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GSN

Companies & People

IRAQ: Uncomfortable reading

It could make for uncomfortable reading by policy makers intent on reinforcing sanctions and Baghdad's wider isolation, but the U.K.'s export figures to Iraq are climbing rapidly. For the first nine months of 2000, British exports reached £38.9 million, compared to £30.4 million in January-September 1999. Though still tiny relative to some other states, it represents a rise of about 28 percent.

The real figures for U.K. exports to Iraq, of course, could be far higher since many companies now do business through their French or other offices well aware of the difficulties they face back home.

The *Department of Trade and Industry* is keen to maintain a tight lid on who's sending what to Baghdad through its export control section, although U.K. oil equipment is known to be much sought after by Iraq's ailing petroleum industry.

The figures come despite the imposition of a "Buy British Last" policy implemented by Saddam. THIS ARTICLE IS CONTINUED ON PAGE 14.

FOR A LISTING OF PEOPLE AND COMPANIES IN THIS ISSUE, SEE PAGE 15.

Across the Region

Sheikh Zayed is back home after hospital treatment in the U.S.A. and the U.A.E. ruler wasted no time in making plain his dissent from Washington's stance towards Iraq. Sheikh Zayed's return has also been marked by a fresh spat with Iran. The domestic agenda is less testing, and projects are expected to flow more quickly now that key princes have returned home. PAGE 6

Japan is among those relaxing constraints on business with Iraq as international support for the regime's continued isolation crumble. IRAQ BRIEF, PAGE 5

Women's voting rights could be imposed by Kuwait's constitutional court, following the launch of a new legal action by reform-minded citizen Adnan Al-Isa, who argues that the denial of female suffrage is unconstitutional. A hearing has been set for 16 January, although the court rejected four similar cases in July on procedural grounds. Should the issue come to parliament first, reform will have the firm support of Jamal Al-Omar, who snatched a surprise victory in the 10th constituency by-election. PAGE 6

Kuwaiti MPs, apparently reluctant to stir up fresh factional tensions, voted decisively against the dismissal of controversial Housing, Water and Electricity Minister Adel Al-Subaih. PAGE 6

H.S.B.C. Investment Bank has put together a big export credit package for Iranian banks, as project-related facilities gather pace. PAGE 10

Law companies are recruiting, with the promise of beach life in Dubai and litigation in Bahrain. PAGE 11

Oil development in Iraq, hydropower schemes in Iran—big ticket schemes are attracting a range of companies. PAGE 13

GSN's Analysis

Iranian students could provide critical support for Mohammad Khatami in May's presidential election; the head of state has cultivated links with their leaders, but students have been disappointed by Khatami's failure to resist the conservative backlash. When it comes to the crunch, their votes and activism will probably swing behind the president, despite the appeal of reformists outside the Islamic Republic's mainstream institutions. CENTREPIECE, PAGES 8-10

Incoming U.S. President George W. Bush could find tacit support from Russia and Iran for a military strike against Afghanistan's *Taliban* regime and their long-stay 'terrorist' guest Osama Bin Laden. The Clinton administration has already been looking at the military options. PAGE 3

Sanctions against Iraq are collapsing. As the new U.S. President settles in, it is time for a major rethink. GSN VIEW, PAGE 2

Ratings agencies see Gulf banks riding high on the oil price, but with weaknesses. PAGE 12

Yemen's Ali Abdullah Saleh is caught between a U.S. rock and an Islamist hard place as he seeks to build a family dynasty. PAGE 16

The flow of illegal immigrants into the U.K. shows how Middle East conflict can impact on European domestic politics. PAGE 14

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The U.A.E.'s Sheikh Zayed Bin Sultan Al-Nahayan is the latest Gulf leader to publicly express his dissent with the tough sanctions that remain nominally in place against Iraq. With even Saudi Arabia opening up to trade with Iraq, how much longer can the alliance that supposedly isolates Baghdad retain credibility?

Advocates of continued sanctions led by the U.S.A. and U.K. are engaged in a perpetual public relations war to demonstrate that the measures are still being applied and still work, as a means of control over Saddam Hussein. Yet, whatever the truth in these terms, Washington and London are now losing the wider political argument.

A decade of sanctions has not achieved their main aim of removing Saddam. The Iraqi dictator remains at liberty to make mischief while away from the elite enclaves of Saddam's Baathist empire his population suffers intolerably. When even the likes of Sheikh Zayed talk of bringing Baghdad back into the Arab community, it is time to wake up. The Anglo-American stance now has the perverse effect of arousing sympathy for Iraq.

Saddam's ministers are welcome visitors in a growing number of Gulf capitals; there are even hints at a shift of opinion in Kuwait, the target of the 1990 invasion. And the U.S.A., tough on Iraq but still supportive of Israel as bullets take on stones in the Al-Aqsa *intifada*, is laid open to Arab accusations of double standards. In an era of

satellite television and advancing democracy, Gulf rulers feel the heat of public opinion on this issue to an unprecedented extent. It is time for an act of diplomatic kindness and strategic realism by pro-Western Arab states, France, Russia and the other advocates of a change in policy. They should draft a new approach that could allow Washington and London to make a graceful strategic retreat to a position that can still command broad international consensus and adherence.

The key ingredients are clear: liberalised civil trade with Iraq and increased grassroots humanitarian assistance. This should be balanced with renewed U.N. monitoring of Saddam's war machine and specific measures targeted at key individuals in the regime. The latter might include the freezing of bank accounts and perhaps even the threat of indictment for human rights crimes once the new international court is in place—what better incentive does the U.S.A. need to change policy on this one too?

The advent of a new administration in the White House creates a face-saving space opportunity for such a policy change. There is no credible alternative and even a new "anti-terrorist" coalition focused on other rogue states, led by Afghanistan cannot paper over the cracks (*see page 3*). On the basis of the present hardline stance, the old U.S.-led coalition can no longer hold; it is already deeply fissured, and the cracks are widening by the day.

Perspective: Ten Years Ago

Saddam Hussein must be sitting in Baghdad wondering how many extra miles he can extract from Washington and, indeed, whether the road will lead to war at all. He is palpably playing out the pseudo-diplomatic game for all it is worth in the expectation that the coalition of forces ranged against him will simply fall apart over time.

Last week, James Baker and Tareq Aziz finally sat down together in Geneva, allowing the Americans to deliver their stern message to Iraq, while simultaneously permitting the Iraqis to demonstrate their good faith in negotiating a solution to the crisis. The upshot of the meeting was little more substantial than that.

The game the two sides are playing is now becoming dangerous, since each has locked itself into a position from which it can escape with increasing difficulty. Saddam Hussein is evidently counting on some kind of mediation to extricate himself from his present isolation. The French appear—despite vehement denials from the Elysee Palace—to be providing just this loophole. The "independent" visit to Baghdad

last week of Michel Vauzelle, chairman of the National Assembly's foreign affairs committee and a former spokesman for President Mitterrand, was simply one more example of France's lack of convincing solidarity (joint statements of common purpose during Baker's visit to Paris last week notwithstanding) with the U.S.A.

Saddam Hussein can also expect to benefit from the declining willpower of the Arab states aligned against him. Nothing substantive has been revealed of the discussions held earlier this month in Libya between Colonel Gaddafi, President Husni Mubarak of Egypt, President Hafez Al-Asad of Syria and General Omar al Bashir, the leader of the Sudanese military junta. But the simple fact that such an unlikely assortment of rulers should gather to discuss a peaceful resolution to the crisis is a sign—all too welcome to Saddam—that Iraq's Arab opponents are becoming increasingly committed to a military solution.

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2001: Year Of The Terrorist, Afghans The Target

Whoever finally emerges as U.S. President is likely to make the fight against “terrorism” a key foreign policy priority during the early months of their administration. In this crusade it is not just traditional allies such as the U.K. that will provide backing. Gulf heavyweights are also looking to act against sponsors of “terrorism”, which include some of Washington’s bogey people—although as the *Al Aqsa intifada* unfolds in the Palestinian territories, Saudi Arabia’s list of terrorist states, as well as Iran’s, is headed by Israel.

Opinions world-wide differ sharply over Israel, the nature of Palestinian resistance, Lebanon’s *Hezbollah* and Iraq’s Saddam Hussein—a terrorist who expects to come in from the cold next year. But there is consensus on the need to act on other issues grouped under the heading of “terrorist”, headed by Afghanistan and its *Taliban* rulers. As investigations of the attack in Yemen on the *U.S.S. Cole* continue to turn up links to failed or planned terrorist operations, the spectre of Osama Bin Laden—man, concept and organisation—looms large. This spectre is in the sights of politicians as diverse as Saudi Arabia’s Crown Prince Abdallah, outgoing U.S. President Bill Clinton, president-in-waiting George W. Bush’s advisor Condoleezza Rice, Russia’s President Vladimir Putin and possibly Pakistan’s embattled military ruler Parvez Musharraf.

GSN’s analysts in Pakistan report deep concern among Western diplomats about a potentially record Afghan opium crop this year, a near psychosis among the same community whenever the Bin Laden name is mentioned—and a similar response from their Iranian counterparts. The traffic in drugs, arms and other illegal goods from Afghanistan, other ‘Stans’ and Pakistan is troubling Tehran, as the flow of reports of gun battles on Iran’s northern and eastern borders indicates. The U.A.E. authorities have cause for concern at the widespread reports in the West—for which solid evidence is in notably short supply—that Dubai is a crucial trans-shipment point for such traffic.

Bin Laden still has his supporters in Saudi Arabia, but no longer within the senior leadership. But whether Riyadh will go further than provide moral support to rid itself of a troublesome former citizen and his allies is questionable. Saudi Arabia recognises the *Taliban* government, and attitudes towards Kabul were on the agenda in November when Defence and Aviation Minister Prince Sultan met Kazakh President Nursultan Nazarbayev in Astana. Kazakhstan has been moving towards

recognition of the *Taliban*, rather than joining any alliance against it.

The Pakistani authorities who once promoted the *Taliban* and Islamist militants operating against India in Kashmir (another focus for veterans of the Afghan wars) are looking nervously at groups such as *Lashkar-i-Taiba* (the Army of the Pure), *Harkat-ul-Mujahideen* and its *Jaesh-e-Mohammad* offshoot. These have the potential to pose a challenge to the established order at home. A severe setback for the *Taliban* and the network of Afghanistan-based support groups might help to rein in these potentially difficult children of the 1980s anti-Soviet *jihads*. The impact of such a move would also be felt in Saudi Arabia and Qatar, where *Wahabi* sympathisers help fund groups such as *Lashkar-i-Taiba*, its parent *Markaz Ad-Dawa Wal Irshad* and *Ahle Hadith*.

