and members of his family, the group has suspended all payments to the Makhlouf interests... and has suspended the voting, dividend and transfer rights pertaining to the shares in Gulfsands held Al-Mashrek.”

### GOVERNANCE

## Bahrain PM confronts corruption

Bahraini prime minister Sheikh **Khalifa Bin Salman Al-Khalifa** in late August called for new measures to combat economic crime in an effort to fight corruption. Local media reported him as saying that establishing an anti-corruption agency was vital to ensure a just economic system.

“Interior Ministry powers need to be expanded to strengthen internal and external operations of the government and implement what has been agreed upon at the National Dialogue. Bolstering anti-corruption measures is one of many areas of National Dialogue reforms that the government will be implementing. This will, in turn, enhance transparency, competitiveness, economic development and improve the

### IRAQI KURDISTAN

## Gulf Keystone denies sale

AIM-listed *Gulf Keystone Petroleum* has denied recent media speculation that it is being sold. The company said in a statement on its website on 30 August that “it remains committed to creating value for shareholders, via the continuing 2011/12 drilling programme on its world-class assets in the Kurdistan Region of Iraq”. Executive chairman and chief executive **Todd Kozel** said: “We consider the true value of the company to be significantly above any figures quoted in recent press articles.” Shares in the company rose 5.36% to £1.37 after the announcement.

Speculation about a sale valuing the company at some £1.4bn (\$2.3bn) circulated after the UK’s *The Sunday Times* newspaper reported that Kozel had told investment banks he would launch a “beauty parade for advisers next month to help assess the company’s strategic options”. Growing international interest in the company is thought to have been prompted by the prospect that Iraq’s revenue-sharing law will soon be finalised (*GSN 906/10, 905/10*).

Gulf Keystone holds production-sharing contracts for four exploration blocks in the region, where it made its first discovery in 2009. It recently announced its second oil discovery with the Sheik Adi project, which is estimated to contain 1–3bn bbls of oil. Its other 2009 discovery, at the neighbouring Shaikan Block, contains an estimated 5–11bn bbls.

The company is in a legal battle over its rights to a third of its oil wealth. *Excalibur Ventures* claims it introduced Gulf Keystone to the Kurdistan region and that the two had agreed to develop the area. Gulf Keystone disputes the allegations.

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performance of state agencies,” he said. Sheikh Khalifa also called on the authorities to restrict the board membership of government representatives.

Other comments show the prime minister to be moving into the remit of his great-nephew Crown Prince **Salman Bin Hamad Al-Khalifa**. On 24 August, he called for the development of a strategy aimed at increasing foreign business investment and participation in business exhibitions in Bahrain. Salman was well known for his efforts to increase foreign participation in the economy through the *Economic Development Board*. Some observers believe Salman has driven the initiative to remove corruption from certain sectors over the past few years. One source told GSN in 2010: “The oil and gas sector is clean as a whistle these days, and it was the CP Salman who drove the clean up in that sector...”

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**22 September: Opportunity Arabia 8, London**

Contact Chris Moses. Email: [chrism@the-mea.co.uk](mailto:chrism@the-mea.co.uk)

**26-28 September: World Junior Oil & Gas Congress, London**

Web: [www.terrapinn.com](http://www.terrapinn.com)

**2-5 October: MENA Investment Management Forum, Doha**

Email: [info@icbi.co.uk](mailto:info@icbi.co.uk) Web: [www.informaglobalevents.com/FKN2226GSN](http://www.informaglobalevents.com/FKN2226GSN)

**18-20 October: Iraq Mega Projects Conference, Istanbul**

Tel: +44 20 7978 0056 Web: [www.cwimp.com](http://www.cwimp.com)

**25-27 October: Iraq Telecoms 2011, Istanbul**

Tel: +44 20 7978 0061. Web: [www.iraqtelecoms.com](http://www.iraqtelecoms.com)

**14-16 November: Kurdistan Oil & Gas, Iraq**

Web: [www.thecwgroup.com/events](http://www.thecwgroup.com/events)

**23-24 November: Middle East Investments Summit, Dubai**

Web: [www.mei-summit.com/GSNeI](http://www.mei-summit.com/GSNeI)

**4-7 December: Saudi Water & Power Forum, Dammam**

Web: [www.ksawpf.com](http://www.ksawpf.com)

**11-14 December: Saudi Infrastructure Forum & Exhibition**

To be held in Jeddah. Web: [www.saudi-infrastructure.com](http://www.saudi-infrastructure.com)

