Fortnightly - November 14, 2007

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1: ISRAEL GOVERNMENT ACTIONS & STATEMENTS

1.1 Bank of Israel Increases 2008 Growth Forecast

The Bank of Israel has raised its growth forecast for 2008. Assuming that the repercussions of the sub-prime crisis will be relatively moderate, in accordance with the forecast published by the IMF in October, Israel's GDP is expected to grow by 4.4% in 2008, surpassing the earlier forecast of 4.1%, while business sector product by 5.3%. Concurrently, unemployment is expected to decline gently in 2008 to 7.3%. The projected growth rate is only slightly less than the revised 5.4% GDP growth predicted by the Bank of Israel for 2007. The Bank of Israel added a caveat that if the slowdown is more severe, with world trade growing by less than 3% (as in 2001 - 2003), Israel's GDP is expected to rise by 3.6%, and the rate of growth of business sector product will be down to 4.3%, due to a reduction in the rate of increase of exports to only 3%. The slower increase in activity would lead to a rise in the unemployment rate to 8.2%, and to an increase in the general government deficit to 0.9% of GDP. (BoI12.11)

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1.2 Olmert Government Push For Aid to Industry Hurt By Strong Shekel

The Olmert government said it will establish a joint inter-ministerial committee for the swift implementation of an emergency program to assist industrial companies with the damage caused by the weakening of the US dollar against the shekel. Recently, the shekel rose to its highest against the dollar in nine years. Since January 2006, the shekel has appreciated more than 14% against the depreciating dollar. The Manufacturers Association of Israel expects the fall of the US dollar to cost exporters $1.4b from lost orders this year, or about 4% of the total anticipated, and in turn halt the recruitment of 15,000 new employees to work in the industry. The assistance program, which is budgeted to cost the government $115m, includes a $50m emergency fund to assist small- and medium-sized companies, advisory services on how to insure against currency risk, a non-governmental fund for currency hedging and doubling credit lines for exports to high-risk markets, assistance in the international marketing of products, aid for participation in exhibitions, cooperation meetings, and adding personnel to commercial attaches. (JP13.11)

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2: ISRAEL MARKET & BUSINESS NEWS

2.1 Answers.com's WikiAnswers Tops One Million Questions

Answers Corporation announced that WikiAnswers (http://wiki.answers.com) has passed the one million question milestone. The millionth question, placed in the Science and Environment category, was "Are there readily available substitutes for gold in industrial applications?", asked at 12:22 pm EST. WikiAnswers currently contains over 2,100 categories of questions. WikiAnswers is a wiki-based website that is constantly improving, through the efforts of its dedicated question and answer community. It is the user generated content (UGC) component of Answers.com, where visitors share what they know and ask about what they don't. Jerusalem, Israel's Answers Corporation (http://www.answers.com) operates the award-winning Answers.com answer engine, delivering comprehensive content on over four million topics spanning health, finance, entertainment, business and more. Founded in 1999 by CEO Bob Rosenschein, Answers.com can be launched directly from within Internet Explorer 7, Firefox and Opera browsers, and its service is integrated into sites like The New York Public Libraries' homeworkNYC.org, The New York Times, CBSNews.com and others. (Answers Corporation 31.10)

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2.2 Surf Communication Solutions Named to Deloitte Technology Fast 50 List

Surf Communication Solutions was named to the 2007 Deloitte Israel Technology Fast 50, a ranking of the 50 fastest growing technology companies in Israel. To determine the fastest growing companies, Deloitte reviewed fiscal year revenues over five years (2002-2006), calculated the revenue growth percentage over five years, and compared the growth of technology companies. Yokneam, Israel's Surf Communication Solutions (http://www.surf-com.com) develops a suite of hardware and software products that drives a wide variety of applications whose common goal is high- capacity distribution of voice and video. These applications are predominantly developed by media gateway, media server and IMS equipment manufacturers in the telecommunication infrastructure field. The Surf engine is an off-the-shelf fully converged audio/video media processing subsystem that integrates easily into media gateways and servers. (Surf30.10)

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2.3 Mazda Selects Israel For New 6 Launch

