

Gulf States

BAHRAIN, IRAN, IRAQ, KUWAIT, OMAN, QATAR, UNITED ARAB EMIRATES

308.

● POLITICS ● ECONOMY ● OIL ● COMMUNICATIONS 12th Year - No. 307 - 23 Mar '87

- In this issue -

POLITICS & DEFENCE

- * The widely different policies being followed by Syria and Iran in Lebanon are leading the two allies toward a confrontation situation. Page 2
- * The trial of 12 accused terrorists opens in Kuwait next month. Page 5

ECONOMY & TRADE

- * Arab countries are planning factories to meet a \$200m a year regional market for digital telephone exchanges. Page 8
- * South American and Spanish firms are negotiating with Iran over the completion of the nuclear power station at Bushehr. Page 10
- * Soviet technicians have returned to Iran to renovate and expand the Russian-built steel mill in Isfahan. Page 10
- * Kuwait's large scale Diwan office project has run into trouble and four international construction companies are reported to have withdrawn their bids. Page 11
- * Iran's sale of its stake in Deutsche Babcock has caused speculation about other Middle East countries' industrial investments in West Germany. Page 12

BANKING & FINANCE

- * Gulf International Bank, owned by the six GCC states, intends to complete the expansion of its overseas network this year. Page 14
- * The London-based United Bank of Kuwait has reported record levels of profits for 1986. Page 15.

POLITICS & DEFENCE

HOW MANY STRINGS?

Just how much does the regime in Tehran control the activities of the Hizbollahi in (what is now called) South Beirut? Or, perhaps the question is, which faction in Iran's clerical hierarchy pulls the strings in Lebanon and how many strings does it have? The Western powers, whose hostages are now more at risk than ever, have scarcely any idea. Syria, trying to impose its brand of law and order on Beirut, may have a slightly better understanding but is not, as yet, in any position to act upon it. From Iran, Tehran's influence or power in Lebanon is never clearly stated and the regime's policies in that direction appear ambiguous and sometimes even uncertain. The latest exchange of letters between Hojatoleslam Ali Akbar Rafsanjani and Dr. Runcie, the Archbishop of Canterbury, has the two religious leaders offering their respective services to help find the others' hostage. The Archbishop, wrote, according to Tehran radio, that he "would be happy to use my contacts in the Christian community in Beirut" to try to discover the whereabouts of one of three Iranians kidnapped by the Phalange in 1982. The Hojatoleslam's reply is equally helpful. "I welcome your offer and have asked officials and our friends in Lebanon to persist in searching for a clue . . ." concerning the Archbishop's missing envoy, Terry Waite.

In the West, it is the fate of the hostages which captures the attention. The Iranians (or the Hizbollahi, or the self-styled Organization for Revolutionary Justice - take your pick) know this full well. Early last week, the hostage Thierry Normadin, the French journalist, had been condemned to death twice with two reprieves for President Mitterand's declaration that he would go on selling arms to Iraq. In a country where tens and on occasions hundreds of people die every day, Iranian-linked groups have developed the threat of death to one individual into a fine art.

Real Purpose

Whether usefully or not, this diverts the attention of Western media from what is really going on in South Beirut. Since President Hafez Assad moved his troops into Beirut last month, it is clear that he would like to sweep the Hizbollahi out of the southern suburbs. In doing so, he might reap much-needed kudos from the West by liberating the Western hostages. But he might earn further condemnation if precipitate action resulted in their slaughter.

Such considerations, however, are only secondary to Syria's purpose. Uppermost in Assad's mind is the question of who is going to control Lebanon in the future, whether the hostages are dead or alive. The Syrian deployment of forces into Beirut was chiefly designed to begin reasserting control over the pieces of Lebanon which it does not yet control or only erratically influences. That has been Assad's frustrated objective since 1976. To achieve this, he has started to bang Lebanese sectarian leaders' heads together, at long last with some prospect of driving common sense through decades of fossilised prejudice. Having got Nabih Berri and the Shia Muslim militant leadership in his pocket, he discovers that Shia sympathies are shifting to Iranian-backed groups. Berri's Amal militia is sliding out of Berri's own control; and Assad can only use force to beat Hizbollahi into submission. That brings him face-to-face with Iran, with whom he has sympathised throughout the Gulf war. Attacking the Hizbollah stronghold in South Beirut would be a bloody affair. Assad must be asking himself whether it would be worth the cost. But if Syria does not bring the Hizbollah under control and - by extension - Shia militancy generally, it risks an escalation of Shia attacks on Israeli positions and personnel in South Lebanon bringing, in its turn, a sharp increase in the possibility of an outbreak of hostilities with Israel. And a war with Israel at a time and in circumstances not of Syria's choosing is something President Assad cannot and will not allow, no matter what the cost.

Control

In the long term, the answer is yes - the lives of hostages notwithstanding. Syria is economically on the edge of bankruptcy. It relies on Iran for a million tonnes a year of free oil and another five million tonnes on preferential terms. It owes huge sums to Iran for the cheap oil it cannot afford, but still takes the free donation. But Kuwait (and other Arab Gulf countries) might make up the loss if Assad broke with Iran.

If the economic problems were looked after, Damascus would still face the security danger of provoking an epidemic of Muslim fundamentalist violence not only in Lebanon but at home once it attacked the Hizbollah strongholds in Lebanon. Iran is playing tough for the simple reason that its growing hold on the Shia community gives it a base in the Levant - and the possibility of creating an Islamic republic in parts of Lebanon. And that is why, for all the delicate manoeuvring between Damascus and Tehran, a clash is almost inevitable. Both Assad and Khomeini have invested far too much in Lebanon to give up a takeover without a fight.

IN BRIEF

Bahrain

⊕ A US ANTI-TANK ARTILLERY SHELL SALE TO BAHRAIN has now come under attack in Congress following the less-than-enthusiastic response to the Defense Department's proposal to supply Bahrain with a squadron of F-16 fighters (see Gulf States Newsletter No. 305). The Pentagon plan covers the provision of anti-tank shells made from depleted uranium, an extremely hard and heavy substance which is not radioactive but achieves greater penetration than conventional uranium. Also included in the suggested deal are Saudi Arabia, Egypt and Jordan. But because the sales would be valued at less than \$14m per country, Congressional approval would not

be legally required.