Russia has certainly had enough of the *Taliban*, and could back a strike against an enemy that may provide backing for the Chechen independence movement. It is already working with the U.S.A. within the *U.N. Security Council* on measures to target the *Taliban*. This might even outweigh Moscow’s potential discomfort at the U.S.A. mobilising the *North Atlantic Treaty Organisation’s Partnership for Peace* to back the strike. This N.A.T.O. initiative includes Uzbekistan, Kazakhstan and Kyrgyzstan—all of whose troops now train regularly with U.S. forces in Central Asia and have commandos training with *U.S. Special Forces* in Montana and Alaska. U.S. planners are eyeing the potential for using Uzbekistan as a base for any assault, including the Tashkent air base and the military base in Termez from which the Soviet Union launched its invasion of Afghanistan in 1979. Targets would include bases in northern Afghanistan including Mazar-e-Sharif, Kunduz and Taloqan—which house Bin Laden, his *55 Arab Brigade*, the increasingly prominent *Islamic Movement of Uzbekistan*, plus Chechen, Kashmiri and Chinese Uighur groups. Such an attack would be very good news indeed for Ahmed Shah Masud’s *United Front* forces.

TOWARDS CONFRONTATION?

Much has been written in recent weeks about the prospects for a U.S.-led attack on the *Taliban*, starting with an article in *The Nation*. This generated considerable speculation by publishing an article by Pakistani specialist Ahmed Rashid which said the U.S.A. and Russia were “putting together a multilateral coalition to strike at the military camps of Bin Laden, other terrorist groups

who have sanctuary in Afghanistan and Taliban military assets in Afghanistan.” Such was the U.S. journal’s enthusiasm for the story that *The Nation* suggested an attack was “imminent”—which is not what Rashid actually said. He reported the view of U.S. officials that the hands of Bin Laden and Islamist veterans of the Afghan wars were apparent in the *U.S.S. Cole* bombing and more recent incidents. Washington was building an alliance to tackle this, Rashid said, quoting U.S. officials, which could have ramifications well beyond Central Asia.

On 3 December, *The Washington Post* reported that the Clinton administration was considering a wide range of options, including military force, to punish Bin Laden if investigators concluded he was behind the *U.S.S. Cole* bombing. U.S. officials told the daily that “any military action against Bin Laden’s redoubts in the mountains of Afghanistan would be declared a ‘pre-emptive’ effort to forestall future attacks, not a retaliatory strike... That is because Article 51 of the *United Nations Charter* prohibits the use of armed force by one state against another, except in self-defence or with the approval of the U.N. Security Council.”

Those with reason to feel uncomfortable about these developments include Yemen’s President Ali Abdallah Saleh. As *GSN* has pointed out, Saleh has sought to cultivate Western support while ruling a country which harbours several radical Islamist groups, that has direct links to Bin Laden and where U.S. officials suspect several *Cole* suspects were linked to senior officials (*GSN 648/3*).

Also under scrutiny could be Gulf leaders more usually seen as pro-Western, but who are wavering over sanctions against Iraq and some of whose subjects fund the “*International Islamic Legion*” and other groups. Rashid reported that “U.S. officials say the [F.B.I./C.I.A.] investigative team has now determined that the [*Cole*] bombing was organised by an Arab mastermind who was based in the United Arab Emirates and who provided the group with finances, C4 military type explosives and instructions.” He added: “A Moroccan explosives expert who is also a key aide to Bin Laden and is still at large, is believed to have put together the bombs for the *Cole* and possibly the attempt in Kuwait.”

Outside this alliance and uncomfortably exposed by its Afghan policy is France, which has argued it is time to deal directly with the Taliban. Recent French Gulf policy has done much to anger the U.S.A. and U.K. (*GSN 649/4; 645/3*).

If the time for action is coming, the likelihood is it could still take months—unless Clinton decides to, literally, go out with a bang. This would confirm 2001’s status as the global “Year of the Terrorist”, or perhaps better, the “Year of the Counter-Terrorist”. As ever, targets will be selective.

Terrorism: Questions of definition

The issue of transnational terrorism has returned as front-page news in the Gulf and seems set to stay there in 2001. This stands in stark contrast to 1999, a quiet year for terrorism that served as a period of reorganisation and planning after 1998’s high-profile embassy bombings, retaliations and tourist kidnappings and murders. But if 2001 is a Year of the Terrorist, just what is meant by ‘terrorism’ will remain the subject of substantial debate which goes well beyond semantics.

Despite rising alert levels in the Gulf, including the draconian measures widely touted at Doha’s *Organisation of the Islamic Conference* (O.I.C.) meeting, Arab counter-terrorist communities remain divided internally and from their Western counterparts on some of the key assumptions underpinning the fight against terrorism.

Western speakers at a recent counter-terrorism conference in the U.A.E. tended to focus on the practical, operational business of new trends in terrorism and new types of threat. Their Arab counterparts and audiences were clearly focused on the more abstract, confusing moral issues that bedevil the fight against terrorism in the region.

One issue that continues to clog the arteries of debate in the counter-terrorist field is that of profiling the Islamist or “Islamic fundamentalist terrorist”. This issue throws a spotlight on the internal divisions of the Arab world and in particular between Egypt (and other North African states) and the more religiously focused states of the G.C.C. While it is clear from terrorist cells developing as far afield as the Philippines that Islamist terrorist networks are transnationally active, the motives of such networks and individuals remains a point of division.

EGYPTIAN PERSPECTIVES

Egyptian ‘men of the services’ compose a predictable feature of any gathering of the G.C.C. counter-terrorism community. Their profiles of the Islamist terrorist closely mirror Egyptian government policy and invariably stir up a hornet’s nest of debate on the issue. Islamist terrorists are unschooled in Islamic lore, Egyptian profiles suggest, and are therefore easy to manipulate by those using religion as a cover for their own essentially secular aims (such as the struggle for political representation). They are rural, without prospects and vulnerable to the group dynamics of “cult-like” terrorist cells. The solution to this class of terrorist is twin track; crack down on the leadership cadre and hit the social roots of terrorist recruitment by improving education and the economy.

This characterisation at best appears to be narrowly applicable to Egypt’s security dilemma—and says little about Islamists such as Osama Bin

Laden and Imam Abu Hamza Al-Masri, not to mention the many doctors and engineers that comprise the ranks of Middle Eastern opposition groups. When these elements are taken into account it seems clear that issues of psychology and identity are as important as those of political process, development economics and power.

The key theme is disaffection, with the Arab world as well as one's daily lot. This disaffection is as apparent in the regional counter-terrorist community as it is in their quarry. Arab counter-terrorist operators find it simple to conjure an understanding, if not sympathy, of the roots of Islamist terrorism. This empathy is evident in the recurrent focus at such events on two issues; the definition of terrorism and discussion of international co-operation in the field. Though Western participants clearly prefer to pass over such intractable and time-consuming issues, their Arab counterparts—mirroring Arab society in general—are happy to mull over the issues in long and ponderous debates about moral and legal responsibilities. Regional counter-terrorist operators are fascinated by what counter-terrorist “mentor states” in the West say and do about the issue, and, in particular, the inevitable difference between the two. They are also interested in gauging what their responsibilities are in international counter-terrorism agreements and set impossibly high standards of moral and legal consistency in critiquing such treaties.

The nub of Arab discomfort is the regional recognition that asymmetric war-fighting strategies like terrorism are the only recourse for disaffected Arab peoples like the Shia of southern Lebanon and the Palestinians. There is no coldly rational view of terrorism and the word is only used to construe its negative moral connotations—such as Israeli “state-terrorism” in contrast to Palestinian “heroic resistance”. Events in the Levant and Yemen show that issues like the Arab-Israeli conflict and the presence of U.S. forces in the Gulf are still as important as those poor education, economic prospects and political participation as drivers of terrorism. Until such issues are resolved one cannot expect G.C.C. thinking on terrorism to move far forward.

Neither will there be great change until Arab states see the West meeting some of their key concerns—especially by taking action against opposition militants based abroad, notably in London. Moves such as the U.K. High Court ruling that Khalid Al-Fawwaz—a Saudi dissident allegedly linked to Bin Laden's *Al-Quaida* movement through the *Advice and Reformation Committee*—should be extradited to the U.S.A. to face conspiracy-to-murder charges will be closely watched in the Gulf. So will U.K. attitudes towards Abu Hamza and other militants who gather around Finsbury Park and similar radical mosques.

IRAQ BRIEF

• **AIRCRAFT TO RETURN**—Jordan and Tunisia have agreed to return ten *Iraqi Airways* passenger jets they had been holding since January 1991. Baghdad has sent officials to collect the planes—although one must assume that technical checks and repairs may need to be carried out before they can be used again. The planes will eventually be used again for civil service, Foreign Minister **Mohammad Said Al-Sahaf** told the National Assembly. It is hard to imagine they could all be viably employed in the small domestic market. The news will come as a blow to the cottage industry of legal firms, sleuths and others retained during the past decade to impound the aircraft as reparations for **Kuwait**.

• **SYRIAN LINK**—Iraq is talking up its ‘right’ to start shipping exports of crude oil through the recently reopened pipeline to the Syrian port of Baniyas, without seeking prior approval from the *U.N.* Security Council. The link has not been used since a 1981 rift between the rival exponents of **Baathism** but a recent thaw in relations has removed that political hurdle. U. N. *Resolution 986* specifies that approved exports must be shipped either through Ceyhan in **Turkey** or Iraq's Gulf port of Mina Al-Bakr. Diplomats now insist that the resolution also allows Iraq the right to use the Syrian connection; moreover, they argue, “Iraq can do what it wants to do so as to act in its own interests.” They are quick to reassure interlocutors that this will not represent an attempt to collect oil payments from crude buyers outside the U.N. escrow account that services the internationally supervised oil-for-food scheme. However, once again, Baghdad is clearly seeking to loosen the constraints of sanctions—by questioning the validity of a practical detail while in theory promising still to abide by the spirit of the rules.

• **SYRIAN PRISONER RELEASES**—Another sign of Baghdad's rapprochement with Damascus came on 16 November when President **Bachar Al-Asad** announced an amnesty for some 600 political prisoners. These included around 30 Syrians who were members of the so-called Iraqi Baathist groups, the **Baath Regional Command** and the **Democratic Baath**.

• **TRADE BOOM WITH JORDAN**—Commercial flows are forecast by officials to top \$2 billion next year (*GSN 647/16*). The bilateral trade protocol has been set at \$400 million but overall business flows should easily outstrip that. There is already a memorandum of understanding covering Jordanian industrial exports—which could well include third country products that are merely packaged, re-labelled or part-processed in the kingdom before shipment on to Iraq—and private sector business is likely to develop.