**11-12 January 2012: PPP Middle East**

To be held in Abu Dhabi. Web: [www.ppp-middleeast.com](http://www.ppp-middleeast.com)

**Middle East risk indicators**

Country	Preferred payment terms	Coface grading	Moody's sovereign rating	Fitch sovereign rating	Ducreire Delcredere short-term political risk rating	ONDD medium- to long-term political risk rating
Bahrain	OA	A4	A2	BBB+	3	4
Iran	CIA	D	—	—	7	7
Iraq	CIA	D	—	—	6	7
Israel	OA	A3	A1	AA-	3	3
Jordan	OA	B	Ba2	—	3	5
Kuwait	SD/OA	A2	Aa2	AA+	2	2
Lebanon	OA	C	B1	B	5	7
Oman	OA	A3	A1	—	2	2
Palestine	CLC	—	—	—	7	7
Qatar	OA	A2	Aa2	—	1	2
Saudi Arabia	OA	A4	Aa3	AA	2	2
Syria	ILC	C	—	—	6	7
Turkey	ILC	A4	Ba2	BBB-	3	4
United Arab Emirates	OA	A3	Aa2	AA+*	2	3
Yemen	CLC	D	—	—	7	7

Key: ULC = Unconfirmed letter of credit. ILC = Irrevocable letter of credit. CIA = Cash in advance. OA = Open account. SD = Sight draft. \* = Abu Dhabi

Sources: Agencies and Cross-border Information Ltd, Hastings, UK.

**Stock markets and exchange rates**

Stock Market (Index)	Index value (31 August)	Index % change One week	Since 01.01.11	2010 performance	Currency	£	Exchange rate \$	€	¥ (x100)
Bahrain <sup>1</sup>	1,258.25	-0.28 ↓	-12.15	-1.78	(Dinar)	0.6136	0.3770	0.5441	0.4913
Iran <sup>2</sup>	25,822.00	1.36 ↑	36.95	68.23	(Rial)	17,256.60	10,602.50	15,303.10	13,817.00
Iraq <sup>3</sup>	n/a	n/a	n/a	n/a	(New Dinar)	1,897.78	1,166.00	1,682.95	1,519.52
Jordan <sup>4</sup>	2,036.43	0.43 ↑	-14.20	-6.31	(Dinar)	1.1528	0.7083	1.0223	0.9230
Kuwait <sup>5</sup>	5,791.30	0.16 ↑	-16.74	-0.71	(Dinar)	0.4440	0.2728	0.3938	0.3555
Oman <sup>6</sup>	5,767.35	4.55 ↑	-14.62	6.06	(Rial)	0.6267	0.3850	0.5557	0.5017
Qatar <sup>7</sup>	8,351.77	2.99 ↑	-3.80	1.06	(Rial)	5.9273	3.6417	5.2563	4.7458
Saudi Arabia <sup>8</sup>	5,979.30	0.00 -	-9.69	8.15	(Rial)	6.1037	3.7501	5.4128	4.8871
UAE - Abu Dhabi <sup>9</sup>	2,616.02	1.31 ↑	-4.65	-0.87	(Dirham)	5.9782	3.6730	5.3015	4.7866
UAE - Dubai <sup>10</sup>	1,492.44	2.41 ↑	-8.47	-9.60	(Dirham)	5.9782	3.6730	5.3015	4.7866
Yemen	n/a	n/a	n/a	n/a	(Rial)	347.981	213.800	308.588	278.621

<sup>1</sup>Bahrain Stock Exchange - All Shares Index. <sup>2</sup>Tehran Stock Exchange - Tepix Index. <sup>3</sup>Iraq Stock Exchange - ISX Price Index. <sup>4</sup>Amman Stock Exchange Index.

<sup>5</sup>Kuwait Stock Exchange Index. <sup>6</sup>Muscat Securities Market - MSM 30 Index. <sup>7</sup>Qatar Exchange - QE Index. <sup>8</sup>Tadawul All Shares Index.

<sup>9</sup>Abu Dhabi Securities Exchange. <sup>10</sup>Dubai Financial Market.