However, Republican Senator Arlen Specter of Pennsylvania has said he is very concerned that these Arab countries should be receiving "state of the art" ammunition which could "destabilize the military balance" and "end up in the hands of more radical Arab states or terrorists". The shells have not previously been sold to any foreign nation, Specter pointed out, including "our NATO allies, Israel or Japan".

Meanwhile, a visit to Bahrain was paid by Admiral William Crowe, the Chairman of the US Joint Chiefs of Staff, who met Bahrain's Defence Minister, Shaikh Hamad bin Isa al Khalifa. Crowe had earlier been in Saudi Arabia where he was awarded a decoration by Defence Minister Prince Sultan bin Abdul Aziz.

Iran

⊕ THE THREAT TO THE OIL FLOW THROUGH THE GULF has been significantly increased by Iran's installation of large land-based anti-ship missiles near the Strait of Hormuz, according to US intelligence. The Chinese-made HY-2 missiles (based on the Soviet SS-N-2 "Styx") have a long enough range to reach the shipping lanes in and out of the Gulf. According to one naval analyst, the missiles are capable of sinking an oil super-tanker. US intelligence sources report that around six missile launchers are located at two sites in the vicinity of the Straits, and that at the very least Iran is demonstrating its ability to stop Gulf shipping. The missiles would be ineffective against most large modern warships, which have electronic counter-measures and weapons to deal with such relatively unsophisticated projectiles as the HY-2. But they unquestionably pose a threat to commercial shipping.

The importance of the Hormuz Straits in 1986 was underlined by recently released statistics from Petroleum Intelligence Weekly which showed that around 35% of the world's seaborne oil trade passed through the Gulf last year. In 1986, around 7.6m b/d of crude was exported via the Straits of Hormuz, as compared with 6.4m b/d

the year before. This represented almost one-fifth of non-Communist production throughout the world.

Some 6,500 vessels (mainly tankers) called through the Straits in 1986, nearly one every 80 minutes. The publication believed that expected increases in Western dependence on Gulf oil supplies would raise all these figures, even allowing for the expansion of overland pipeline systems which bypass the Gulf.

⊕ IRANIAN FOREIGN MINISTER

⊕ ALI AKBAR VELAYATI arrived in Khartoum last week to start a three-day official visit to Sudan. In a statement on arrival, Velayati said he would discuss with Sudanese officials bilateral relations and also the question of co-ordination between the two countries in international affairs. The Iranian minister did not elaborate on his comment.

According to Mohammad Ismail al Azhari, a member of the Executive of the Sudanese Democratic Unionist party, Sudan is pursuing its mediation between Iran and Iraq to help end the Gulf war. As evidence of progress he cited the visit to Khartoum by Velayati and earlier visits to Baghdad by Ahmad al Mirghani, chairman of the Sudanese Praesidium Council, and to Tehran by Sadiq al Mahdi, the Sudanese Prime Minister.

⊕ STIRRING UP HOSTILITY TOWARDS THE SOVIET UNION

⊕ THE SOVIET UNION was one element of Washington's clandestine dealings with Iran, according to Majlis Speaker Ali Akbar Rafsanjani. Speaking at a Friday prayer session at Tehran University, Rafsanjani said that former National Security Adviser Robert McFarlane had given Iran satellite pictures purporting to show the Soviet Union preparing for an early invasion of Iran. The pictures would "soon" be published in Iran, he announced. They apparently showed the Soviet 37th Division positioned for an assault across the Iranian border. Rafsanjani did not indicate whether the photographs were misleading, but said that they proved the US tried to provoke hostility between

Tehran and Moscow and even encourage open warfare.

Iraq

⊕ TURKISH REPRISAL RAIDS AGAINST DISSIDENT KURDS in Iraq are now adding a worrying new dimension to the Gulf war. Early in March, Turkish aircraft bombarded camps in northern Iraq which it said were used by Kurdish guerrillas to conduct raids across the Turkish frontier. The Kurdish Workers Party (PKK), which represents Kurdish nationalists in Turkey, then launched an apparent reprisal raid of its own against a Turkish village - but this time across the Syrian frontier. Syria refused to allow Turkey the cross-border retaliation permitted by Iraq, while Iran weighed in (bizarrely enough) with a condemnation of Ankara for attacking Iraq.

The situation is confusing but, more important, fraught with danger. Kurdish minorities live in Iran, Iraq, Turkey and Syria: in the first three, at least, they are (or have been) involved in violent conflict with the central governments from whom they wish to wrest their own nation state - or, failing that national autonomy. Iran, while at loggerheads with its own Kurdish population, has made use of the antipathy of Iraqi Kurds to conduct joint raids into Iraq's oil-rich Kirkuk area. Iraq, sharing a common interest with Turkey in suppressing Kurdish militancy, gave Turkey a limited right of "hot pursuit" in 1984 against guerrillas operating from bases in Iraq's uncertainly-held northern territories. After two-and-a-half decades of erratic but often very bitter fighting, the Iraqi army has been unable to quash the Kurdish rebels - and is decreasingly able to do so as regular troops have to be diverted to the war against Iran.

What now disturbs Iraq is that some influential Turkish circles are beginning to advance the theory that Turkey may have legitimate grounds to take over certain Kurdish areas of northern Iraq. The border was finally established in 1926, some time after Iraq was carved from the remains of the Ottoman empire.

Right-wing politicians, military officers, and pro-Western former diplomats in Turkey are increasingly letting it be known that Turkey might feel obliged to take advantage of a disintegration of Iraq in the wake of a successful Iranian military offensive to "reclaim the rights" it handed away 60 years ago. Such talk inevitably goes down badly in Iraq. But it is scarcely more popular in Iran, where the prospect of a head-on clash with the Turkish military (a powerful army and a NATO member) inspires understandable misgivings.