• **JAPAN OPENS UP**—After applying sanctions so strictly that its companies complained of being at a commercial disadvantage to European and North American rivals, Japan is quietly moving back into Iraq. Tokyo is not completely scrapping its bar on exports, credit or investment, but recent moves do prepare the ground for a further relaxation of controls later on.

• **U.S. CAMPAIGN**—Campaigners against sanctions are being circulated with invitations to send e-mails of thanks to U.S. congressmen who have advocated a relaxation of the sanctions regime, such as Representative **Tom Campbell**—who was defeated in a bid for election to the senate in November's elections.

KUWAIT: By-election result

For Kuwaiti liberals, last week's crucial by-election in the 10th constituency brought a silver lining with the cloudy news of a humiliating seventh place defeat for *Democratic Bloc* candidate Yusuf Al-Shayji, political heir to the late and much respected former M.P. for the area Sami Al-Munais. Against all expectations, victory was snatched by the independent Jamal Al-Omar, a firm advocate of women's voting rights.

The heterogeneous Al-Jabriya district delivered Omar, a Sunni, some 376 votes—the bedrock of his 873 to 798 vote defeat of second-placed Dr Jassim Al-Omar. Reading the tea leaves of a contest where the electorate is so small is a necessarily uncertain exercise. But the by-election appears to show that personality and a constituency base often count for more than religious or political affiliations; the new M.P. had already dug a local toehold with 300 votes in the 1999 election. The 10th constituency has strong groups of both Shia Islamists and liberals, yet neither seems to have voted for their interest-group standard bearers (*GSN 650/6*). The election also appears to show that Kuwaiti electors are not afraid of modernisation. Omar, with university degrees in both literature and commerce and industry, seems to be something of a liberal without the label.

Indeed, this assessment of the Kuwaiti mood is also consonant with the parliament's decision not to force the resignation of Housing, Electricity and Water Minister Adel Al-Subaih—a move that could have provoked the departure of the entire cabinet. The nominal grounds on which Subaih was subjected to a confidence vote on 4 December was his interest in a family construction firm, inherited from his deceased father (*GSN 650/1*).

But what had rendered Subaih politically vulnerable in the first place was his readiness to rethink housing subsidies. Although the enormous financial resources at the government's disposal creates no immediate pressure for any change, Subaih had dared to suggest that it was time that the Emirate's prosperous citizens were weaned off some of the more generous perks of their welfare state.

This policy could prove financially far-sighted—or mean, depending on one's point of view—if the government continues its little-by-little extension of nationality rights to *bidun* (long-term, largely Arab Bedouin, residents denied full citizenship). But it did not play well with residents accustomed to getting a home of their own, on featherbed-soft loan terms, the moment they married.

In the event, only 19 M.P.s—six short of the

number required—favoured Subaih's dismissal when the vote was finally taken. Three abstained and, in a parliament that often demonstrates a solid anti-government majority, a confidence boosting 26 cast votes in favour of the minister.

Like the by-election that was to follow, the parliamentary debate reflected a clear reluctance to see Kuwaitis divided on religious or interest group lines. Several speakers warned that the Subaih issue had created division between tribal and rural communities and between Sunnis and the 30 percent Shia minority. Subaih, from a rural trading family, had been depicted as something of a hard-faced moderniser. Some tribal and Shia politicians were among his fiercest critics.

U.A.E.: Sheikh Zayed returns to a testing agenda

Ruler of Abu Dhabi and U.A.E. President Sheikh Zayed Bin Sultan Al-Nahayan has returned home from hospital treatment in the U.S.A. to a crowded and discouraging international agenda. Like other Western allies, his government has felt impelled by the Israeli-Palestinian conflict to distance itself from Washington's tough stance towards Iraq, and it has also become embroiled in a fresh verbal dust-up with Iran over the disputed islands of Abu Musa, Greater and Lesser Tunbs.

The torrent of oil money continuing to flow into Abu Dhabi's already well-filled coffers spares Sheikh Zayed the sort of economic worries that greet most returning heads of government after a long stint away. Some project decisions have been delayed and the long-term drive to increase the role of Emiratis in employment has made less headway than he might have liked. But day-to-day administration of the U.A.E., effectively in the hands of Abu Dhabi Crown Prince Khalifa, has operated without serious hitches during Sheikh Zayed's months of absence.

In terms of personal popularity, Sheikh Zayed remains as widely revered as ever; he returned to a huge popular welcome and has been quick to make his presence directly felt—for example, visiting a local beach to talk to families relaxing at the start of Ramadan.

THOSE ISLANDS AGAIN

But on the foreign relations front, his first new initiative met with a rather more testing reception. Using his 1 December national day speech to appeal for serious, direct negotiations over Abu Musa and the Tunbs islands—or a referral to the *International Court of Justice* (I.C.J.) on the issue—Sheikh Zayed stirred a pugnacious response from Tehran. Describing U.A.E. claims to

the islands as “baseless assertions”, Iranian Foreign Ministry spokesman Hamid Reza Asefi insisted they were an inalienable part of Iran. Although Asefi went on to reiterate Iran’s willingness to engage in unconditional talks on the dispute, Tehran is known to oppose any involvement by a neutral outside organisation, such as the I.C.J. A mediation effort by the foreign ministers of Oman, Qatar and Bahrain, launched in 1999 by the *Gulf Co-operation Council*, has yet to make headway.

It may be that, with a presidential election approaching, the administration of President Mohammad Khatami feels it cannot afford to look soft on patriotic issues. The Emirates provide a conveniently unthreatening target for nationalistic grandstanding. Meanwhile, some sources claim that the U.A.E. feels that it should have had more vigorous support on the issue from Saudi Arabia (which has been trying to improve its own relations with Tehran).

This public wrangling has not stopped the active trade flows between the U.A.E. and Iran. With 100,000 Dubai residents of Iranian descent there is strong underlying social and economic pressure on both sides to ensure that the diplomatic dispute does not disrupt the wider relationship.

PALESTINIAN/IRAQI LINKAGE

The violent confrontation between Israel and the Palestinians has injected an edge of difference into relations with the U.S.A. and U.K. Young Gulf citizens joined local expatriate Palestinians in protest demonstrations over the situation and, back on home turf, Sheikh Zayed has been quick to give high priority to the issue.

U.A.E. officials have bluntly pointed out to Washington that the strength of popular feeling about the plight of the Palestinians limits their room for manoeuvre. It was easier for them to support a tough line against Iraq before the “Al-Aqsa *intifada*” broke out.

Although the U.A.E. continues to provide practical support for *Operation Southern Watch* air patrols over Iraq, officials privately complain of U.S. “double standards” in taking a harsh line on the enforcement of *U.N.* rulings against Saddam Hussein while not applying comparable pressures to Israel. Abu Dhabi makes no secret of its belief that generalised sanctions against Iraq should be abandoned. On this issue it is firmly aligned with Russia and France, rather than the U.S.A. and U.K.

In his 1 December speech, Sheikh Zayed pressed for international action to end what he described as a “stifling crisis”. He sees Iraq’s present isolation as a recipe for potential instability and is now pressing openly for “reconciliation and reviving Arab solidarity” so that Iraq can be reintegrated into “the Arab circle”. Given the U.A.E.’s decision to reopen its embassy in

Baghdad last April, this policy stance is unsurprising; only Saudi Arabia and Kuwait now refuse any direct contacts with Iraq.

However, Sheikh Zayed has not allowed this to colour his judgement on hard financial and military issues. The French, traditionally the dominant military supplier to the U.A.E.—with an estimated 60 percent market share of defence sales over the past two or three years—has been dismayed to see a \$6.4 billion warplane order placed for U.S.-made F16s.

Indeed, this is one major expenditure decision that was not disrupted by the long absence in the U.S.A. of the president and some 1,000 family members and retainers. Everyday government was left in the hands of Prince Khalifa, crown prince and vice-commander of the army; Vice Prime Minister Prince Sultan also stayed behind. But most of other key family members have spent much of the past few months in Cleveland, where Sheikh Zayed was being treated at the *Mayo Clinic*. Those of the Ruler’s 19 official sons who have spent much of the past few months in Cleveland and London include Sheikhs Mohamed (Chief of Staff), Hamdan (Foreign Minister), Azza (head of the state security service), Issa (Under Secretary of State for Public Works), Saif (Under Secretary for the Interior), Nahayan (Deputy Commander of the Royal Guard), Tahnoun (head of Zayed’s private office), Dhiab (director of the presidential court and head of the *Abu Dhabi Water & Electricity Authority*—a key job in the midst of utilities privatisation), Abdullah (Information and Culture Minister), Said (head of the ports administration), Mansour (head of the office of the head of state), Omar (Zayed’s aide-de-camp) and Falah, who has no official post.

The absence of so many key players has inevitably slowed the wheels of planning and decision-making; but government has certainly not ground to a halt. Moreover, neither the persistence of this family-dominated government structure, nor the princes’ prolonged absence in the U.S.A., appears to have aroused resentment among Emiratis. There is little sign of any grassroots pressure for Abu Dhabi, or even the U.A.E. as a whole, to emulate the democratisation moves now under way in Bahrain, Qatar and Oman.

While the short-term political outlook and the financial situation appear comfortable, Sheikh Zayed’s return may mark the focus of fresh attention on long-term development issues such as “emiratisation” in employment and major infrastructure projects. Prequalification offers have now been invited for a 100 million gallons per day desalination plant at Fujairah, a 100 megawatt -200 megawatt power plant and a 180-kilometre aqueduct between Al Ain and Qidfa; the combined value of this project portfolio could top Dh1 billion.

The Anatomy Of Student Power

When on 6 December, Mohammad Khatami made headlines by saying he still had no adequate authority to do his job or to make the rule of law prevail in Iran, the reformist president did so in front of thousands of students at Tehran's Tarbiat-e Modarres (Teacher Training) University. It was no surprise that a student audience should have such prominence. The Iranian student movement has a long and often honourable history of protest, but it came of age in the campaign to elect Khatami in 1997—and could play a crucial role when elections are held for president again next May.

Like Ayatollah Ruhollah Khomeini before him, Khatami went out of his way to cultivate the student movement, in particular the new national student organisation, the *Office for Consolidating Unity* (O.C.U.), in whose headquarters he effectively inaugurated his presidential campaign. The O.C.U. that backed Khatami in 1997 was effectively a co-ordinating organisation based in Tehran, whose central committee comprised delegates elected from student organisations around the country. Its committee was elected every year and adhered strictly to democratic practices with an annual changeover in personnel.