Mazda Motor Corporation importer Delek Automotive Systems is launching the new 6 model in Israel. The car is considered the company's strategic model, with the highest sales among value use category 4 large family cars over the past decade. A few weeks ago, Mazda selected Israel has the first launch market for the new Mazda 6, even ahead of Japan. The new model is 6.5 centimeters longer, 1.5 centimeters wider, and 5 centimeters higher than its predecessor. The chassis has also been extended by five centimeters. Delek Auto will market two body versions of the Mazda 6: a four-door sedan and five-door hatchback. Each version will have an option of two engine sizes: two liter and 2.5 liter. The versions will have varying levels of finishing. (Globes 05.11)

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2.4 OpTier Receives Top Award at Globes and Ernst & Young Conference

OpTier has been named "Most Promising Start up 2007-2008" by top Israeli business outlet "Globes" and Ernst & Young, as part of the organizations' 11th Annual Journey Conference. For the past three years, "Globes" has identified the top Israeli organizations to honor as part of its annual conference, co-hosted by Ernst & Young. This year's ten finalists span industries from high tech to drug development to medical IT and several others. OpTier was honored as the preeminent of the group for its seasoned management team, corporate success and the value its products bring to market. While considered a start-up based on the award criteria, OpTier has achieved significant success in the two and half years since the company's launch. In this short time, the company has already secured $47m in venture capital (as well as an undisclosed amount by Cisco), secured a strong list of Global 2000 customers and has been highlighted by analyst firms Gartner, Forrester, IDC, EMA and others, for its unique approach to Business Transaction Management. Tel Aviv, Israel's OpTier (http://www.optier.com) provides software solutions that dynamically link business services to underlying IT infrastructure, assuring service delivery and optimizing IT resources. (OpTier 05.11)

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2.5 Cosmetic Surgery in Israel Increased By 16% During Last Two Years

The Israel Society of Plastic Surgeons announced that no fewer than 11,600 cosmetic procedures were carried out this year so far, compared with 10,000 in the year 2005. Altogether the cosmetic surgery market turns over $87.5m a year. The breast is the focus of most procedures, by a mile: 36% of all cosmetic surgeries involve reshaping. A full half of women who want augmentation choose a 300cc implant, followed by 31% who select the bigger 350cc implant. Second in popularity is face-lifting and wrinkle-smoothing techniques, followed by rhinoplasty (12%), tummy tucks (12%) and liposuction. Eleven percent of all cosmetic surgical procedures are on the eyelids. There is also a huge increase in non-surgical cosmetic treatments, such as Botox injections, or laser hair removal. The number of non-surgical cosmetic treatments is 10 times greater than the number of surgical procedures, according to the society's figures. An opinion survey that the society conducted found that 12% of respondents might like to undergo cosmetic surgery in the future, but it also found that the older the respondent, the less likely he or she was to consider an operation. Among people aged 55 and up, only 6.1% said they intended to have plastic surgery. (Various07.11)

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2.6 Cherokee Licensing Agreement with Shufersal for Israel

Van Nuys, California's Cherokee, a leading global licensor and brand management company, signed an exclusive international agreement for its Cherokee brand with Shufersal, the largest retailer in Israel. This multi-year agreement covers a wide range of categories including men's, women's, children's clothing, footwear, accessories, home and more. Shufersal operates 226 stores throughout Israel, from Kiryat Shemona in the North to Eilat in the South, and employing approximately 10,000 people. The company operates through three different retail store formats throughout Israel. Neighborhood retail stores operate under the “Shufersal Sheli” brand. The larger hypermarket stores operate under the “Shufersal Big” brand. Shufersal's discount stores operate under the “Shufersal Deal” brand. (Cherokee08.11)

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2.7 Mellanox InfiniBand Accelerates Three of the Top Five Supercomputers in the World

Mellanox Technologies announced InfiniBand continues to be the fastest growing cluster interconnect according to the 30th edition of the TOP500 list of the world's most powerful computers. 125 supercomputers (25% of the list) are connected with InfiniBand, 52% more than the 82 supercomputers reported on the November 2006 list. The total number of InfiniBand connected CPU cores on the list has grown from 137K in 2006 to 340K in 2007 (148% yearly growth) which highlights the increasing demand for InfiniBand to maximize computing resources and performance. Published twice a year and publicly available at Top500.org, the TOP500 list ranks the most powerful computer systems according to the Linpack benchmark rating system and is an industry respected report which indicates usage trends in computing and interconnect solutions. Headquartered in Santa Clara, California and Yokneam, Israel, Mellanox Technologies (http://www.mellanox.com) is a leading supplier of semiconductor-based, high-performance, InfiniBand and Ethernet connectivity products that facilitate data transmission between servers, communications infrastructure equipment and storage systems. The company's products are an integral part of a total solution focused on computing, storage and communication applications used in enterprise data centers, high-performance computing and embedded systems. (Mellanox13.11)