Kuwait

⊕ THE TRIAL OF TWELVE

⊕ KUWAITIS accused of acts of terrorism is to take place on 4 April, the official Kuwait News Agency has reported. The twelve men were arrested for involvement in acts of arson at two oil installations at Al Moukawa, south of the capital, last January, and at Mina al Ahmadi in May 1986. A total of 16 Kuwaitis have been charged with setting fire to the oil installations, four of them are still being sought by the authorities. The formal charges stress the "international" nature of the acts of sabotage and say they were "aimed at damaging the unity of the country". The indictment said the group were part of a secret organisation led by Hassan Muhammad which sought to "spread ideas aimed at undermining the basis of Kuwaiti society by calling for the use of force to change the current social and economic order".

⊕ KUWAIT NAVAL FORCES

⊕ HELD EXERCISES in the northern Gulf earlier this month, shortly after an Iranian warship stopped and searched a freighter off the UAE. The vessel is owned by the Kuwait Livestock company and was carrying 12,000 sheep. Live ammunition was used by the Kuwait naval forces during the exercises and fishermen and boat owners were warned by the Ministry of Defence to stay clear of Umm al Maradim, a small island off the Kuwait coast.

Oman

⊕ THE SULTANATE OF OMAN AIR FORCE (SOAF) has had completed the second installation of its inertial systems test equipment, in support of the Ferranti-built inertial navigation systems fitted to SOAF's Jaguar aircraft. With the completion of the second installation, Oman has FIST (L) - Ferranti Inertial Systems Tester for Line - replaceable units available at both intermediate level support at operational air bases, and also for maintenance depot level support. SOAF personnel were trained in the use of equipment by the makers, Ferranti, in the UK. The same systems are being provided to support the export versions of the Panavia Tornado aircraft, which has been bought by Saudi Arabia. Oman also ordered Tornado aircraft last year but, for economy reasons, suspended the order indefinitely.

⊕ SULTAN QABOCS HAS STRONGLY CRITICISED the region's marriage dowry system as an evil which can destroy family life. Speaking to tribal leaders and shaikhs in the course of a tour of eastern Oman, the Sultan said large dowries were contrary to the teachings of Islam, and cited verses from the Holy Quran which say that people must pay only what they could afford. Women are not a commodity which can be bought and sold, the local press reported the Sultan as saying. He said the development of Oman meant that marriage customs of the past were no longer relevant and he urged Shaikhs to use their influence to end the evil of the high dowry. Last year the government introduced legislation banning marriages by Oman nationals to foreign brides, in an effort to reduce the number of single Omani women.

In a related development, the governorate of Asir province, in southwest Saudi Arabia, has fixed the maximum dowry for brides at SR40,000 (\$10,000).

⊕ THE FIRST MINISTERIAL-LEVEL VISIT TO TURKEY by Oman was made when Yousef bin Alawi Abdullah, the Omani Minister of State for Foreign Affairs paid an official visit to Turkey

earlier this month. A Turkish Foreign Ministry official said the Omani minister told Foreign Minister Vahit Halefoglu that his country wanted to sign two agreements with Turkey; one on economic co-operation and one concerning investments. The Turkish official said that Oman wanted to boost relations with Turkey in many fields and Yousef bin Alawi's visit was to determine areas of co-operation. Halefoglu is said to have suggested the two countries should increase their co-operation especially in air, sea and land transport. In addition to his talks in Ankara, which included discussions with President Kenan Evren, Alawi spent three days in Istanbul before returning to Oman.

There is currently very little trade between Turkey and the Sultanate. In the first nine months of 1986 Turkey exported some \$1.5m worth of goods to Oman and Turkish imports amounted to only \$381,330.

Qatar

⊕ A RECENT CABINET MEETING IN DOHA welcomed the European Community's statement supporting the holding of an international conference on the overall Arab-Israeli dispute. The official Qatar News Agency said that the cabinet, at its weekly meeting, also praised the expressed European interest in seeking a peaceful settlement to the Gulf war. The Qatari cabinet said it hoped the European Community's attitude would be "a prelude to further steps on the Middle East".

UAE

⊕ THE UAE GOVERNMENT HAS GIVEN APPROVAL to the Palestine Liberation Organisation to site the headquarters of the Palestine National Fund in Abu Dhabi. The move of the Fund, which is currently based in Amman, was agreed upon during a visit some weeks ago to the UAE by PLO Chairman Yasser Arafat.

⊕ SOUTH YEMEN PRESIDENT HAIDER ABU BAKR AL ATTAS was due to arrive in Abu Dhabi on

21 March, for a three-day official visit. President Attas was touring the region in an effort to improve South Yemen's relations with other Arab states. Before coming to Abu Dhabi, Attas visited Saudi Arabia and Kuwait.

MOSCOW MAKES THE RUNNING

The Soviet Union is definitely showing an advantage in the Gulf over the United States. So emboldened are the Russians by the new attention they are receiving from the Arab Gulf states and Iraq alike (and by Washington's grave and continuing discomfiture over "Irangate") that they insisted the Iran-Iraq war should top the agenda during last week's talks with visiting US Under-Secretary of State for Political Affairs Michael Armacost. The Americans were a little taken aback, but had no choice but to recognise the weight Moscow can now throw around in the Gulf - particularly after it was instrumental in bringing Iran's Korbala 5 offensive to a halt in February.

Washington is not quite sure how to respond - partly because anything it does nowadays with regard to Iran is political dynamite at home, and partly because the Russians are simultaneously staking out a foothold for themselves in the Arab-Israeli conflict diplomacy as momentum gathers for an international peace conference. Setting off for the Far East on a tour two weeks ago, Secretary of State George Shultz (due to meet Soviet Foreign Minister Eduard Shevardnadze in Moscow in April) tried quietly to leave the door open for renewed relations with Tehran. Normal ties could be resumed, he said, if a) Iran stopped its war against Iraq and came to the negotiating table, b) it halted support for "international terrorism", and c) it used its influence to bring about the release of all 26 foreign hostages in Lebanon.

Who Listens?

In one sense, Shultz was being as

shrewd as circumstances permitted. Tehran has claimed that Washington's only purpose in selling arms was to liberate the hostages. So, implied Shultz, that means Iran could do the job if it had a real inducement to do so. And just before Shultz left for his tour, Iranian Foreign Minister Ali Akbar Velayati said in Damascus that it was Iran which exercised the most influence in Lebanon. If that is so, Shultz seemed to be saying, the US will take you up on your claim.