This national organisation was repeated at provincial and local levels, meaning that the student movement represented a complex web of networks co-ordinated but not dictated by the centre. Tehran is a focus: successive governments, which had regarded universities as an important tool in nation-building, imposed centralised selection, with the best allocated to Tehran. The consequence is a student body that was truly national in its composition and make-up; student leaders in Tehran come from a variety of social and geographical backgrounds with which they retain strong links.

Students' political integration into society was encouraged by Khatami and the reformist camp—many of whose leaders had previously been pillars of the student community, including Asgharzadeh and Abdi, both involved in the seizure of the U.S. embassy. Now both were active with the reformist movement, Abdi as editor of the influential leftist newspaper *Salaam*.

Khatami recognised the student movement's political importance in ideological and organisational terms. It gave him a social reach denied to his better funded opponent. In return, students gained access to the corridors of power, and were promised a considerable liberalisation of

the political process. In short, the 'democratic', 'republican' promise of the revolution would be fulfilled. One of the first tasks of the new Interior Minister Abdullah Nuri was to sanction a debate on the role of the rule of the jurisconsult—*velayat-i-faqih*—in Tehran University. This move outraged the conservative right, who regarded it, with some justification, as the start of an open assault on their religious and political authority.

CONSERVATIVE BACKLASH

Just as the reformists sought to develop civil society through the universities and the media, so the conservatives realigned their forces against these two pillars of the reformist establishment. In the first year after Khatami's election the tell-tale signs of campus disruption and assaults by vigilante groups were becoming apparent. These were by-and-large contained, despite growing student frustration at the lack of official police response to these attacks.

However, the situation took a marked turn for the worse in the summer of 1999, when the Majlis (parliament) decided to ratify a much more rigorous press law and to use its new powers to close down *Salaam*. Students had protested the suspension and banning of other papers before, but this move was of an altogether different significance because of *Salaam's* close relationship to the student movement. When Islamic vigilantes decided to suppress a hastily organised protest, the student movement was convulsed into action and Iran witnessed the most extensive demonstrations and rioting since the foundation of the Islamic Republic; this shook the conservative establishment. While over 1,000 students were arrested, hundreds of policemen were detained for actions that many compared unfavourably to the Shah's decision in 1962 to send paratroopers onto the campus.

Far from cowering the student movement, the assault seemed only to galvanise it further. Attempts at repression seemed only to confirm to students the profound righteousness of their cause—change had to be fought for, and it would undoubtedly carry a cost. Politically aware and well read, few doubted the magnitude of the task, nor its importance. However limited their achievements might be, it was important to carry forward the process of political emancipation begun by their spiritual forebears in 1906 (*see box*).

It was with considerable zeal and enthusiasm that the student movement faced the elections to the sixth Majlis in February. Yet ironically, it was in

the aftermath of that dramatic election victory that the first serious fissures emerged between Khatami and the student movement. Caught up in a mood of triumphalism, the entire reformist movement was surprised to be suddenly out-maneuvred by determined and desperate conservatives. It was a fatal miscalculation, and in the reformists' attempts to be magnanimous in victory they inadvertently handed the political initiative to their opponents (*GSN 646/13; 645/8*).

Many students felt the reformists were compromising too far, but were equally adamant that they should not offer any pretext for a clampdown. Since the conservatives did not need a pretext, this policy of "calm" seemed by some to be misplaced. Khatami was criticised for not having held his ground in the face of the mass closure of the newspapers, while the riots in Khorammabad last summer, which stretched over one week, revealed that when provoked the students would hit back.

There is undoubtedly a growing level of frustration among students. However realistic their assessment of contemporary Iran, there are

frequently times, especially in the light of judicial cover-ups, when frustrations boil over—such as last summer, when police arrested for an assault on university dormitories were acquitted, while the lawyer defending the students was arrested. Or when the conservative judiciary issued a strong rebuke for the student unrest in Khorammabad, while the presidential inquiry condemned Islamic vigilantes who had initiated the attack.

Few students have any illusions about the nature of the task ahead, and hopes that change can be encouraged through peaceful protest are fading. There are clear signs that some students groups, especially in the more technical and scientific schools, where tolerance of Islamic dogma is at its lowest, want a more robust approach.

The student movement may be down, but it is definitely not out. The Interior Ministry has calculated that, despite the press ban, there are some 1,000 underground student publications circulating on student campuses. Despite the short-sightedness of members of the conservative establishment, others are increasingly aware of the

A Century Of Protest For Iran's Radical Students

For much of the last century, and in particular since the establishment of Iran's first Western style university in Tehran in 1935, students have played an influential and often critical role in the political life of the country. Reflecting the high esteem with which most Iranians hold education, the student body was generally regarded as the vanguard of ideological and political change, as well as economic development through the scientists and bureaucrats universities produced. If governments rarely appreciated their regular forays into politics, and sought on occasion to suppress student activism, that only served to further convince students of their social and political importance.

Iranian intellectuals played a vital role in inaugurating and leading the Constitutional Revolution in 1906; most contemporary students trace their intellectual heritage to that first serious challenge to monarchical autocracy. After the foundation of *Tehran University*, and in particular during the oil nationalisation crisis of 1951-53, Iranian students came into their own as a political force. Following the restoration of autocracy in 1953, students continued to agitate, leading in 1962 to major rioting on the Tehran University campus, which to considerable popular astonishment was suppressed when the Shah unleashed his elite paratroopers against the students. Emboldened by a strengthening economy, the Shah sought to further control the university campuses that were being founded throughout the country, and for much of the rest of his reign, student discontent went either underground, or abroad.

Indeed, for much of the 1970s, student militancy seemed to be more active among wealthier middle class students sent abroad for their education. With over 70,000 students studying in Europe and the **U.S.A.**—many of whom were acquiring a taste for Marxist revolutionary politics—Iranian students abroad formed a critical front in the gathering movement against the autocracy of the Shah. Organised in both Islamic and secular groupings, their alienation from the Shah's regime was one of the fundamental failures of the **Pahlavi** regime—a failure made more stark when one considers that the development of higher education was a central aspect of its policy. Where the Shah sought technocrats and bureaucrats, he was instead acquiring critical thinkers who increasingly viewed monarchy as a bastion of tradition and obstacle to progress. Where the Shah failed to cultivate loyalties, the **Shia** clergy moved in with ruthless efficiency. **Ayatollah Ruhollah Khomeini** thought students one of his most vital constituents, and went to great lengths to ensure their loyalty, such that as a social group both within and outside Iran they played a crucial role in toppling the Shah and consolidating Khomeini's authority. It was students in the *Line of the Imam*, after all, who seized the **U.S.** embassy.

Under the Islamic Republic, Khomeini may have dealt ruthlessly with other temporary allies, but he remained steadfast in his support of the student body. Although students with rigorously Marxist outlooks were marginalised, and increasingly driven into exile, the vast majority of the student body who could lay some claim to Islamic values were incorporated and protected by Khomeini's new hegemony. This may at first sight appear odd, given the general perception of Khomeini as an austere conservative cleric, but this was not how many students saw it. For all his traditional sartorial style, Khomeini was regarded by many students as a maverick cleric, eager to modernise the faith and restore some cultural balance and equilibrium to the deposed Shah's modernisation programme. Khomeini reciprocated this appreciation—thus to this day, the regime has held Friday prayers for Tehran within the University campus, a gesture which emphasised the student body's centrality to the revolutionary cause.

potential political problems which could arise from the alienation of students. Most of them, after all, have sons and daughters who are themselves students.

STUDENT 'ELECTION'

The official *Islamic Republic News Agency* (I.R.N.A.)—itself now a considerable voice of reform—reported the results of a mock presidential election at Tehran University's Faculty of Law. These showed that President Khatami would probably face few serious problems in winning next year's presidential election, I.R.N.A. said.

In the 5 December mock election students could

vote either for Khatami or for one of two rivals, Ezzatollah Sahabi or Ali Akbar Velayati. The three were chosen to represent three dominant political tendencies in Iran: reformers working inside the ruling system (Khatami), reformers outside the system (Sahabi) and conservatives (Velayati). Of the 400 students who participated, 199 voted for Khatami, 142 for Sahabi and 46 for Velayati; 13 students cast invalid votes.

See *GSN Extra* (online and in PDF files) for an update on recent student/reformist moves in Iran, and further analysis of student politics in the Islamic Republic of the 1980s and 1990s.

Finance

IRAN: H.S.B.C. pioneers \$500 million credit line

In a move that will open up new channels of funding for Iran's infrastructural development, *H.S.B.C. Investment Bank* has concluded a deal with six local banks to raise \$500 million for project financing needs.

An H.S.B.C spokesman told *GSN* that an agreement had been signed with six Iranian banks "for future infrastructure and capital investment projects in Iran." No specific projects have yet been identified, but the deal sets out a framework under which funds can be sourced and backed by export credit agreements. The deal "basically sets a framework for that to take place," the spokesman said. Local banks involved in the initiative include *Bank Mellii Iran*, *Bank Mellat*, *Bank Saderat*, *Bank Sepah*, *Bank Tejarat* and the *Export Development Bank*.

H.S.B.C. opened with a representative branch in Tehran in October 1999—Iran does not offer full banking licences; since then it has opened up various lines of trade finance and is now moving into project finance. Under the agreement, H.S.B.C. will form syndicates for projects nominated by the local banks, which will attract state insurance cover from the export credit agencies including *Coface* (France), *Hermes* (Germany), *Sace* (Italy) and the *Export Credits Guarantee Department* (U.K.). "It is very important to the Iranians—they will need a lot of investment," H.S.B.C. said.

Among deals under way, *Deutsche Bank* is completing its *National Petrochemicals Company* financing, which was raised from Euro575 million (\$82.9 million) to E800 million due to bankers' appetite among for Iranian risk.

President Mohammad Khatami is keen to accelerate growth, which could lead to a flurry of

new projects in energy and other sectors in the coming year. The government hiked its expenditure plans for 2001 in the recent budget by nearly 25 percent in the wake of higher oil prices, although the authorities still opted for a fairly cautious \$20 per barrel oil price.

Trade finance market bullish

The trade finance market is generally bullish about Iran—with the Cardiff-based *NCM Credit Insurance* among insurers who have eased terms in recent months.

Basic trade instruments such as letters of credit are as ever in demand, but the price of confirming LCs for the big local banks has fallen dramatically as Western risk perceptions—buoyed by the oil price rise—have improved. LCs may now be discounted at rates of under 2 percent over Libor, compared to 8-10 percent during the emerging markets storms of 1998-99. This trend has been helped by a solid repayments performance, especially since *Bank Markazi* introduced 12-month local refinancing arrangements. The central bank's move allows beneficiaries to be paid at sight.