## GSN Risk Grade — B4: Dubai eyes recovery but poverty in the Northern Emirates remains a problem

### Political and social developments

**Overview:** Since 2008, when the scale of its indebtedness emerged, Dubai has been more reliant on Abu Dhabi, which since the UAE was founded in 1971 has provided assistance to the remaining five Northern Emirates. These emirates have not seen the sort of spectacular growth so evident in Dubai and Abu Dhabi in the last decade or more. Ruler Sheikh Mohammed Bin Rashid Al-Maktoum (MBR) remains at the helm of Dubai, with ruling family members and the ruler himself taking increasingly active roles at the head of the emirate's government-related enterprises (GREs). Chairman of Emirates Airline, Sheikh Ahmed Bin Saeed Al-Maktoum – MBR's uncle, though much the same age as the Dubai ruler – has played an increasing number of roles in Dubai's post-financial crisis GRE management. So, too, have the ruler's second and third sons – Crown Prince Sheikh Hamdan Bin Mohammed Al-Maktoum and Sheikh Maktoum Bin Mohammed Al-Maktoum. Sheikh Ahmed is chairman of the Supreme Fiscal Committee, which supervises the Abu Dhabi supported \$20bn bail-out fund extended to Dubai in early 2009. Sheikh Saud Bin Saqr Al-Qassimi became ruler of Ras Al-Khaimah in October 2010, although his accession was challenged by his elder brother and former crown prince, Sheikh Khaled Bin Saqr Al-Qassimi.

**Federal National Council:** Elections to the FNC are scheduled for 24 September and the preliminary list includes 469 candidates – some of them self-nominated. The final list will be announced on 28 August. Abu Dhabi put forward 117 candidates, Dubai 124, Sharjah 94, Ras Al-Khaimah 60, Ajman 34, Umm Al-Quwain 19 and Fujairah 21. Some 18% of these are women, with 26 women standing in Dubai, 22 in Abu Dhabi, 16 in Sharjah, nine in Ras Al-Khaimah, five in Ajman, four in Umm Al-Quwain and three in Fujairah. The FNC is a semi-parliamentary body that is meant to be a link between the rulers and citizens. It has an advisory not legislative role. Only 50% of its 40 members are elected, and just 12% of ordinary citizens, determined by the UAE's rulers, can vote. Nevertheless, the national election committee held awareness lectures in August in all emirates.

**Poverty in the north:** The UN Development Programme (UNDP) has highlighted the economic disparities between the emirates, stressing that reducing poverty in the Northern Emirates is the focus of the UNDP in the UAE. The emirates' wealth is concentrated in oil-rich Abu Dhabi and the business hub of Dubai, while development in the other emirates has been uneven. Against the background of regional uprisings, tensions could be fuelled if the gap between rich and poor is not addressed. In February, the UAE promised to allocate Dh5.7bn (\$1.6bn) over the next five years to alleviate persistent electricity problems in the north. The majority of these investments are for the expansion of the production capacity of electricity and water facilities, as power shortages in the north are exacerbated by a rapidly expanding population. Abu Dhabi has also doubled funding for a programme to create more jobs in the north. Other investments are planned in road and transport projects such as expansion and improvement works on the Emirates Road and the development of the Zorah-Al Helio Road.

### Economic and commercial outlook

**Overview:** Dubai Exports announced that the manufacturing sector is the fourth highest contributor to Dubai's GDP at 13.2%, with other significant revenues coming from tourism, financial services and real estate. Dubai's GDP grew by 2.2% in 2010 and is expected to increase as much as 4% in the current year. Dubai's direct trade grew by 27% in the first five months of 2011 compared to the corresponding period last year, reaching Dh289bn (\$78bn). Official figures showed growth in all sectors – imports, exports and re-exports. India is Dubai's biggest trading partner, with a total exchange of goods worth Dh87bn during the first five months of 2011 – amounting to a 30% share of Dubai's total trade exchanges. Switzerland was second with an exchange worth Dh2.7bn, followed by Saudi Arabia with Dh1.7bn. When the US sovereign credit rating was downgraded in early August from AAA to AA+, the Dubai Financial Market General Index fell by 2.2% and had shed nearly 5% by mid August before partially recovering at the end of the month.

**Dubai's debt:** According to JP Morgan, Dubai is recovering faster from the financial crisis than expected. Unrest in Bahrain in March accelerated temporary relocations to Dubai and Dubai World restructuring signalled to investors that the emirate was serious about reducing debt. Investment Corporation of Dubai (ICD), which holds many of the indebted emirate's assets, announced the repayment of \$4bn loans in August, rather than opt for refinancing. Dubai and its state-linked companies still have \$31bn of debt maturing this year, and the emirate's entire debt is \$113bn.