Far less evident is whether Iran is interested in listening to US blandishments - or whether it would prefer (for domestic as much as diplomatically pragmatic reasons) to deal with Moscow for the time being. Iranian statements on dealings and relations with the United States have shifted from the disdainful sympathy of a country which got the better of a superpower (and was recognised as an equal in the process) to outright antagonism now that it finds itself having to defend contacts with the "Great Satan" to its home audience.

Nor do the Americans seem to hold out much hope for improved relations in the near term. Inter-agency meetings in Washington, chaired by Armacost, are reported to have been almost exclusively concerned with re-framing a regional Gulf policy and patching up relations with disaffected US allies rather than seeking new avenues for rapprochement with the Soviet Union. At the heart of the matter is the incontrovertible fact that all Iran really wants from Washington is arms and spare parts - and the Reagan administration will not now be caught dead letting a rifle bullet get through to Tehran.

Honest Broker

Which leaves the Soviets in an ebullient mood, and the Arab Gulf states making increasingly polite noises to Moscow. The Russians have just started to re-activate their economic co-operation agreement with Iran (see Economy & Trade). They are also playing very

coy about Washington's suggestion of international sanctions against Iran unless it is prepared to make peace with Iraq. The American proposal, presented to Shevardnadze by Armacost in Moscow, is a heaven-sent opportunity for the Russians. It will persuade Iraq that there are still friends in the Regan administration but further dampen any lingering enthusiasm in Tehran for making up to the Americans. The Russians, on the other hand, can play "honest broker" - this time using someone else's threats to bring the two sides together. If the ploy succeeds, the Russians can reap the profit; if it fails, they can point the finger at the United States.

Meanwhile, the Kuwaitis are being most pleasant to Moscow and the UAE is lending the USSR money. A Kuwaiti military delegation visited Moscow this month, headed by the Deputy Chief of Staff (who is an airforce officer). Kuwait bought \$300m of surface-to-air missiles from the Soviets in 1984 and is reportedly in the line for more. Just to drive the point home - at a time when Congress and the administration are building up to another head-on collision about US arms to Arab countries - the Kuwaitis also dropped in on the Yugoslavs.

"Bankpolitik"

Kuwaiti contacts with the Soviet Union are something which the United States has learned to put up with. Relations were established as long ago as 1963; as recently as last year a high-ranking Soviet military delegation headed by Deputy Defence Minister General Vladimir Gcvorov visited the country. But now matters are taking a subtle new turn. It was something of a diplomatic snub to Washington that the Ruler of Kuwait, Shaikh Jaber al Ahmad, should choose to send a message to Soviet President Andrei Gromyko expressing "appreciation" at Moscow's announcement that it would pull its armed forces out of Afghanistan. Shaikh Jaber affirmed his desire that relations of friendship between member states of the Islamic Conference Organisation (whose meeting Kuwait hosted in January) and the Soviet Union should be strengthened.

The wording was anodyne: the timing was not. At least, it was no more inopportune than Kuwait's agreement to lend \$150m to the Soviets in February or of a similar loan about to be arranged through UAE banks in a few weeks (see Banking & Finance). The East Germans have already coined a phrase for Soviet approaches to the Gulf - "Bankpolitik".

Finally, it is worth noting that the pressure is on the United States in other areas of the Middle East, and the Gulf states know it. Egyptian Economy Minister Youssri Mustafa visited Moscow last week to clear up the problems of Egypt's \$3bn military debt to the Soviet Union on which repayments have been suspended for ten years. The Egyptians were expected to get very favourable terms (rescheduling over 25 years and annulment of back interest payments). And so confident is the Soviet Union that the diplomatic game in the Middle East is moving its way that (according to the Kuwaiti press, at least) it is playing hard to get with approaches from Israeli Foreign Minister Shimon Peres' request for a visit to Moscow. That would effectively seal a Soviet presence at a Middle East negotiating table for the first time since 1974, since Peres is Israel's leading advocate of the international peace conference proposal. But just as with the US-Iran sanctions proposals, the Soviets are milking their advantage for everything they can get.

* * * *

ECONOMY & TRADE

IN BRIEF

General

⊕ THE GULF ORGANISATION FOR INDUSTRIAL CONSULTING (GOIC) organised a two-day seminar in Qatar on Indo-Gulf trade and investment earlier this month, in conjunction with the Indian Council for Research and International Economic Relations. The Doha seminar reviewed prospects for

expanding economic co-operation between India and the Gulf states, with especial reference to possible joint venture projects in industry and agriculture. Qatar undersecretary for industry, Ahmad Abdul Rahman al Mana said the event was a "pioneering step" in the development of co-operation between the oil and gas resource-rich Gulf countries and Doha.

⊕ A SIX-MEMBER DELEGATION, REPRESENTING the Economic and Social Committee of West Asia (ESCOWAS), called at the GCC headquarters in Riyadh last week and had talks with Dr. Abdullah al Quwaiz, the Assistant Secretary General for Economic Affairs. ESCOWAS is an official association of Asian countries and the delegation, led by Dr. Mohammad Said al Nabulsi, the executive secretary of the committee, discussed aspects of possible co-operation between the GCC and the ESCOWAS group of countries.

⊕ AN INTERNATIONAL SEMINAR, ENTITLED "Boycott and Economic Measures in International Conflicts", is to be held in Geneva on 4-5 June. Jointly presented by the Euro Arab Chambers of Commerce, the General Union of Arab Chambers of Commerce and the Euro-Arab Association of Jurists, the seminar has particular importance to traders, bankers and lawyers and the subject bears especially on Middle East countries. Among the speakers is Dr. Burhan al Dajani, the Secretary General of the General Union of Arab Chambers of Commerce, and Sir Richard Beaumont, chairman of the Arab British Chamber of Commerce, who will sum up the conference.