Gulf Currency Box

	\$	£	Euro
Bahrain	0.3770	0.5467	0.3348
Iran	1,747.50	2,533.88	1,551.87
Iraq	0.3124	0.4530	0.2774
Kuwait	0.3063	0.4441	0.2720
Oman	0.3851	0.5583	0.3420
Qatar	3.6408	5.2791	3.2332
Saudi Arabia	3.7503	5.4379	3.3304
U.A.E.	3.6730	5.3259	3.2618
Yemen	164.390	238.366	145.987

Source: *Financial Times*.

Business Trends

G.C.C.: Wizard results from Oz

Australia's increasing engagement with the Middle East region is no better illustrated than through its export statistics in the Gulf which virtually doubled between 1995 and 1999 to around A\$2.8 billion (\$1.53 billion). Nearly half of that figure, about A\$1.3 billion, went to Saudi Arabia. The proportion of exports derived from the manufacturing industries also jumped to one-third during the same period reducing the previous heavy emphasis on primary products.

Damian Fisher, a senior trade commissioner at the *Australian Trade Commission (Austrade)* in Riyadh, told *GSN* that major growth items included vehicles—there are many Australian-built *Toyota*, *Ford* and *General Motors Chevrolet* cars in Riyadh and Jeddah—which could be attributed to the diversification of Australian exports since to the Asian economic meltdown, as well as positive demographic changes in the Middle East. “The relaxation of F.D.I. [foreign direct investment] rules in Saudi Arabia will lead to increased interest and growth in Australian F.D.I. in Saudi Arabia generally” he said.

“The growth of Australian companies who have set up regional operations in Dubai to capture business in the G.C.C. has grown considerably over the past few years. There are well over 70-plus companies based in the U.A.E., and the numbers are growing sharply.”

Australian Trade Minister Mark Vaile—who visited the Gulf earlier this year—said recently that he felt Oman, Qatar and Kuwait were highly promising markets in the region alongside Saudi Arabia and the U.A.E. Austrade, which has two representative offices in the Gulf—in Riyadh and Dubai—will be looking to tap more business. Vaile's visit preceded Riyadh governor Prince Salman's trip to Australia—the most senior Saudi ever to visit.

SAUDI ARABIA: Aramco cyberspace

While Riyadh struggles to contain some of the less desirable content dragged through the worldwide web on a social level, *Saudi Aramco*—the kingdom's flagship revenue earner—is pushing the net to the limits at the professional level. Aramco executive Ibrahim S. Mishari outlined the oil giant's e-commerce strategy at a recent I.T. gathering in the Gulf arguing that people should “seize the unknown” and embrace the internet.

Mishari said the Aramco intranet had now become a centre of knowledge sharing within the company “connecting the minds” of 30,000 people nationwide. “We have embraced the internet as a

source for powering our people's knowledge,” said Mishari, Aramco's vice president of information technology. He was speaking at the *Gulf Internet 2000* symposium in Dammam in late November. He added that Aramco had successfully implemented a pilot e-shopping system, enabling instant online purchasing and is participating in national e-commerce initiatives.

U.A.E.: “Weekends at the beach” for lawyers

Offering ‘weekends at the beach’ in its promotional literature, *Clifford Chance* is looking to attract top-flight lawyers to its Dubai practice in response to the growth in activity in the MENA region. The international law firm—under recruitment partner John Holmes—said that the urgent need for infrastructure development has encouraged Gulf governments to push for private sector participation and financing techniques, with privatisation programmes transforming the landscape. “This is a region in metamorphosis and for lawyers it offers a chance in a lifetime opportunity,” it said.

Dubai is the firm's only office in the Gulf and covers all the G.C.C. states plus Jordan, Egypt and Pakistan. It is split into three core areas—banking and finance, company/commercial and dispute resolution. It also operates a close-knit network of relationships with local Gulf law firms and expects to see its acquisition finance practice expand due to demand.

The firm's banking and finance practice has worked on a series of high profile deals in the past including Qatar's Ras Laffan project, and is advising on the privatisation of *Saudi Telecom* and *Oman Telecom* as well as port and airport privatisations in Oman.

In Abu Dhabi, it is advising on the financing and formation of the Saadiyat Island offshore financial centre, which aims to create a globally significant Middle Eastern financial centre but which has made little headway (*GSN 646/11*).

BAHRAIN: Norton Rose appointment

Litigation lawyer Abdullah Mutawi has joined *Norton Rose* in Bahrain. The U.K.-educated Palestinian, formerly assistant legal adviser to the *International Transport Workers Federation*, will lead the MENA dispute resolution practice. He also spent four years at *Hill Taylor Dickinson* specialising in shipping, insurance, energy and general commercial litigation with an emphasis on the Middle East, and has worked on a number of international and regional maritime disputes.

Ratings Agencies Overall Positive On Banks' Outlook

The world's major ratings agencies are placing their bets on a Gulf banking sector riding high on the wave of an oil bonanza. There are certainly promising signs: the *Bahrain Monetary Agency (B.M.A.)* has just announced the arrival of new faces in the offshore banking sector and a growth in total assets up to more than \$90 billion—a sizeable jump from under \$80 billion last year. New arrivals in the country's offshore sector include *ANZ Investment Bank* and Turkish players *Turkiye Is Bankasi* and *Kocbank*.

Among the Gulf states, the average bank rating is pretty sharp when compared to elsewhere in the Middle East and other emerging markets. But there are still inherent weaknesses in the Arab banking sector and the mood could yet turn sour with an increase in competitive pressures forcing local institutions to think through their strategies very carefully.

In Bahrain, *Moody's Investors Service* assigns ratings to two onshore banks—*National Bank of Bahrain (N.B.B.)* and *Bank of Bahrain & Kuwait (B.B.K.)*—and five other offshore banks: *Investcorp Bank*, *Gulf International Bank (G.I.B.)*, *Bahrain International Bank (B.I.B.)*, *B.M.B. Investment Bank (B.M.B.)* and *Arab Banking Corporation (A.B.C.)*.

At present, the Moody's ratings (foreign exchange rating followed by financial strength rating) stack up as follows for the offshore sector: *Investcorp* and *G.I.B.* both BAA2 and D+; *B.I.B.* and *B.M.B.* both BA2 and D; and *A.B.C.* BA1 and D.

For the onshore banks, an assigned rating of BA2 for both *N.B.B.* and *B.B.K.* is respectable enough although both remain constrained by the ceiling in foreign exchange deposits. "They have been stable over this year," a Moody's analyst told *GSN*. "After the low oil price period in 1998-99 some of those ratings were under pressure and were going down following the Asian crisis."

G.I.B. and *A.B.C.* were two of the banks that suffered as a result of a high exposure to the Asian market although times have moved on. "Since then both banks have been doing quite well," he said. Indeed, *A.B.C.* posted strong profit growth for the first three quarters of this year. The bank achieved net profit of \$98 million, 15 percent ahead of the \$85 million reported in the corresponding period last year and reported total assets of \$25,152 million, also slightly up on 2000.

There are other positive indicators too. "The

negative effect that low oil prices have on asset quality has subsided," said the analyst, adding that the outlook for oil prices is generally regarded as favourable. This "has positive implications on the growth of the countries and the asset quality of these banks."

Yet despite these positive pressures, the ratings have not been upgraded. "There are issues that

Fitch: Long- and short-term foreign currency ratings

BAHRAIN

Arab Banking Corporation: BBB- (BBB minus) rating watch negative long-term; F2 rating watch negative short-term

Bahrain Middle East Bank: BBB- rating watch negative long-term; F3 rating watch negative short-term

CYPRUS

Bank of Cyprus: A rating watch negative long-term

EGYPT

Egyptian American Bank: BBB- long-term outlook stable

JORDAN

Arab Bank: AA- rating watch negative long-term; F1 rating watch negative short-term

Arab Jordan Investment Bank, *Cairo Amman Bank* and *The Housing Bank*: B+ (B plus) long-term outlook stable

LEBANON

Al Mawarid Bank SAI, *Allied BSN Bank* and *Banque Saradar*: B+ long-term outlook negative

OMAN

Bank Dhofar Al-Omani Fransi, *Bank Muscat International* and *Commercial Bank of Oman*: BBB- long-term outlook stable

QATAR

Qatar National Bank: 'BBB' long-term outlook stable; F2 short-term

SAUDI ARABIA

Al-Rajhi Banking & Investment Corporation, *Saudi American Bank* and *Saudi Hollandi Bank*: BBB+ long-term outlook stable

U.A.E.

Commercial Bank of Dubai: A rating watch negative long-term

National Bank of Dubai: A+ rating watch negative long-term; F1 rating watch negative short-term

Union National Bank: A rating watch negative long-term; F1 rating watch negative short-term

Source: *Fitch*

we are looking at," he said. Before making any alterations in the ratings, banks must work through any strategic changes first. "We need to see how they are managing their strategic decisions," said the analyst.

Among these issues, G.I.B. is working on closer integration with *Gulf Investment Corporation* which needs time to work through; it is also getting into investment banking areas. Before a ratings upgrade is considered, "it needs to digest that," said the analyst.

A.B.C.'s international strategy is under close scrutiny from the agencies. "A.B.C. has a new strategy to expand in the Middle East and we welcome that but we need time to see how it pans out," he said.

Another agency, *Fitch*, in early December harmonised all of its Arab bank ratings following its acquisition of *Thomson Bankwatch*. These are shown in the table on page 12.

With a banking sector in flux, it will be a testing time for the ratings experts to monitor who's winning and who's losing.

Regulation of the banking sector is another key area for the experts in order to assess the manoeuvrability of the banking institutions—although here the Gulf scores quite well. One analyst said that although there was always room for improvement "we are comfortable and happy with the way banks are being regulated."

As *GSN* has reported before, the B.M.A., for example, has asked banks to improve their risk management institutions position with the agencies. The *Central Bank of the U.A.E.* is also looking to ward off criticism by increasing transparency. This seems essential if banks are going to compete globally. "We always look at how strict the regulators are," said the Moody's analyst.

Resources and Industry

IRAN: German team eyes hydro plant

A German consortium led by *Philipp Holzmann* has inked a memorandum of understanding to build a 1,500-megawatt hydroelectric plant on the Bakhtiari river.

The consortium, which also includes *Voith Siemens* and *Lahmeyer International* signed the deal with the *Iran Water & Power Development Corporation* and the Iranian Ministry of Energy in Tehran at the end of November.