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2.8 Lockheed Martin Awarded $2.3 Million Contract to Continue Work on Israeli Navy Littoral Combat Ship

The U.S. Navy recently awarded Lockheed Martin a $2.3m foreign military sales contract to continue concept and preliminary design work on the proposed Israeli Navy's Littoral Combat Ship (LCS), known as LCS-I. Under the latest contract, Lockheed Martin will work with the U.S. and Israeli navies to develop a technical specification and acquisition cost package for the LCS-I combat system. During the nine-month combat system configuration phase, Lockheed Martin will examine the combat system performance of LCS-I using two different radar options: the advanced radar under development by Israeli Aircraft Industries (IAI) and Lockheed Martin's SPY-1F radar. The team will examine the performance of these two radar options using the COMBATSS-21 combat management system integrated with the Israeli Navy Command and Control (IC2) system and develop the technical architecture, high level specifications and estimated costs to integrate COMBATSS-21 with IC2 and multiple Israeli and U.S. sensor and weapon systems including the MK 41 Vertical Launch System (VLS), Typhoon gun and Barak missile. Lockheed Martin is currently partnered with Rafael Armament Systems, Elbit Systems and Ness on LCS-I. Lockheed Martin received an initial contract from the Israeli Navy in February 2006 to perform a feasibility study for a multi-mission LCS variant. The study, successfully completed in April 2007, resulted in the Israeli Defense Forces' (IDF) decision to approve initial funding for two multi- mission ships currently based on an LCS-I design that would include anti-air, anti-submarine, anti-surface and anti-missile warfare missions, as well as special operations. LCS-I combines the speed, flexibility and survivability of the U.S. Navy LCS with a multi-mission combat system. (Lockheed Martin 12.11)

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2.9 Alma Lasers Ranked 9th in Deloitte Technology Fast 50 Award

Alma Lasers has been named Israel's 9th fastest growing company in the Deloitte Technology Fast 50 program. The program is presented by Deloitte Brightman Almagor. Rankings are based on the percentage revenue growth between 2002 - 2006. This represents the third consecutive year Alma Lasers has received this award. The Technology Fast 50 program is a ranking of the 50 fastest growing technology, media, telecommunications and life sciences companies throughout 16 countries in Europe, the Middle East and Africa. Caesarea, Israel's Alma Lasers (http://www.almalasers.com) is a developer, manufacturer, and seller of laser, light-based and radiofrequency devices for aesthetic and medical applications. Since 1980, the founders of Alma Lasers have been at the forefront of innovative laser and light-based medical technology. Their technical expertise and in-depth understanding of practitioners' needs led to the development of Alma Lasers' multi-technology/multi-application systems. (Alma Lasers 12.11)

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3: REGIONAL PRIVATE SECTOR NEWS

3.1 Allegheny Technologies AL 2003 Alloy Featured on World's Largest Stainless Roof in Qatar

Pittsburgh, Pennsylvania's Allegheny Technologies Incorporated (ATI) announced that one of its proprietary alloys is being used for the largest stainless roof in the world. The roof is for the New Doha International Airport in Qatar. ATI Allegheny Ludlum, an ATI company, supplied 3.5 million pounds of its proprietary AL 2003 lean duplex stainless sheet to Contrarian Metal Resources, Allison Park, PA, for this project. AL 2003 lean duplex alloy is an economic alternative stainless that offers better corrosion resistance and strength compared to the more common and higher nickel-bearing Type 316L. The airport specified that Contrarian apply its proprietary architectural matte finish, InvariMatte, on the AL 2003 lean duplex stainless alloy for added aesthetic value and for glare resistance. At almost two million square feet (approximately the size of 40 American football fields), the airport's roof will have the largest stainless roof in the world when completed. Allegheny Technologies Incorporated is one of the largest and most diversified specialty metals producers in the world. (Allegheny Technologies07.11)