⊕ SEVEN ARAB COUNTRIES ARE CONSIDERING A PLAN to build factories, possibly in Egypt or Algeria, to make public telephone exchanges for the Arab telecommunications market, the London Financial Times reports. The plan has been produced by two British consultants, KMG Thomson McLintock and British Teleconsult, commissioned by the Baghdad-based Arab Industrial Investment Company

(AIIC). The plan recommends that two factories be built in Arab countries on a joint venture basis, one in Egypt as the largest single Arab market and the other possibly in Algeria, based on the estimate - described by the consultants as conservative - that the annual Arab demand for digital telephone exchanges is worth some \$200m a year and will grow by about 6% to the year 2000. Egypt has already invited tenders for its factory and, says the FT, observers believe Alcatel of France, Ericsson of Sweden and a joint venture between AT&T of the US and Philips of Holland are among the companies likely to win contracts. The plan has been approved by the AIIC at a meeting in Baghdad last month, attended by Algeria, Egypt, Iraq, Kuwait, Saudi Arabia, Jordan and Tunisia.

⊕ FRANCE IS LOSING OUT IN THE GULF AGRICULTURE market, according to the Paris weekly L'Express. It is not only facing difficulty exporting agricultural products to Arab countries, but it is failing to win a significant share of the agro-industry market in the region. Comparing performance in Kuwait, the UAE and Egypt, the magazine says France is dropping behind its European competitors. Citing an example of West German success, L'Express said that: for many years, Kuwaitis had been buying hundreds of German cows and their calves, "but not French Normandes and Frissones". The paper said that the Kuwaitis preferred to buy cows that would provide high quality milk and meat. French expertise in agro-industry projects lies chiefly in irrigation systems and soil treatment, and it has indeed achieved a considerable success in Saudi Arabia. But the other main potential market - Iraq - is stagnating because of the war.

⊕ IN ORDER TO COMBAT AIDS, ARAB GULF COUNTRIES are contemplating adding a blood test to the routine medical check-up required for those arriving for work from countries with high infection rates. Jalal al

Aashi, Secretary General of the Arab Gulf Ministerial Health Council, said that a Council committee meeting in Kuwait had emphasised the need for a campaign to increase public awareness about the ways in which the disease can be contracted. Lectures for teenage students were recommended for both sexes, and the committee called for an intensive exchange of data between countries of the Gulf region.

Bahrain

⊕ TAIWAN'S RET-SER ENGINEERING AGENCY IS THE LOW BIDDER, at BD27m (\$71.6m) for the work on Bahrain's military airforce base. the work entails the building of runways, taxiways, warehouses, aircraft hangars and accommodation.

⊕ A NEW INSURANCE COMPANY, UNITED INSURANCE COMPANY (UIC) has been set up in Bahrain to issue insurance to travellers on the King Fahd Causeway, the 25-kilometre causeway between Bahrain and Saudi Arabia. UIC has opened an office on the causeway's customs' island and the company anticipates a premium income of up to BD2m (\$5.3m) in its first year of operation.

Iran

⊕ OFFICIALS OF THE ECONOMIC CO-OPERATION ORGANISATION (ECO), which groups together Iran, Turkey and Pakistan, have held three days of talks in Islamabad reviewing the work of the organisation. The directors general of the three member states approved the 1987-88 budget and agreed to activate an exchange of information with United Nations' bodies. Contacts will be developed with the UN Industrial Development Organisation (UNIDO), the UN Conference on Trade and Development (UNCTAD) and the Food and Agriculture Organisation (FAO). ECO expert groups also completed discussions on joint industrial plans and technical co-operation. ECO's High Council, which will be attended by the Foreign Ministers of the three member countries, is scheduled to be held in Iran next month.

⊕ **NEGOTIATIONS ARE IN PROGRESS BETWEEN THE IRANIAN** government and a consortium of Argentine, Spanish and West German companies on the completion of work on Iran's nuclear power station near Bushehr, on the Gulf coast. The consortium consists of Enace, Argentina's state-owned nuclear reactor construction company, Kraftwerk Union of West Germany, which owns 25% of Enace, and Empresarios Argupados of Spain. Abel Gonzalez, the president of Enace, said last week that the Iranian authorities had approached the International Atomic Agency (IAEA) for the supply of 20% enriched uranium for the reactor. Work on the Bushehr power station was halted in 1979, shortly after the revolution which deposed the late Shah. Most of the civil engineering work was completed before the project was halted and the main work remaining is the placing of the reactor. The Enace president said that Iran wanted the operation to remain under the supervision of the IAEA. He confirmed that the consortium's proposals would shortly be presented to the Iranian authorities but declined to suggest the likely size of the contract involved.

⊕ **SOVIET TECHNICIANS HAVE RETURNED TO ISFAHAN** to help renovate and expand the steel mill constructed with Soviet technical assistance under the Shah's regime. About 1,200 technicians were evacuated from the plant in 1985 because of Iraqi aerial bombardments at a time when the construction of two blast furnaces with a total annual capacity of 1.9m tonnes was complete. More Soviet experts are due to arrive once additional equipment is sent. The capacity of the mill will be increased by 1.5m tonnes a year after the completion of the project.

A Soviet diplomat in Tehran said that resumption of work on the Isfahan power station was still being negotiated, but that the Soviet Union would help Iran with the construction of two large irrigation and electricity generating projects on the Arak river. Renewed co-operation on these economic projects

is taking place under the aegis of the Soviet-Iranian joint economic commission which held its tenth session in Tehran late last year.

⊕ **THE US COMMERCE DEPARTMENT HAS TENTATIVELY APPROVED** a sale of computers to Iran, but is running into Defense Department opposition. Commerce Secretary Malcolm Baldrige said the \$1.4m shipment of relatively unsophisticated computers made by Digital Equipment Corporation were intended for use by Iran's national press agency and in electric power production. There was no question of military application, he said. "We could ship them directly to the Soviet Union for that matter", he told the Senate. "These computers have technology that is eight to ten years old."

The Pentagon, however, wants the issue to be taken up by the National Security Council and be adjudicated directly by President Reagan. Defense Secretary Caspar Weinberger (seemingly anxious to protect his image as a hard-liner in dealings with Iran) wants to prevent the deal. Commerce Secretary Baldrige is irritated: "This is not a defence issue, it's a foreign policy issue."

⊕ **THE FIRST STAGE OF AN IRANIAN RESEARCH STATION**, which has been described as "unique in the Middle East region", has been opened by Prime Minister Hossein Musavi. The new centre in Tehran, which will conduct research in energy, air pollution, materials application and electronics, is part of a nationwide information network which will be in operation shortly, according to Minister of Culture and Education Mohammad Farhadi. Farhadi said the centre marks the completion of the first stage of Iran's scientific information bank. The minister said the bank would eventually be linked to the world's scientific research centres and was already co-ordinating with the French scientific bank.