**Housing:** Rents and property prices in the Northern Emirates are expected to continue to fall during the second half of 2011, due to new supplies in the residential and office sectors. Lease rates decline as construction activity increases – supply slowly exceeding demand – and competition among landlords has led some to include parking in their quoted rates. According to a report by CBRE real estate service provider and property consultancy, on average, lease rates across the Northern Emirates have fallen by 17% since the second half of 2009. The worst affected area was Ajman, where they fell by 25%, followed by a 21% drop in Umm Al-Quwain. The report estimates a further drop of 10-15% in residential rates over the next 12 months.

**Dubai utility price freeze:** Dubai has decided to freeze power and water prices for the next two years, despite raising prices in July. Dubai's Electricity and Water Authority (Dewa) already sells electricity and water at below cost and the U-turn raises questions about how it will proceed with ambitious projects such as the Hasyan public-private power and water plant. It further hinders Dubai's chances of reaching its renewable energy targets – which included sourcing 1% of its power from solar in the next decade.

**Sharjah public transport:** Sharjah Transport has been developing public bus routes and timetables to encourage commuters to use public services. The company operates 233 buses on 21 routes, and use has been steadily increasing over the past year.

### DUBAI: Projects and potential

**CITY OF THE FUTURE:** Dubai has been named Middle East City of the Future 2010/11 by *fDi* magazine, emphasising its economic potential and attractiveness for foreign direct investment (FDI). The *fDi* intelligence division collected data from 46 cities on economic potential, human resources, cost-effectiveness, quality of life, infrastructure and business friendliness. Dubai received maximum scores in the infrastructure, business friendliness and economic potential categories and had the most FDI projects in the Middle East region between 2003 and June 2010. Dubai FDI chief executive Fahd Al-Gergawi ambitiously expects growth of 30% in 2012.

**LAMPRELL PLANS:** Dubai-based oil services company Lamprell is planning to step up operations in Iraq, taking advantage of the oil exploration boom in the country. According to Lamprell chief executive Nigel McCue, the company is in talks with potential partners to set up bases in Kurdistan and southern Iraq. Abu Dhabi's *The National* reported. Lamprell has recently acquired Norway's Maritime Industrial Services, which has footholds in Saudi Arabia.

### DUBAI: Selected economic indicators

(Dh bn)	2007	2008	2009	2010	2011
Total revenue	25.6	32.6	40.6	41.9p	45.1p
As % of GDP*	6.4	7.2	10.2	10.4p	10.2p
Total expen'/grants	26.9	40.8	95.6	61.9p	51.5p*
As % of GDP*	6.7	9.1	24.1	15.3p	11.6p
Dubai exports (Dh m)	124,526	162,929	165,027	211,324	24,547
Dubai re-exports (Dh m)	100,636	128,626	117,559	144,023	88,924
Dubai imports (Dh m)	453,343	643,198	471,559	546,835	166,288

p = projections, \*= Dubai and Northern Emirates

Source: IMF, Dubai authorities

## GSN Risk Grade — D+5+: Oil boom accelerates but trouble flares on the borders

### Political and social developments

**Overview:** The Kurdistan region of Iraq has great successes within its grasp, but remains threatened by its still unstable relationship with the rest of the country and neighbours in the region. The Iraqi parliament will soon start discussion on a series of oil sector laws which will potentially enshrine the Kurdistan Regional Government (KRG)'s right to issue contracts and hold licensing rounds. If all goes to plan, the current economic boom in Erbil and Sulaymaniyah will only accelerate. With successful gas, power and refineries projects completed, public infrastructure is rapidly improving, particularly in comparison to the rest of the country. The threats come from Turkish and Iranian cross-border military action against their Kurdish separatist groups, who use the mountains of northern Iraq as refuges and bases. The now imminent withdrawal of US troops from Iraq presents an internal threat as well, potentially weakening the uneasy compromise between the Iraqi Army and Peshmerga forces in territories still disputed between Erbil and Baghdad. The KRG is also vulnerable to continued allegations of corruption. Popular dissatisfaction with the ruling elite sparked violent protests in Sulaymaniyah earlier this year. Government opponents are believed to be attempting to organise a 'Kurdish Spring' to rival the wave of popular protests for change across the Arab world.