A spokesman for Philipp Holzmann—which is expected to undertake construction and management of the project—told *GSN* that the site was very remote in the mountains outside the city of Dezful in the district of Bakhtiari.

"This project will be a huge one," he said. The project is expected to cost around DM1 billion (\$XX million) and to take up to five years to complete. Technical and contractual details are still being worked out. "The project is just at the planning stage. What we have is a memorandum of understanding that says we are doing this project. We don't have the technical and business details at the moment."

Philipp Holzmann will assume overall control of the project. *Voith Siemens* is expected to work on the generators while *Lahmeyer* is expected to act as engineer. "First we have to do the technical planning and to manage the technical data—how high the dam will be and how it will be built," the spokesman said. The dam is not expected to be very wide but will be very high.

German export credit agency *Hermes* has expressed its interest in supporting the foreign portion of the project financing, subject to the results of the technical and business planning.

IRAQ: Joint bid for Tuba field

Algeria's increasingly ambitious state energy firm *Sonatrach* has teamed up with Indian grouping of *Oil & Natural Gas Corporation Videsh (O.V.L.)* and *Reliance Industries* to pursue the development of Tuba oil field in southern Iraq.

The two sides signed a memorandum of understanding in London to work together to win the projected \$500 million development contract, as well as other opportunities elsewhere.

O.V.L., the foreign arm of the Indian state's *Oil & Natural Gas Corporation (O.N.G.C.)* has been negotiating with Baghdad for three years for rights to the Tuba field, which could produce up to 180,000 barrels of oil a day.

The Indian firm carried out exploration work in Iraq in the mid-1970s in the Western Desert which resulted in a discovery well, Abu Khaima. It has shortlisted Iraq as one of its target countries for overseas exploration and development opportunities and is pursuing more exploration prospects in the Western Desert area.

Sonatrach is also in the process of moving into the international arena with a series of upstream and downstream partnerships already sealed in countries around the world.

IRAQ: Stowaways head for Britain

The domestic political impact on European countries of conflict in the Middle East region has been graphically shown by a British campaign to stem the flow of asylum seekers into the U.K.—an issue William Hague's rightward leaning and populist *Conservative Party* has tried to mobilise to stoke up trouble for Prime Minister Tony Blair.

Judging by the number of illegal stowaways picked up at the French port of Calais in recent weeks there is substance to claims that the number of Iraqis and Kurds (not to mention Afghans and eastern Europeans) heading for asylum in the U.K. has increased. In one dawn swoop, French police found an entire Iraqi family hiding in the back of a truck bound for Dover including a baby girl, her mother and three men.

It follows a crackdown by *P&O Stena Line* after the government said it would fine hauliers for every immigrant picked up in the U.K.; the ferry operator subsequently hired a team of security guards to look for stowaways before they boarded ferries.

The Daily Telegraph reported that word of the tightened security measures had spread, deterring hundreds of other attempts to cross the English Channel and swelling the numbers inside the *Red Cross* centre just outside Calais—now also besieged by journalists looking for a story.

Police at Dover have reported a fall in the numbers of illegal immigrants coming through the port following a tragedy last summer in which dozens of stowaways from China suffocated to death in the back of a truck. Nevertheless, some 27 refugees from Iraq, Iran and Afghanistan have been picked up throughout the country in the past week by the authorities, including a truck full of ten Iranians hiding among cases of French wine.

Around 7,000 asylum seekers are believed to attempt to enter the U.K. illegally every month, mostly through the port of Dover.

Sharjah flights commence

A new scheduled service to Baghdad has kicked off from Sharjah International Airport through private airline *Nada al-Sharq International*, owned by Sheikh Maktoum Bin Hasher Al-Maktoum. The airline operates three flights a week and another from Dubai, according to local press reports.

The first flight—which carried around 160 passengers including Sheikh Maktoum himself—carried a consignment of medicine and food to the Iraqi capital.

U.A.E.: Visa trips over

The Interior ministry has announced further measures to attempt to control the movement of foreign workers in the U.A.E. and to put an end to so-called 'visa trips'. The country is to start charging expatriates Dh500 to change their visa status in a new procedure designed to eliminate the practice of hopping into a neighbouring country only to return the next day on an employment visa. Expatriate workers will be allowed to change sponsors or visa status for a fee without having to leave the country as is presently the case. Interior minister Mohammed Saeed Al Badi is also keen to crackdown on local firms specialising in the illegal visa trade. The authorities hope not only to regulate the flow of workers in and out of the U.A.E., but also to cut the number of illegal immigrants which make up a chunk of the population.

CONTINUED FROM PAGE 1.

Hussein and the U.K. government's hard line stance on *U.N.* sanctions. During the month of September 2000, British firms exported £3.5 million in goods to Iraq under the U.N. oil-for-food programme, while in August, the figure was just under £6 million. The main exports are in power generating machinery and general industrial equipment and machine parts as well as chemicals and related products.

While the official line is that no promotional programme of activities is to take place while sanctions are in place, the *D.T.I.* has made it clear that it supports all legal exports to Iraq under the oil-for-food programme.

"The amount of companies approaching us has increased," a *D.T.I.* spokesman told *GSM*. He said all interested firms are directed towards the U.N. to understand more about how to do business with Baghdad, but there is no targeting of companies to highlight Iraqi potential.

Indeed, critics of U.K. policy say that the time taken by the authorities to process oil-for-food applications is a major disincentive to buy British. "It can take six months to get approval for an order that sourced from **Turkey** would take two weeks," one disgruntled businessman said.

In mid-January, British firm *Orient Exhibitions* is taking out a group of some 45 European companies, including many U.K.-based organisations, to Baghdad on a so-called medical awareness campaign, without UK government funding. The aim of the visit is to show products to Ministry of Health officials and to learn more about how the country places official orders.

"I don't see why the *D.T.I.* should not give support to the companies going out to Iraq," said one executive due to travel out to Baghdad. He also played down the complexities of doing business in the Iraqi market. "The only nightmare we have is when it comes to asking the *D.T.I.* for permission to export to Iraq," he said. The government's obstructions, he said, had resulted in lost contracts worth millions of pounds.

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In Sanaa, investigations continue. The government weekly *26 September* reported in early December that the security authorities were intensifying efforts to arrest Mohammad Omar Al-Harazi, a Yemeni believed to be deeply involved in the case. The net could be thrown much wider still. As Halliday observed, the range of suspects is great and many different people could have had a hand—including even Saddam Hussein, Saleh's old mentor and a powerful influence still among those in the military/security elite who trained with the Iraqi dictator's forces.

In Yemen and abroad, the usual suspects are being rounded up. But U.S. investigators believe the chain of responsibility goes much higher than the junior officials now to be tried. There are worrisome echoes of the 1996 Khobar Towers bombing in Saudi Arabia, when the trail went cold the higher up the local elite ladder that questions were asked.

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CENTREPIECE: Iranian students in the 1980s and 1990s

In the early years of the Islamic Revolution, attempts were made to Islamise curricula, and to provide positive discrimination to those from Islamic backgrounds, or who had served in the war against Iraq. But throughout the 1980s there was no significant change in the critical capacities of the burgeoning student body. If students rallied round the flag during the war, there is indeed little indication that a policy of systematic Islamic indoctrination was being implemented or having much effect. In science faculties, the process of 'Islamisation' was erratic if not ineffectual, while in humanities faculties there was an increasingly higher take-up of courses relating to pre-Islamic Iran. By the end of the 1980s controversial professors, such as Abdolkarim Soroush, were emboldened to broadcast their ideas, previously the preserve of the classroom, to a wider audience through the print media.

In the aftermath of Khomeini's death, the new President Rafsanjani consolidated his political inheritance around the twin pillars of bureaucratic centralism and commercial might, while an intellectual renaissance was taking place in the country's universities. Debates about the meaning, nature and consequence of the revolution circulated with increasing vigour and occasional vitriol on university campuses now thronging with over 1 million students following the post-revolution demographic explosion. This represented a ten-fold expansion in student numbers, which itself encouraged the growth in debate.

Throughout the early 1990s student groups reorganised and rediscovered their political activism. In large part, they were motivated by the very real failures and limitations of Rafsanjani's presidency, which for many came to symbolise a new autocracy centred on a commercial elite, for whom life became extremely comfortable indeed. That this situation was supported by right wing clerics pontificating about the Islamic order and providing religious justification for the unfettered accumulation of wealth only served to further antagonise student leaders, who bitterly complained about the 'sanctimonious piety' of certain clerics.

One student leader, Tabarzadi, who lost two brothers in the war against Iraq, was not shy in his criticism of the new commercial elite and the corruption that seemed to surround them. Rafsanjani, while not unsympathetic to student views, was somewhat hampered by his own

financial situation, and the recognition that he could be the next target. His attempts to curtail the excesses of members of the commercial elite tended therefore to be half-hearted.

IRAN: What Khatami said to the students

Below are excerpts of President Muhammad Khatami's exchanges with students at *Tehran University*, taken from *Vision of the Islamic Republic of Iran Network 1*, Tehran, in Persian on 6 December, and monitored and translated by *BBC Worldwide Monitoring*. He was addressing students at the *Tarbiat-e Modarres* (Teacher Training) *University* on the occasion of Student Day.

KHATAMI ON ECONOMIC DEVELOPMENT: Today this government should respond to a growth of 4.5 per cent in job seekers. For that reason and in order to reduce unemployment, and not its elimination, we have envisaged a 6 per cent growth in the five-year [development] plan. God willing, in the current year we will have a growth more than that envisaged in the plan. We have envisaged a 7.1 per cent growth for investment—I should explain that 0.8 per cent of investment is allocated for the strengthening of the private sector and only 5 per cent has been allocated to the government, that is an average of 7.1 per cent [*all figures as heard*]. We have also envisaged an average of 760,000 new jobs annually, and we hope to be able to achieve our objective which has been envisaged in the plan and even do better than that.

Dear brothers and sisters. If we are permitted, if excitements subside, if disruptions end, if there is sympathy and cooperation, with the talents and the future which this nation possesses and with improvements which we can see in the country's affairs, you could be optimistic. Pessimism is the Satan's way and the way of little Satans who try to discourage you so that you leave the scene and the way is paved for extremists whose only aim is destruction. [*Applause*]

INVESTIGATIONS INTO SERIAL MURDER OF DISSIDENTS [THE REPRESENTATIVE; READING A QUESTION] Who should we say this to? Who should we ask to do it? Who should we say this to? Who should we ask to do it? How long can we go on being convicted without a trial? How long should we continue to witness the name of Ali, the path of Ali or the name of Ali [*as heard*] being trampled upon? How long should we continue to witness the destruction of the religion of God's Prophet in the name of God's Prophet? I have a question. Would you please tell us explicitly and clearly about the scope of your duties? In this way, the scope of our expectations will be defined. There are also a few questions about the issues related to

the trials, arrests and the serial murders which I [*interrupted—crowd screams and whistles*]. How long should we witness the Judiciary's use of illegal means? [*Crowd screams and whistles*] What is the solution? What have you done and what will you do in order to prevent the Judiciary from taking action against the press?