Iraq

⊕ **DEPUTY PREMIER TAHA YASIN RAMADAN** led a high level Iraqi

delegation to Bulgaria earlier this month for talks on promoting economic, trade and technical co-operation between the two countries. Ramadan delivered a message from President Saddam Hussain to the Bulgarian leader, Todor Zhivkov, which was said to cover "bilateral co-operation and the importance of expanding relations." Following the meeting of the joint Iraqi-Bulgarian commission, which was held during the course of Ramadan's visit to Sofia, a long-term co-operation agreement was signed.

Kuwait

⊕ THE HUGE DIWAN PROJECT IS AGAIN A CENTRE for controversy after four Western construction companies are reported to have withdrawn their bids for the scheme. The project - which will house government executive offices - was originally planned to cost KD100m (\$357m). During the economic recession, it was postponed, and then revived last year with a reduced budget of KD70m (\$246m). Design work has been entrusted to the local Archicentre group, with other Kuwaiti architectural design firms working as subcontractors.

Despite the postponements, the Kuwaiti government still appears to insist that the project be completed by 1990 on the original schedule. According to Kuwaiti press reports, this has caused four of the Western construction companies competing for the building contract to withdraw their bids. The companies are said to include Costain of Britain, Parsons of the United States and two other American companies identified as SRS and FRC. Their complaint appears to be that they are required to make bids on final costs even before the design work has been completed by Archicentre.

⊕ KUWAIT'S NATIONAL HOUSING AUTHORITY HAS AWARDED nine contracts, worth a total of KD115m (\$415.16m) for the Quran housing project. The contracts, ranging in value from BD15.2m (54.8m) to KD8.1m (\$29.2m) have all gone to local contracting firms. Four of the

contracts are in the B1 Sector of the Quran housing scheme, three are in Sector B2 and two contracts are in Sector C1.

⊕ KELLOG PLANT SERVICES OF THE US HAS BEEN AWARDED A KD4.6M (\$16.6m) contract for maintenance work on high precision control, supervision and communication at the Ahmadi refinery. Kellogg is also the low bidder, at KD2.2m (\$7.9) to maintain and service electrical systems at Mina Abdullah refinery. In both contracts, the client is the Kuwait National Petroleum Corporation (KNPC).

⊕ MORE EGYPTIAN TEACHERS WILL BE SECONDED TO KUWAIT and, in turn, Kuwait will increase the number of scholarships it grants to students wishing to study at Egyptian universities. The decisions come after a meeting in Kuwait between visiting Egyptian Education Minister Ahmed Fathi Srour and his Kuwaiti counterpart, Anwar al Nouri.

⊕ CO-OPERATION WITH TUNISIA IS LIKELY TO EXPAND, notably into the agricultural area, as Kuwait and Tunisia celebrate the 10th anniversary of the establishment of the Kuwaiti Real Estate Investment Corporation in Tunis. Kuwait's ambassador to Tunis said that this country needed the labour force and agricultural expertise which Tunisia could provide. The director-general of the Kuwaiti-Tunisian corporation, Ahmed al Ibrahim, said that in evaluating the experience of the last decade it had been concluded that there was scope for setting up a similar institution in the field of agricultural co-operation.

UAE

⊕ AN ARAB COMMON MARKET WAS DISCUSSED between Adli Abdul Sha hid, Egypt's Minister of State for Immigration and Expatriate Affairs, and Shaikh Hamdan bin Mohammad al Nahayyan, the UAE Deputy Premier. Trade and economic co-operation could be improved by approaching the issue along the lines of the European community, the two ministers said in Abu Dhabi.

Abdul Shahid specifically discussed Egyptian expatriate manpower matters with Shaikh Hamdan, and it is understood that the reference to an Arab Common Market reflected their desire to see a freer flow of labour between Arab countries.

⊕ A DH45M (\$12.26M) CONTRACT TO SUPPLY SPECIALIST electronic equipment for Sharjah's new television complex has been won by a French consortium led by Thomson Video, a subsidiary of Thomson-CSF. Thomson-CSF has also won a DH19m (\$5.17m) contract to provide electronic security systems at the Umm al Nar desalination complex in Abu Dhabi.

* * * *

BANKING & FINANCE

ASSETS SELLOUT?

Iran's sale of one of the larger foreign investments undertaken by the Shah's regime should not cause undue concern that Opec members are about to start a selling spree of overseas assets. Indeed, in all probability Iran did not even need the hard currency it will get out of its disposal of a 25.2% share in West Germany's Deutsche Babcock heavy engineering group - it just did not want to come up with the ready cash to participate in a new rights issue.

A West German banking consortium is paying Iran around \$150m for its share of the company. The sale came just a few weeks before a major rights issue by the company which was expected to raise around the same sum. Iran was apparently either unwilling or unable to pay out the extra cash that this would have required. The Iranians may also have wanted to benefit from the company's strong equity price. Despite Deutsche Babcock's poor performance in recent years, major corporate restructuring has enhanced its prospects for commercial viability and apparently impressed West German investors. Certainly, the banking consortium which

took over Iran's shareholding had no difficulty in getting rid of its stock.

Impatience

Deutsche Babcock has been severely hit by the decline in overseas demand for its engineering and construction expertise. Ironically for a company in which Iran held a major share, Deutsche Babcock was badly hurt by the downturn in activity in Saudi Arabia and the Gulf Arab states. More recently, the company had to cope with the rise of the Deutschemark.

Iran evidently lost patience waiting for the company to turn its performance around. It was not so much that the Deutsche Babcock investment was still failing to provide an adequate return. More to the point, Iran saw little reason why it should plough yet more scarce foreign exchange into an investment which was taking a long time to make good.

Questions

Inevitably, the sale will raise questions about Iran's intentions regarding its other major West German holding, the 25.1% share in Krupp, the steelmaker. By extension, eyes will be turned on other large Middle Eastern investments in the country, such as Kuwait's stake in Hoechst and Daimler-Benz. Coming after last year's sale by Libya of its \$3bn shareholding of Fiat, there is bound to be some concern about whether Opec is set on a course of divesting itself of its larger stakes in Western industrial enterprises.