**Cross-border offensives:** For the past month, Iran and Turkey have launched intensive military operations in KRG territory. Iran's Islamic Revolutionary Guard Corps started shelling bases and units belonging to the Party of Free Life of Kurdistan (PJAK) inside Iraqi Kurdistan on 16 July. The Turkish military carried out a similar campaign of shelling and airstrikes against the Kurdistan Workers Party (PKK) in the Qandil mountains during August. The Turkish army claims to have killed up to 160 PKK fighters in the attacks and injured 80. The airstrikes represent the first attacks in more than a year. The killing of seven Kurdish civilians in the Turkish attacks have triggered outrage and forced President Masoud Barzani to condemn the attacks in much stronger terms than he has used during previous offensives. The KRG had tended to acquiesce in the interests of its strategic relationship with Ankara.

**Peshmerga deployment to Diyala province:** The Kurdistan regional parliament voted on 18 August to deploy Peshmerga forces to the areas around Jalula and Saadiya, to the west of the border town of Khanaqin in Diyala province after a special debate on the territories disputed by Erbil and Baghdad. MP Abdullah Mahmoud told *Aswat al-Iraq* that troops would protect Kurdish citizens, who have recently been attacked, and also pressure Iran to restore water flow in River Wand, which it is accused of having illegally diverted. During the two-day debate, KRG Peshmerga minister Jaafar Mustapha said the Iraqi Army had become a "central army" and that Kurds should boycott it. Mustapha's statement was provoked by a rising number of incidents over the disputed territories in Diyala and Kirkuk, where past operations were carried out jointly under a US-sponsored process of reconciliation. This now appears to have broken down.

### Economic and commercial outlook

**Overview:** Investor interest in the region has built in intensity over past months as a number of high-profile international oil companies, including Repsol, Hess and Afren have acquired exploration assets. That such companies have been prepared to defy the wrath of Baghdad, which still does not officially recognise the KRG's right to issue exploration contracts, has been interpreted as a sign that the five-year dispute between Erbil and Baghdad may be close to resolution. The federal Ministry of Oil has made one substantial concession, agreeing that half the revenues earned from the sale of Kurdish oil via the State Oil Marketing Organisation should be transferred to Erbil to pay the costs of its international partners. Nevertheless, it punished Hess for signing a Kurdish deal by excluding it from the list of companies prequalified to bid in the fourth national licensing round later this year.

**New hydrocarbons laws:** Kurdistan's hopes rest on the successful passage of an acceptable hydrocarbons law through parliament, and a number of decisions which will follow on from that. The Cabinet energy committee chaired by deputy prime minister for energy Hussain Al-Shahristani has submitted an amended draft of the 2007 law to parliament. The KRG had rejected the original which deprived it of the right to manage its own reserves. Government spokesman Ali Al-Dabbagh announced on 29 August that the new draft would replace an alternative version promoted by the parliamentary oil and energy committee, which has in recent months been acting in opposition to the government's hydrocarbons policy. Debate on the law will, therefore, be intense and it may require further amendments. The proposed law will establish a Federal Oil and Gas Committee (FOGC) chaired by the prime minister, which will decide whether KRG-issued contracts conform to the law. The law will allow the KRG to award new contracts and licences but will restrict it to using models approved by the FOGC.

**Risky licences:** There are other ways in which the legitimacy of some exploration contracts may be questioned. Gulf Keystone Petroleum, which has made a new oil discovery in its Sheikh Adi Block, will defend a claim from Excalibur Ventures for a minority stake in its Shaikan Block in the Commercial Court in London in October next year (*see Energy and industry*). Recent revelations on the WikiLeaks website show that US officials warned Dallas-based Hunt Oil Company that its licence was not entirely within territory controlled by the KRG days before the company signed a production-sharing agreement with the KRG ministry of natural resources in September 2007. A leaked diplomatic cable said that "considerable legal ambiguity surrounds the PSC with Hunt Oil, as the districts in northern Ninewa to be explored by the company are classified as 'disputed territories' under the Iraqi constitution". A senior Hunt executive admitted to the US' regional reconstruction team in Erbil at the time that the company was knowingly taking a gamble. He said the prospectivity of the block "trumps the legal ambiguities and risks".