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3.2 Borse Dubai to Complete NASDAQ Deal In Early 2008

Borse Dubai, the holding company of Dubai International Financial Exchange and Dubai Financial Market, is confident of completing its deal with NASDAQ in early 2008, through which it will acquire close to 20% stake in the US exchange. Borse Dubai and NASDAQ entered into a complex agreement on September 20 by which the Dubai firm would eventually sell all its OMX shares to NASDAQ in return for a 19.99% in the merged entity between NASDAQ and OMX. The deal would also result in NASDAQ acquiring a stake in DIFX and re-branding it into NASDAQ-DIFX. The deal is subject to clearance by both the Securities and Exchange Commission (SEC) and the US Treasury. The Treasury as a leader of the inter-agency Committee on Foreign Investment in the United States (CIFUS), will assess whether the sale has any national security implications. In the global consolidation of stock exchanges, Borse Dubai intends to play a key role in liking the Western markets with the emerging markets of Middle East, Africa and Asian markets. (Borse Dubai 05.11)

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3.3 Boeing Wins $13.7 Billion Order from Dubai

Boeing Co, the world's second-biggest manufacturer of commercial airliners, won an order for 100 planes valued at $13.7b from Dubai Aerospace Enterprise. Dubai Aerospace is the Persian Gulf emirate's vehicle for creating one of the world's biggest airport and aviation-services companies. Dubai Aerospace ordered 70 of Chicago-based Boeing's 737 Next Generation aircraft, 15 of the Dreamliner 787 model, 10 777-300ERs and five 747-8 freighter planes for the company's leasing unit. Dubai Aerospace aims to build DAE Capital into a multibillion-dollar lessor that competes with AIG's International Lease Finance Corp and General Electric Co's GE Commercial Aviation Services. (Bloomberg 13.11)

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3.4 Cold Stone Creamery Launches Flagship Store in the Middle East

On 19 October, Scottsdale, Arizona's Cold Stone Creamery, one of America's biggest ice cream retailers, launched its first ice cream outlet in the UAE's Dubai Festival City development as part of its Middle East expansion plans. The company's president made a special visit to Dubai to inaugurate the new store, alongside the U.S. Consul General in Dubai. Cold Stone feels that the region's growing population has fuelled a boom for sweet snacks. The opening event saw families lining up for hours to receive their Cold Stone Creamery ice cream and experience of making their personalized and signature creations. Cold Stone will open a further four stores in Dubai by the end of this year, starting with Al Ghurair branch in Deira, and 40 across the whole region by the end of 2008, with an investment of some $10m. Cold Stone aims to gain 10% of the region's ice cream market by the end of 2008. By 2009, the company plans to have 25 to 30% share. It has partnered with APPAREL GROUP, a leading retailer to bring “The Ultimate Ice Cream Experience” to Ice Cream lovers in the Middle East. (Cold Stone 20.10)

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3.5 Gazprom - Avrasya Signed Agreement

Russian gas supplier Gazprom Export and Turkish company Avrasya Gaz A.S. signed an agreement to carry 500 million cubic meters of Russian natural gas to Turkey annually until 2021. This makes up the first phase of the transfer process of BOTAS's natural gas contracts. Turkey is the leading importer of Russian natural gas nearly 23 billion cubic meters in 2007 which was 20 billion cubic meters in 2006. (BGC01.11)

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3.6 Simena Signs a Partnership Agreement with Turkcell

Sterling, Virginia's Simena, a leading manufacturer of innovative network testing equipment, announced today that it has signed a partnership agreement with Turkcell Communications Services PLC, the largest GSM operator in Turkey. The relationship was formed based on the combined ambition of creating the next generation testing and monitoring solutions for latest networking technologies. Under this agreement, experienced engineers at Simena and Turkcell will work together in designing and developing products which will be used for monitoring, measurements and testing of new protocols and applications. Turkcell is the leading GSM operator in Turkey with 33.8 million customers as of June 30, 2007 with a market share of approximately 59%. In addition to high-quality wireless telephone services, Turkcell currently offers General Packet Radio Service (GPRS) countrywide and Enhanced Data Rates for GSM Evolution (EDGE) in dense areas, which provide for both improved data and voice services. Turkcell provides roaming with 556 operators in 194 countries as of August 7, 2007. Turkcell has interests in international GSM operations in Azerbaijan, Georgia, Kazakhstan, Moldova, Northern Cyprus and Ukraine. Simena creates, develops and manufactures patent pending, true wire speed and highly precise network test equipment. (Simena 01.11)