No Major Retreat

It seems highly unlikely, however, that any major retreat is in the offing. If Iran's hard currency needs demand it to do so, the Krupp holding may follow the Deutsche Babcock disposal. But no-one thinks Tehran's needs are so demanding that a sale is imminent. As for Kuwait, it is continuing to plough money into foreign assets (witness this month's purchase of a second petrol retail network in Britain). It is reported to have substantially reduced its 24.9% holding in Hoechst, the West

German chemical giant. But that is less evidence of hard times than of Kuwait's growing confidence in its ability to move its foreign investments about the world's markets in order to gain the best returns.

KUWAIT CUTS RATES

The Kuwaiti Central Bank earlier this month cut key money market and general lending rates in a move which Central Bank Governor Shaikh Salem Abdul Aziz al Sabah said was designed to add more flexibility to interest rate policy and boost the economy. The reform package is expected to clear the way for the bank to undertake open market operations and adopt a more flexible approach to the local financial markets.

The Central Bank scrapped a ten-year old ceiling of 10% on rates which commercial banks may charge customers for loans. It also introduced a 7.5% ceiling for loans of up to one year and a floating rate system tied to local interbank market quotas for longer loans. These are expected to be determined largely by the Central Bank's key money market intervention quote, which it has reduced by one half of a percentage point.

As a result of this cut, it is now prepared to pay 6% for one-week to one-year funds placed with it by financial institutions operating in the interbank market, and to charge 6.5% to borrowers in the market. Shaikh Salem said that, "We want to have a very flexible interest rate system - it was too rigid before. We want more encouragement for longer term loans than before, more control by the Central Bank in the interbank market, and to revive economic activity and ensure confidence."

Exemptions

Under the new rate structure, loans of up to one year for what is viewed as productive activity (such as industry or trade) will be charged at no more

than the "incentive" ceiling of 6%. Loans to non-residents, such as those made to foreign contractors, will be exempted from the charges. Interest on such loans will continue to be fixed independently between the parties concerned.

The new measures are seen as very significant in Kuwaiti banking circles. Shaikh Salem has said that the Central Bank will shortly review the terms under which it issues bills so that a new negotiable money market instrument can be introduced as the central element in the Central Bank's future open market operations. Once this is in place, Kuwait will have the most sophisticated money market in the Gulf region and will be in a position to reopen the KD bond market to foreign borrowers.

Credibility

This course has been implied by the Central Bank Governor on more than one occasion, and it is understood that one of the country's larger financial institutions is already engaged in negotiations with the Finance Ministry to organise a privately-placed KD issue for the World Bank. If the past record is any guide, this should presage a resumption of KD bond activity. On the two previous occasions when Kuwait allowed large-scale KD bond issues for foreign borrowers (in 1977 and 1981), it started the process by offering private placements of World Bank paper.

A major problem for difficulties encountered in the past in maintaining a valid and suitably liquid KD bond market has been the lack of a credible KD money market and the rigidity of local interest rates. Both these objections should now be met by the Central Bank's new (and promised) moves. Additional credibility and flexibility will be provided by the improvement in management of the stock exchange.

One problem does, however, remain. Kuwait is not exactly overflowing with independently operating financial institutions at present, and suspicions will inevitably arise among foreign bankers

and financial managers that the apparently freer financial market will still be subject to subtle government controls. Almost all the local banks are answerable to a greater or lesser extent to the Central Bank as a result of their net exposure through the officially sponsored debt settlement programme. Only the National Bank of Kuwait and the Islamic-oriented Kuwait Finance House are in a financially healthy enough position to go their own way - and the latter will not engage in KD bond marketing as a matter of principle.

Debt Overhang

The Central Bank launched a major new drive last September to clear up the debt fall-out from the 1982 stock market crash, which followed a speculative forward trading boom and left post-dated cheques worth around \$95bn in default. Much of the debt had already been watered down and complex plans were drawn up to encourage settlement, but huge sums are still owed.

Banking sources estimate that a quarter to a third of the KD4.3bn (\$15.5bn) of outstanding credit by local banks may represent bad or doubtful loans. The Central Bank's new debt settlement scheme directed banks to reschedule "difficult" debts over periods of 10 to 15 years, depending on whether debtors had regular cash flows or not. But to ease the burden on the banks, the government undertook to guarantee the interests of their shareholders and depositors.

In return, however, the banks are beholden to the Central Bank and potentially vulnerable to the influence it might care to exert in a free money market. A KD capital market may be around the corner once again. However, the authorities may loosen regulations, but clients are still going to wonder why there is no alternative to dealing with the National Bank of Kuwait.

IN BRIEF General

⊕ GULF INTERNATIONAL BANK (GIB), OWNED BY THE SIX MEMBER STATES of the Gulf Co-operation Council, and the second largest offshore bank in Bahrain, has reported a net income of \$70m in 1986, an increase of 4.4% over last year's figure of \$67m. GIB attributed the growth to a rise of \$7.8m in net interest fees and other operating income, up from \$111.4m to \$119.2m. The improvement in net income is in line with the expansion of the bank's asset base, which is 3.6% up to \$8.1bn. GIB intends to complete the expansion of its overseas network this year, to keep pace with the changing face of international banking, and maintain its earnings growth.

Ghazi Abdul Jawad, GIB general manager, told Reuters recently, "The challenge to us is to be able to respond to the needs and demands of the market place." He said GIB is determined to retain its identity as a Gulf-based bank and aims to foster the region's underdeveloped markets.

⊕ ARAB BANKING CORPORATION (ABC), THE BAHRAIN-BASED Arab international bank, has joined with Kooijman Securities, a growing Dutch brokerage firm, in setting up a joint venture merchant bank in Amsterdam. The bank, to be called ABC/Kooijman Capital Markets, will open for business in June with an authorised capital of \$5.9m. The new institution will deal in management buy-outs, mergers and acquisitions, stock exchange dealings and money management. Reporting the venture, in which ABC and Kooijman each have a 50% share, the London Financial Times says the Amsterdam financial markets are enjoying new vigour as a result of liberalisation of the capital markets and modernisation of the stock exchange. ABC, jointly owned by Kuwait, Libya and the UAE, has an authorised capital of \$1bn and, since its incorporation in 1980, has occupied a leading position among Arab and international banks.