I would like to say how much I respect you, would you please explain what will happen to so many innocent prisoners? Why should our political thinkers be imprisoned so that selfish human beings, such as the conservatives, could live in comfort? Mr President, O beloved Khatami, please tell those who are eager to know the truth what the outcome of [the investigations into] the serial murders' [case] was? [*Crowd screams and whistles*] I hope you will not, once again, say that it is being investigated. [*Crowd screams and whistles*].

KHATAMI. The issue of the serial killings are currently under investigation [*crowd begins chanting: Khatami, Khatami, we want revelations. But the rest of the chants are indistinct*]. Please let me continue. Who is in this building? What do you want us to divulge? There is no secret which requires exposure. And in my opinion, such expectations are not justified. We must all strive to solve problems through understanding, God willing. Let me make a brief reference to the serial killings. [*the crowd tries to heckle him*] Please let me continue. Very well, fine. However, in connection with the serial killings [*more hecklers*]. Please sir, let me continue. [*Someone calls for salutations to Prophet Muhammad and everyone obliges*]

THE REPRESENTATIVE. May I call on all our friends to maintain calm please so that His Excellency President Khatami can answer the questions raised. [*The crowd continues chanting "death to fanatics who resemble the Taliban"*]

KHATAMI. Truly this is beyond my expectations from university students. What does it mean chanting death to this or that [group]? What is the meaning of making allegations against one another? Today we are in need of living together with harmony. We must not become angry and turn our disagreements into tension.

We must sit together and discuss such disagreements. If this is the behaviour of the [educated] people, what can I expect from the rest of society? Of course, I appreciate your sentiments, no matter what your tendencies are and which faction you follow. However, I, as a minor servant and as a person who truly considers himself a member of the academic community and a component of the Students Movement, call on you to make sure that our historical wisdom is not undermined by our emotions.

Allow me, allow me to briefly answer these

questions which have been asked of me. The chain killings manifested the existence of a cancerous tumour within our important security apparatus. Firstly, let me tell you that the Information Ministry comprises the most capable and loyal law enforcement forces. Unfortunately, the existence of this cancerous tumour, not only damaged our entire honour but also, was a great injustice against the almost entirely healthy and diligent forces [*crowd cheers*]. As far as it concerned me—please allow me sir [*appeals to the cheering crowd*—I was to identify this tumour, attempt to remove it from within the Information Ministry, and hand it over to the court of justice. Of course, had it not been for the grace and guidance of our esteemed leader, this problem would not have been resolved. However [*interrupted by cheering crowd*], there are two stages involved in the issue of the chain killings: The first stage involves judicial dealings with the events which took place; and, the other is to follow up the case in order to further eradicate the cause and identify those behind it; this is a security matter, and, with God's blessing, it is being dealt with, and it will continue to be dealt with.

The presidential remit has, of course, been clearly outlined in the constitution—specially in Article 113, which states that the president is responsible for the implementation of the constitution, as well as heading the executive branch, with the exception of cases which are directly related to the leader. Moreover, the president has taken an oath, in which he has sworn to carry out a set of duties which involve safeguarding the faith, religion, independence, security, rights, legitimate civil rights and the people's sovereignty. The most important duty of the Islamic Republic's government, and the head of that government, is to manage the executive branch and implement the constitution. Of course, in view of the current situation, in addition to the fact that within the remit of his duties—[*interrupted by loud cheers*].

Well, Mr Shakuri, I believe that either our brothers should learn from the sisters [more cheers], and maintain calm and exercise self-restraint and tolerance—I indeed congratulate our dear sisters—or, I believe that the heat and unpleasant weather has made our friends so unhappy that they are no longer prepared to listen [*more cheers*]. Therefore, if you allow me, I shall end my speech.

STUDENT REPRESENTATIVE SHAKURI. Your Excellency Mr Khatami, on behalf of the students, I beg you to continue until at least the time for prayers. Our friends have raised many diverse questions, which will be put to you, if they could only bear with us. We have collected all the questions and will raise them. Therefore, I appeal to our friends to maintain calm. Mr Khatami is tired and, because of the noise, is forced to speak loudly. It is Ramadan and one is not

even allowed to drink water, which makes this difficult. Let's say a little prayer and go to the next question.

KHATAMI. It is not fair that a minority of people whose number may add up to a maximum of 100 persons, infiltrate inside the university and create disorder in the name of the students [*shouts of approval*]. I ask the students themselves to prevent such abuses.

SHAKURI. In order to demonstrate the extent of your maturity and the students' awareness, I call upon you all to stop chanting any slogans for a few minutes. Please observe strict silence for several minutes so as to restore calm in the session. Thank you.

GOVERNMENT'S RESPONSIBILITIES AND OBLIGATIONS

KHATAMI. The president's crucial task is to make sure that the constitution is implemented. Grounds must be prepared to enable the president to carry out this task. However, it seems that some other individuals have become the supporters of the constitution today. They keep pointing out that the government of the Islamic Republic of Iran is responsible for providing housing, infrastructure, comfort, the means of education and is responsible for helping the country to increase the nation's per capital income. I believe that when one speaks of the government, one means the entire Islamic state, and not the executive authority alone. As if in the past they [previous governments] had prepared all the means for provision of housing, economic growth and employment of young people, but this government came and removed all the facilities. Of course, there are fair critics who point out that such problems require long-term planning. It takes years to solve the problems. The first, second and the third economic development plans were designed for this purpose. Of course, there may be shortcomings on our part when we implement these plans.

As far as the president and the head of the government is concerned, the implementation of the constitution is easier when it [the implementation] remains within the president's authority. However, when it goes beyond the president's authority [we reach the situation whereby] today the president's authority is limited to giving warnings and explaining the points. The president's authority is not more than that today.

I raised the point at the meeting on the constitution. I said at that meeting that if the president is responsible for implementing the constitution, he must have the resources to do so. [*shouts of approval*]

At least if he realises that the constitution is being violated somewhere he will have the power to

prevent it immediately in order to allow the relevant court to investigate whether a violation has taken place. This is not a prerogative that the president enjoys at the moment and I think he should enjoy it in order to be able to act according to the constitution. [*students respond with enthusiasm*] This does not mean that the constitution should be changed. It means that the constitution should be implemented properly. For example, our society and constitution clearly state that breaches of the press laws should be tried in an open court and in the presence of a jury. Should, contrary to the constitution, this fail to happen, the president cannot do anything except to issue a caution. [*students respond with enthusiasm*] And I have said many times that I have issued cautions to the executive, the legislative and the judicial branches of power.

ON THE JUDICIARY AND POLITICAL PRISONERS

KHATAMI. However, I am not fond of the interpretation that the Judiciary should be prevented [from its actions]. The Judiciary, according to our constitution, is an independent branch of power which should behave according to the regulations. There might be differences of opinion between me and certain sections of the Judiciary. And if your president begins to take steps to impose his own views on the Judiciary or any other branch you should realise that he is taking a dictatorial step. [*students respond with enthusiasm*] I don't have the right to impose my own views on the Judiciary. In order to guard the constitution we should work towards an independent Judiciary.

Of course, it is important that the law, and particularly, the constitution should not be violated. If there are instances which I think the constitution has been violated I will use all my powers and issue a caution.

Regarding the presence of innocent prisoners in prisons. Here again, I believe that this is a speedy judgement. On the basis of which law, prerogative or authority are you saying that all the prisoners are innocent? [*students chant "Ganji, Ganji"*] Please allow me. You may believe that a certain act is not a crime. And, of course, you should have the freedom to express your views.

However, I am not able to invade the mind of a certain judge and ask why he has decided that a certain action constitute a violation of the law. We should not say that all prisoners are innocent because this is a bad statement. However we should say [*chanting interrupts him*] Please allow me, please allow me. If you don't allow me to speak who are you going to allow to speak in this country? [*chuckles*]

Speaking as a student with you I want to correct my language and expression. You should not

judge this way. You should allow the relevant organisations to make the necessary decisions. However, you should say that there should be no nothing unconstitutional in our country. First of all, if someone violates the law, he should be dealt with according to the law and according to the constitution. [*crowd chants with enthusiasm*] Only then it will be possible to argue that certain actions of the Executive, the Judiciary or the Legislature are contrary to the law.

DEFINITION OF POLITICAL OFFENCE

KHATAMI. Unfortunately there is a great vacuum in our constitution with regard to political offences. The constitution has separated two types of offences from all other offences not because these [two] offences are inherently different but because the context within which they take place are different. As far as I know there is no other similar case in the constitution. The constitution states that there are two conditions for journalistic offences and an extra condition for political offences, i.e. three conditions for political offences and two conditions for journalistic offences. First, both offences—according to the very word of the constitution—must be tried in an open courts and in the presence of a jury. [*crowd respond with enthusiasm*]

Secondly, the law must define the notion of political offence. And the reason is clear. There are a few reasons. The notion of political offence is vague and it could be misunderstood and misused. Ordinary offences are clearly defined and there is general consensus about what they are. For example, robbery, murder or cases of aggression against people's property. There is general consensus about what these offences are. They don't need great elaboration. They are referred to courts and the courts pass judgement according to the law. However, notions such as agitating public opinion or undermining the system or acting against national security are all very vague. One person can think that his actions are aimed at strengthening the system and at defending its security. For example, he may believe that proper criticism is the very foundation of security, progress and reform of the system; that criticism prevents dictatorship, and that this is in the interest of the system. But another person may think that criticism is undermining the system and agitating public opinion. It is for this reason that the law maker has stated that the notion of political offence must be defined and that it should not be up to the judge to make a decision about this. [*students chant with enthusiasm*].

Thirdly, it is important that political offences and journalistic offences—as far as they are political in nature—are in confrontation with the power [of the state]. In ordinary offences two equal sides

quarrel with each other. For example, two ordinary people quarrel over a property, and the judge resolves the issue by making a decision about the ownership of the property. But political offences take place when someone stands against the power [of the state]. In other words, the objective of a political offence is the power [of the state]. An individual or a group of people stand against the general power [of the state] which controls all available means, the material instruments, the institutions, the organisations, the judicial powers, the security powers, the military powers—all the instruments. In order to prevent the violation of the rights of the accused, and in order to prevent the power [of the state] to misuse its resources—God forbid—the lawmaker has created a security belt for the people accused of political offences. This is the very manifestation of insight and wisdom. The lawmaker has proposed two security belts: First, that the case should be tried in an open court and that all the people should be informed so that if I, as the president, say that a certain individual has acted against me and that his action violates national security public consciences will be aware of the case. I will have to prove the case otherwise I will be accused of dictatorship.