### IRAQI KURDISTAN: Selected economic indicators

	2007	2008	2009
GDP growth (%)	-	1.5	4.3
GDP per capita (\$)	3,200	3,500	4,500
Oil production	-	-	100,000 b/d (est)
Oil proved reserves	-	-	45bn bbls (est)
Gas production	-	-	1.88bcm/d (est)
Gas reserves	-	-	3tcm (est)
<b>GDP by sector (%)</b>			
Industry	22.0		
Housing	20.6		
Tourism	19.3		
Trade	14.5		
Agriculture	6.8		
Services	1.4		

Source: KRG, Ministry of Finance, University of Salahadin

### IRAQI KURDISTAN: WikiLeaks reveals US concerns over corruption

**US EMBASSY REPORT:** A report on corruption in Kurdistan was published on the WikiLeaks website in August. The April 2009 report said: "Some potential investors complain of being 'strongly encouraged' to work with Kurdistan (silent) partners in order to gain enough business to become profitable. Some of these Kurdistan partners ask for exorbitant fees (51% of profit earned) in exchange for their services, which may dissuade small-scale investors." Contacts told embassy staff that, in Kurdistan, "corruption has permeated most aspects of life".

**ALLEGATIONS:** These included "misdirection of public funds, nepotism and cronyism in public sector hiring, government interference into contracting and private commercial activities, and a general lack of transparency in public administration and budget execution, all of which converge to provide an environment hospitable to corruption". It concluded that, overall, the KRG was attractive to foreign investors. But while there was corruption, bureaucracy and a lack of infrastructure, financial services, a skilled workforce and any vision to overcome these deficits, it was "unlikely to attract the level of foreign direct investment" it needed.

## Maktoums rule the markets as MBR takes responsibility for DIFC

While the **Dubai** PR machine seeks to persuade the outside world that all is well following the commercial emirate's debt crisis, the senior **Al-Maktoum** leadership has looked to itself to take a leading role in dragging injured financial institutions back to health. Sheikh **Mohammed Bin Rashid Al-Maktoum (MBR)** has, in many respects, adopted a conservative response to cleaning up after the debt bubble, which burst in late 2008 and continues to make waves.

The latest manifestation of the Maktoum leadership's hands-on approach comes with the announcement of laws relating to **Dubai International Financial Centre (DIFC)**, which will now be governed by a Higher Board under the control of a new president – the UAE vice president and prime minister, Dubai ruler MBR himself, who also assumes the power to call meetings of the new board and determine its duties and operating mechanisms.

The Higher Board is chaired by MBR's 27-year-old son Sheikh **Maktoum Bin Mohammed Bin Rashid Al-Maktoum**. He will take responsibility for supervising and co-ordinating the three independent authorities affiliated with DIFC – **Dubai International Financial Centre Authority, Dubai Financial Services Authority** and **DIFC Courts** – including appointing boards of directors and consultative committees. Other members of the new body are deputy chairman **Abdelaziz Al-Ghurair, Hussain Al-Qemzi, Abdul Fattah Sharaf, Eisa Kassim, Abdullah Saeed Gobash** and **David Eldon**.

Sheikh Maktoum, who attended **Rashid High School** and graduated from the **American University in Dubai** with a BA in business administration in 2005, is MBR's third son. He ascended to the largely ceremonial role of deputy ruler in February 2008, alongside MBR's brother Sheikh **Hamdan Bin Rashid Al-**

**Maktoum**, who also remains a deputy ruler. Sheikh Maktoum has since picked up several senior positions as Dubai reshuffled senior posts after the debt crisis erupted; these included the role of DIFC president.

By naming himself president of the new Higher Board, MBR appears to be asserting his authority over his son at DIFC. The move is otherwise a continuation of the trend for MBR to appoint senior ruling family members to senior positions. Most notable was Sheikh **Ahmed Bin Saeed Al-Maktoum's** recent appointment to replace **Ahmed Humaid Al-Tayer** as chairman of **Emirates NBD** and the late 2010 decision that he should take the helm at the debt-laden **Dubai World** conglomerate (*GSN 906/1*).

DIFC has been confronted with several leadership changes over recent months and years. In a surprise and largely unexplained move in July, **Abdullah Mohammed Saleh** replaced Al-Tayer as DIFC governor. Al-Tayer had only been in post since November 2009, when he replaced Dr **Omar Bin Sulaiman**, who was removed from office by MBR and subsequently faced fraud charges.

Changes at DIFC and other institutions should raise a number of questions about governance in a situation where the ruler can decree changes to the law governing the supposedly independent financial centre while appointing himself and his son as its titular heads. Meanwhile, debt questions remain outstanding, despite encouraging signs from the Dubai World and **Nakheel** restructuring deals. But DIFC and Dubai Inc may gain from elements of the 'Arab Spring' fallout: financial institutions, including asset manager **Robeco** and **French** bank **Crédit Agricole**, are relocating staff from **Bahrain**, whose emergence as a regional financial centre got an early boost from the collapse of Beirut three decades ago.

# GULF STATES



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