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4: ISRAEL MACRO-DEVELOPMENTS

4.1 First Jerusalem Light Rail Train Due April 2010

The first line of the Jerusalem Light Railway will begin operating in April 2010, some 18 months behind schedule. Officials from the Ministry of Finance and Jerusalem municipality have been meeting to resolve their differences. The Ministry of Finance has sent a working paper to the municipality concerning, among other things, the timetable for further work on the light rail and work permits, which the municipality has delayed. The municipality is due to review the paper and respond to it, but there has been no significant progress on this matter. Jerusalem Mayor Lupolianski believes that work on the light rail should go forward aggressively one section after another, instead of the current method in which streets are closed while work goes ahead too slowly, in his opinion. The municipality has not yet issued a work permit for the Jaffa Road section of the line or for sections where there is no serious and detailed work plan. The municipality says that the work permits will be issued when serious, detailed plans with timetables are submitted. The new timetable has already caused disputes between the Jerusalem municipality and the Ministry of Finance. To date, only two kilometers of track on the fourteen-kilometer route have been laid. The municipality has called on the government to appoint an independent expert to review the reasonableness of the timetable proposed in the pending contract between the government and City Pass. The municipality also wants City Pass to provide large guarantees in the event that there is a further delay in the timetable. (Globes 12.11)

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5: ARAB STATE & PAKISTANI DEVELOPMENTS

5.1 Kuwait & Tunisia Lead Arab Rankings in WEF Global Competitiveness Report

Jordan ranked slightly lower in the Global Competitiveness Report 2007-2008 released by the World Economic Forum. After ranking 46th in last year's report, the Kingdom came in 49th place on the list of 131 countries. According to the report, Jordan ranked eighth among Arab countries following. Saudi Arabia ranks 35th in The Global Competitiveness Report 2007-2008, released the World Economic Forum. Several countries in the Middle East and North Africa region are in the upper half of the rankings, led by Kuwait (30th), Qatar (31st), Tunisia (32nd), Saudi Arabia (35th) and United Arab Emirates (37th). “High oil prices and intensifying global trade linkages have led to very high rates of growth for the past half-decade in many of the region's countries. Initial reform efforts carried out in recent years have also contributed to this outcome, but, as shown by the GCI results in many countries, the region is still far from realizing its full productive potential. This will require an acceleration of the reform process to tackle many of the obstacles to competitiveness and productivity outlined above. Leaders in the region must seize the opportunity afforded by the windfall oil revenues in the region, which provide a cushion for making the necessary reforms, and they must resist the temptation of allowing what may be a short-lived boon to lead to complacency,” said the World Economic Forum. (Al Bawaba31.10)

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5.2 UAE at Crossroads Over Peg Says Bank Chief

United Arab Emirates Central Bank Governor Sultan Nasser al-Suweidi said on 13 November that while the dirham's peg to the US dollar has served the country well in the past, the UAE faced a possible turning point due to the dollar's slide. But UAE has no plan to unilaterally drop the peg, and any such decision would have to be taken by a summit of the Gulf Cooperation Council group of Gulf states 'at the right time.' The dollar peg has helped UAE's tourism industry and has also been positive for its manufacturing industry, Suweidi said, without elaborating. The UAE has repeatedly ruled out a change to currency policy despite pressure from a weak US dollar, monetary easing by the U.S. Federal Reserve, record oil prices and rising inflation. Inflation in the UAE, the third-largest Middle East oil producer, hit a 19-year high last year of 9.3%. The Gulf Arab states that have a peg tend to track US interest rate changes, limiting their ability to fight inflation that has surged as surging oil prices fuels economic growth. A Reuters poll of economic analysts in September showed that the UAE was the Gulf Arab oil producer most likely to revalue its dollar-pegged currency, and was seen more likely to do it next year than this. Kuwait broke ranks with its Gulf Arab neighbors in May, dropping its peg to the US currency because the dollar's slide in global markets was fuelling inflation. (Various13.11)

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5.3 Saudi Inflation Hits Highest In a Decade

Saudi inflation climbed to its highest in at least a decade in September, raising pressure on the world's biggest oil-exporter to heed growing discontent over prices without straining its currency peg to the dollar. Rent and food costs pushed inflation in Saudi Arabia to 4.89% at the end of September, compared with 4.42% in August, Central Department of Statistics data showed on 7 November.