Also, [it must take place] in the presence of a jury. It is not enough that it should be open. That is to say, political and press offences must be dealt with in the presence of witnesses. Moreover, the representative of public conscience must decide whether or not a crime has been perpetrated. Hence, a jury must represent the public conscience [*crowd cheer and applaud*]. Well, this is something which is observed all over the world, and if we want political development, progress, popular participation, freedom of thought, criticism and opinion, then we, too, must provide the groundwork for it. It is natural that when a crime takes place, then thanks to these stages, the judge could refer to the laws and pass a relevant sentence. Thus, once a criminal act has been established, then justice must be served. This does not mean that one who commits a political crime is exempt from punishment, while an ordinary criminal is not. It is the establishment of a political crime that takes greater examination. This was one of the deferred articles in the constitution.

Fortunately, as regards the press, during the period when I worked [as minister] at the Culture and Islamic Guidance Ministry, efforts were made, and the Judiciary indeed kindly co-operated. As a result, with regards to the press law, we managed to enforce the appointment of a press jury and the establishment of a court attended by a jury. But recently, there have been occasions when, unfortunately, press offences have been dealt with in the absence of a jury, and other similar instances. However, the necessary warnings have

been issued to the relevant bodies.

As far as political crime is concerned, however, nothing had been done in that regard. Fortunately, thanks to our discussions and debates, the political crime bill was transferred from the Judicial Branch to the government, where it was ratified and sent to the Majlis. Recently, the honourable *Guardian Council* came up with an analysis, which allows the government to pass an opinion on and make amendments to bills which are out of the Judicial Branch's remit and relate to non-judicial issues; but the government has no right to pass opinion on bills which are totally related to the Judicial Branch, although the Majlis has. As regards the recent bill, the honourable Majlis deputies have tabled a proposal which is being debated in the Majlis. Therefore, since we have no law on political crime, we cannot have political offenders—although they do exist *de facto* but not *de jure*. I hope that with a speedy ratification of the political crime law in the Majlis we will be able to, God willing, carry out the necessary regulations in relation to political criminals.

ON THE GOVERNMENT AND LIFE AFTER KHATAMI
SHAKURI, READING A QUESTION. You adopted silence for four years while we kept shouting. Now we want to hear you. [He then reads a poem:] *One should speak one's mind; one should express one's grief; the issue is not about my affection and your cruelty; the issue is about the disintegration of friendships.* How do you see an Iran without Khatami? This was one of the questions put forward by our friends. The next few questions concern the government, the cabinet and the policies of some ministries. I would like to ask you not to express your sentiments while I read these questions. Please allow Mr Khatami to note the questions and answer them. When he is answering them, if you deem it necessary [to chant, applause, etc] that is a different matter.

Your Excellency Mr Khatami: In your opinion, how has your government performed in the area of culture? Has this performance won your approval? Has our society and its culture moved towards Islamisation, or is the reverse true?

Dear Mr President, Some of the ministries of your government have been turned into political parties. Some clear examples are the Interior Ministry, the Ministry of Science, Research and Technology and the Ministry of Culture and Islamic Guidance. Is meritocracy the same as party politics?

Your Excellency Mr Khatami, Greetings. Please tell us in no uncertain terms that despite your abidance by the law and the eminent leader, what is your legal reason and religious justification for not accepting Mr Mohajerani's resignation, in spite

of the eminent leader's criticisms of the Ministry of Culture and Islamic Guidance?

I would like to ask why some of the ministers of your cabinet are not moving ahead according to the wishes and preferences of yourself, your supporters and the people in general? How come they are still ministers?

Our dear and popular president: What is the reason for your cabinet not co-operating enough with Mr Ataollah Mohajerani? [*crowd cheers*] In our opinion, no-one in your cabinet is better than Dr Mohajerani [*crowd cheers*]. How come then there is some talk about his resignation?

I want to apologise for putting the questions like this towards the end of the session.

KHATAMI. Could you please make sure that your questions are more to the point so that I can answer four or five of them at once. I apologise because I am not in control of my own schedule. We were supposed to finish by 11.30, but now the time is 11.40. I try to answer Dr Shakuri-Rad's long question with a few short sentences. Frankly, his lengthy question requires a lengthy answer too.

I think it is a joke to say: What will happen to Iran without Khatami? Khatami is a very tiny drop in the highly immense and tumultuous ocean of the Iranian nation. I believe that whether Khatami is there or not, his being or not being will not have the slightest effect in the tumult and the moving current of this ocean. What I deem to be my commitment, is to make sure that as far as possible I understand your demands. I will do my best to move in the direction which meets your demands. And if I fail to meet your demands, I apologise to all of you in advance here.

GOVERNMENT'S PERFORMANCE ON CULTURE

I was asked to respond to a question on the government's performance in the cultural arena. Of course, we have shortcomings in all fields and not just in the cultural arena. We have shortcomings in the economic, political, employment, science and technological arenas as well as in the cultural arena. For the same reason we have tried to increase the country's budget for research purposes in the third five-year plan. The figure was about 0.5 per cent of the GDP, but we increased it to 1.5 per cent. That is, the budget was increased three times so as to improve the plight of research work slightly. Moreover, we have increased the budget of education, higher education and health ministries by 36 to 37 per cent in order to improve the situation in particular for students and their hostels and restaurant facilities as well as [to solve] some of their basic problems. We are trying to solve the problems with the help of our friends in the Majlis. Such problems exist everywhere. Our society is facing

the problem of unemployment. There are shortcomings in the cultural arena too. The government is not in charge of everything in this arena. The government is in control of a major part, but some highly important departments are outside the government's authority.

If we seek to evaluate the country's culture, we must give everyone their due shares. By everyone I mean the government, the private sector, the religious seminaries, universities, the Voice and Vision Organisation, different tribunes, mosques, preachers, clerics, academics, writers, so on and so forth. We must pay due consideration to all these groups and then make a judgement.

There is no doubt that there are shortcomings in the work of the government too. There are, for instance, plans which we implement, but later, or during the actual implementation, we realise we are making a mistake. On the other hand, as we embark on a plan, we start facing problems which force us to change our course. These all leave their negative impact on the country. Of course, I do not believe that the government's performance in the area of culture is worse than its performance in the other areas, or for that matter worse than the performance of the other branches of state in different fields [applause] However—[applause continues] However, culture is a sensitive issue. The sensitivity is even greater in our society as a whole, where our people and the eminent leader of Islamic revolution have placed a lot of emphasis on culture as the foundation for social and personal identity. Therefore, it is only natural that there should exist certain organs which are under the government's control. On the other hand, institutions such as mosques and other similar tribunes are not under my control, and this does not allow me to criticise, or reform them [applause]. Nonetheless, the Ministry of [Culture and] Islamic Guidance, the Voice and Vision Organisation are within the area of our jurisdiction [cry of protest from the crowd; Khatami corrects himself] It [Radio and TV Organisation] is under the political system's control. The presence of dissatisfaction does not necessarily entail a change of the minister in charge. Of course, the leader's concerns are important for all of us, and we should all make efforts to remove and remedy these concerns. This is the kind of effort that we have already made.

ON RESIGNATION OF ISLAMIC GUIDANCE MINISTER

Now to the issue of His Excellency Mr Mohajerani, who is one of our good friends [crowd cheers]. It has been a while since he tendered his resignation, and we are still reviewing the matter [crowd cheers] However, the leader's expression of dissatisfaction with the cultural situation in the country, and our duty to resolve the problems that exist in this area, are one thing, and turning this

issue into an excuse for attacking the Ministry of Islamic Guidance and its minister—in a bid to weaken the system—is something else [crowd cheers].

It is natural that one should confront those who are trying to create an adverse climate. However, the Vision [television] is working hard, the guidance ministry is working hard. Everyone wants to serve the people. We ought to try to improve affairs through healthy criticism and friendly dialogue. I believe we will achieve nothing by emotional approach which will provoke the other side to make a stand. However, dear friends and those who are rightly unhappy with the cultural situation in the country, why don't you see the positive point in the work of this government during these three years that the 2nd Khordad [movement] made our educated and energetic young generation, who was on the verge of being separated from the system, to embrace the system. [audience cheers] Today there are circles, who are, wittingly or unwittingly, unhappy that the mind of this young generation is focused on the system, the president, the leadership and the government, and are trying to make this generation despondent and down-hearted by resorting to various kinds of conspiracies. [more cheers]

A great security and cultural achievement is to let this generation and this youth, which has different feelings and different thoughts, believe that it can influence its system and its elections. And that it can have its needs realised within the system. Those hands which try to induce this generation into believing that this system will not fulfil your needs, and so you must turn to outside the system, are against Iran, Islam and the revolution [cheers from the crowd]. We must make the most of these opportunities [crowd chant: long live Khatami]. Thank you. I urge our dear young generation, too, to remain alert in this climate which has been created and in the face of those who incite you into rebellion and call on you to reject and overthrow [the system]. Furthermore, stand against all those who want to cause you despair because you have entered the system; they want to turn you away from the scene through acts of violence, repression and insults [more cheers].

But the point that a number of ministries have turned into political parties I consider to be an unsubstantiated claim, and an injustice against society. I, in the capacity of the president - and as a person responsible to the entire Iranian nation, groups and movements, as well as to the leader and the Majlis—deem it my religious and legal duty to ensure that, whatever the circumstances, no facility is exploited for the sake of particular wishes and inclinations. You can rest assured that if I realise any such eventuality, I will encounter it without any inhibitions. And, today, [crowd cheer]

our Interior Ministry, our Science and Higher Education Ministry and all other ministries are made up of staff who are loyal and committed, who bear no grudges and work hard and are at your service; the signs of their services to you are clearly manifest. I, too, accept this. Indeed, executive and judicial bodies, and non-partisan bodies, such as the military, law-enforcement and security, must not have any factional leanings. It is proper that you should be sensitive. You should come forward and demand that all services within the three branches act outside political factionalism and movements. [more cheers from the crowd]. Moreover, we must all endeavour to ensure that, God forbid, such issues do not occur. I, for my part, am pleased with all my colleagues. Of course, there are faults in all our actions. I thank all the dear students, and all the dear people who have been standing on their feet outside this hall, and I apologise for having troubled them. I hope to be able to speak to you in greater detail at another meeting. May God protect you all.