⊕ THE FORMER PRESIDENT OF THE ARAB MONETARY FUND (AMF), Dr. Jawad Hashim, has been convicted, in his absence on a charge of embezzlement by a court in Abu Dhabi last week. Hashim was sentenced to 79 years in prison and three of his senior aides were also found guilty and sentenced to 79 years, 75 years and 34 years each; the aides were also not in court. The four were ordered to return to the AMF \$80.5m, which they were charged with having used to finance their private purchases of precious metals. A Jordanian accountant was given a two year sentence and two other former staff of the AMF were acquitted. Through statements made by his lawyers, Iraqi-born Jawad Hashim has denied all the charges and says that only "a small amount of money was lost through legitimate bullion deals". The trial in Abu Dhabi, where the AMF is based, began in 1985. Hashim was living in Britain, which has no extradition treaty with the UAE. In an interview with the Financial Times in 1985, Hashim claimed that the charges against him were part of "a political plot".

Bahrain

⊕ AN EMIRI DECREE HAS BEEN ISSUED APPROVING the setting up of the country's first stock exchange, the Gulf News Agency reported. The decree places responsibility for the stock exchange with the Ministry of Commerce and Agriculture. No indication was given when the stock exchange might be opened but local banking sources say the government is now finalising details of a building to house the exchange. Trading in stocks and shares in Bahrain is currently conducted over the telephone without regulation.

Iraq

⊕ AGREEMENT HAS BEEN REACHED ON THE DEFERMENT of Iraq's repayments on a \$500m loan from western banks. The state-owned Rafidain Bank - the Arab world's largest bank - took out the credit in 1983 and told the 37 creditor banks last September

that it could not pay the final four instalments totalling \$285m. The accord reached with the creditor banks will stretch out payments on the loan by up to two years. Rafidain has agreed to pay \$17.81m when the rescheduling is signed, probably later this month. The remaining \$53.4m will be met by September 1988.

The agreement will relieve Iraq of some of the strain on the country's economy caused by the six-and-a-half year old war with Iran, but Iraq still faces a serious problem over its international debts. Bankers estimate Iraq's debt at about \$50m, not counting financial assistance made by some of the Gulf Arab countries.

Kuwait

⊕ THE UNITED BANK OF KUWAIT (UBK), JOINTLY OWNED by Kuwaiti commercial banks and financial institutions, has reported record levels of profits for 1986. The London-based UBK announced at its recent annual general meeting that pre-tax profits reached £15.3m against £12.3m in 1985. A net dividend of 10% (10p per share on the increased capital) is proposed. By the end of 1986, UBK's share capital and reserves had risen to £96m, and total shareholders' funds were £134m. A further £19m of new capital is committed to being subscribed by shareholders in June of this year. During the year under review, Christopher Keen took over as General Manager and, matching the growth of the bank, three deputy general managers and three assistant general managers have been appointed.

UAE

⊕ BANKS IN THE UAE ARE STILL TALKING TO THE SOVIETS about a proposed \$200m loan, but there is some scepticism as to whether the loan will actually reach fruition. Vneshtorgbank, the Soviet foreign trade bank, approached the UAE banking community some months ago to arrange a loan similar to the one which has been concluded with a range of Kuwaiti financial institutions. It is also understood that a leading American bank approached

the UAE to participate in a financial arrangement on behalf of the Soviets. The US bank is believed to have been First Chicago, which was mandated to arrange a \$200m loan earlier this month and is quietly doubling to £200m a sterling bankers' acceptance facility which it arranged last autumn.

* * * *

OIL, ENERGY & MINERALS

General

⊕ **US IMPORTS OF OPEC OIL SURGED 51% IN 1986** to 2.8m b/d, and provided 46% of total US imported crude, according to the New York-based Energy Information Administration. It said that total imports of crude oil and petroleum products rose by 20% to 6.1m b/d last year (the highest level since 1981) from 5.1m b/d in 1985. Saudi Arabia jumped into fourth place as a supplier to the US in 1986 with total sales of 687,000 b/d. Canada led the pack with an average 790,000 b/d of crude and product exports, followed by Venezuela with 772,000 b/d, followed by Mexico, Saudi Arabia, Nigeria, Britain and Algeria.

Iraq

⊕ **SAUDI ARABIA HAS GRANTED IRAQ THE RIGHT TO EXPORT** its full throughput via the kingdom's transpeninsula pipeline which adds another 250,000 b/d to the world oil market - in theory. In practice, it

seems that Iraq, like some other Gulf oil producers, is encountering difficulty in marketing its crude at prices related to Opec's standard \$18 reference. The Saudi move appears to be conditional upon Iraq charging official prices for its exports.

Iraq refused to adhere to its Opec production allocation at last December's Geneva meeting of the organisation, although it said it would adhere to Opec's pricing strategy. This pledge has been greeted with some scepticism by other Opec members, and there are suspicions that the technical problems on the pipeline which Saudi Arabia produced as an excuse to limit Iraqi oil exports over the first two months of the year were really designed to force Baghdad to keep to Opec prices for its crude.

By June, a second line to Iraq's main export pipeline system via Turkey to the Mediterranean should boost export capacity via that route to 1.5m b/d from the present 1.05m b/d. Additionally, Iraq sends 200,000 b/d via trucks to Jordan's Aqaba export terminal. The Saudi agreement means that Iraq's total export capacity will reach 2.1-2.2m b/d, which may not please its Opec partners since the country's allocated quota is only 1.4m b/d.

However, Iraq may not be able to place its full export production on the market. Potentially, it is a weak link in the Opec oil strategy; in reality it cannot find enough purchasers to make a major impression on the organisation's total sales.

----- ORDER FORM -----

Enter my annual subscription for 25 issues.

Annual subscription: £225.00 (U.K. First Class Post). U.S. \$450.00 (Overseas Mail).

Name _____ Company _____

Address _____

Country _____

Payment enclosed
Cheques payable to Middle East Newsletters

Please invoice me Signature _____

Return this order form to Middle East Newsletters, P.O. Box 124, Crawley, West Sussex RH10 3YT U.K.