Inflation has now accelerated for a fifth month running, with rent prices jumping 11% and food 7.2%, the data showed. The central bank is constrained in the fight against inflation by the riyal's dollar peg, which forces it to track US monetary policy at a time when the Federal Reserve is cutting rates and US currency is tumbling to record lows. The riyal hit a 21-year high after the Saudi central bank declined to match the September 18 Fed cut.

It matched an October 31 US reduction, but increased the amount of depositor fund banks must keep in their vaults for the first time in 27 years to prevent lower borrowing costs from fuelling inflation. Prices have become a political issue in Saudi Arabia, unlike neighboring Qatar and the United Arab Emirates, where even higher inflation has had relatively little impact on smaller, wealthier populations consisting primarily of expatriates.

Last month, Saudi King Abdullah summoned officials to explain rising prices and a committee of his advisors called for a national wage hike, a demand that is becoming more difficult to refuse with oil prices at record highs above $98 a barrel.

The dollar has driven up the cost of Saudi food imports from Europe, said John Sfakianakis, chief economist Saudi Arabia's SABB bank. The food and beverage index rose 7.2% in the year to September to 121.6 points, compared with price rises of 6.6% in August and 5.9% in July, data showed. Most retailers typically increase food prices during Ramadan, the Muslim month of fasting, which began on September 13. Domestic factors are also raising inflationary pressures. Economic growth, powered by a near five fold increase of oil prices since 2002, has driven up Saudi property costs. (Various07.11)

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5.4 Egypt's GDP Grows By 17.8% So Far This Fiscal Year

Egypt's gross domestic product measured by current prices jumped 17.8% in the current fiscal year (beginning at the end of June) to $124.44b, Egyptian state news agency MENA reported on 10 November. The report, citing Egypt's Central Bank, did not give further details on GDP growth. The government said in August that the economy had grown 7.1% in real terms during the same period, its fastest in at least two decades, as investment grew. (Various11.11)

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5.5 S&P Affirms Pakistan Sovereign Ratings But Revises Outlook to Negative

Standard & Poor's Ratings Services (http://www.standardandpoors.com) revised its outlook on the long-term foreign and local currency sovereign credit ratings of the Islamic Republic of Pakistan (Pakistan) to negative from stable. At the same time, Standard & Poor's has affirmed its 'B+/B' foreign currency and 'BB/B' local currency sovereign credit ratings on the republic. The outlook revision reflects heightened and prolonged political uncertainty after President Musharraf's declaration on the state of emergency on Nov. 3, 2007, and its potential impact on economic growth, fiscal performance, and external vulnerability. The sovereign's political and security situation has deteriorated markedly in recent months. Before declaring a state of emergency, President Musharraf was undergoing what many perceived to be the most severe challenge to his authority since he came to power eight years ago. This period of increased uncertainty has been marked by violent social unrest relating to the removal of the country's chief justice, the Red Mosque siege in Islamabad, and the assassination attempts on the president's life. The expansionary stance of the 2007-2008 budget has led to heightened concerns over the country's fiscal position, which remains vulnerable given the government's high debt and debt-service burdens. Recent events exacerbate the risk of expenditure overruns and revenue shortfalls, thereby increasing the risk of exceeding the 4% deficit target. In addition to potential fiscal impact, the political turmoil exposes the sovereign to external pressures if foreign direct investments and other equity inflows, which have funded about two-thirds of the country's large current account deficit (estimated at just under 20% of current account receipts in fiscal 2006-2007), diminish significantly. (Standard & Poor's 06.11)

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5.6 Moody's Changes Outlook On Pakistan's Rating To Negative

Moody's Investors Service has changed the outlook to negative, from stable, on the B1 government foreign- and local-currency bond ratings following President Musharraf's recent imposition of emergency rule. A negative outlook was also placed on Pakistan's B2 foreign-currency country ceilings for bank deposits. The outlook for Pakistan's Ba3 foreign-currency country ceiling for bonds is unaffected by today's action and remains stable. Moody's believes that the imposition of emergency rule represents a further erosion in Pakistan's governing capacity and underscores Pakistan's heightened political instability. President Musharraf's narrowing domestic support base and shakier relations with the U.S. and other key international allies now appear to be a greater threat to investor confidence than was true in the past. Political turbulence in Pakistan since the beginning of this year had been shrugged off by foreign investors and domestic market participants, who remained confident that the country could muddle through. "However the balance of risks now appears to be shifting to the downside." Looking ahead, a ratings downgrade could occur if external capital inflows significantly diminished or if a loss of domestic confidence led to a major slowdown in economic activity or otherwise undermined macroeconomic stability. (Moody's 05.11)

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5.7 Pakistan's July-October Trade Deficit Widens To $5.578b

Pakistan's trade deficit swelled to $5.578b during the first four months (July-October) of the current fiscal year, up by 38.03% from $4.041b over the same period last year. Experts say Pakistan is increasingly becoming an import-dependant country with an expanding list of food items despite being an agricultural country. They say that surging trade deficit is also the result of unprecedented increase in oil prices which is causing rise in cost of doing business affecting exports. The growing trade deficit, they fear, could intensify the spate of inflation as Pakistan has been importing a number of food items, including pulses, wheat, medicines, and milk apart from machinery and other items. According to official figures released by the Federal Bureau of Statistics (FBS), the export of goods went up marginally to total of $5.865b during the first four months of the current fiscal year as against $5.515b over the same period last year. However, exports declined by 5.64% over last month, declining to $1.408b in October 2007 from $1.493b in September last month. Imports increased by 19.74% to $11.443b during the first four months of the current fiscal year as against $9.775b over the same period last year. This high import growth has pushed up trade deficit further. (BR13.11)

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6: TURKISH, CYPRIOT & GREEK DEVELOPMENTS:

6.1 Turkish Consumer Prices Rise To 7.7%

Consumer prices in Turkey rose by 1.81% in October from the previous month and were up 7.7% on a 12-month basis, the Turkish Statistics Institute said 2 November. Producer prices decreased by 0.13% from September to October, bringing wholesale inflation over 12 months to 4.41%. In 2006, inflation reached 9.65%, nearly double the year-end target of 5.0% in an IMF-backed austerity program. The government has set its 2007 year-end target at 4.0%. Fighting inflation is a key element in a three-year economic stability program that Turkey is implementing with the help of a 10-billion-dollar loan from the International Monetary Fund. The deal expires next year. IMF-backed tight financial policies have helped the government beat inflation targets over the past three years, bringing the rate from 29.7% in 2002 to 7.7% in 2005. (TUIK02.11)

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6.2 Turkish Central Bank Not Worried For Inflation

The Turkish Central Bank released its monthly inflation evaluation report. Accordingly, CBT said the new rates for special consumption taxes, increase in tobacco prices and new tariffs for water in Istanbul prices will likely to increase inflation in November. CBT's report said that 1.81% increase in October CPI was due to the “considerable rise” in food prices and noted that decrease in core and service sector inflation continued. The CBT said that following the expected rise in November, downtrend in inflation should continue. (BGC06.11)

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6.3 Turkey's September Trade Deficit Passes $5 Billion

Turkey's exports were worth $8.993b in September, while imports amounted to $14.032b, resulting in a foreign trade deficit of $5.04b for the month. The foreign trade deficit increased by 10.4% to $45.3b for the first nine months of 2007. Export of white goods continued to slow down in September while the strong export performance in textile continued despite some decrease. Import of passenger cars increased by 22.8% whereas import of consumption goods had the highest increase with 23.4% in September. Imports of investment goods and intermediary goods were up by 15.7% and 14%, respectively during Sept. 2007. An upward revision in import figure is likely in the coming months, based on the taxes on imports in central government budget for the month of September. (BGC01.11)

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6.4 Turkish Draft Bill for Supermarkets

A new draft bill in retailing sector will negatively affect the supermarkets. The draft bill which aims to protect smaller retailers (corner stores) against the supermarkets arranges the working hours of markets larger than 400 sqm. According to the draft bill, supermarkets will be closed on Sundays and on official holidays. The closing hour of the supermarkets is set to be as 20:00. The draft bill also limits the sale of private label products. Accordingly, private label products will not exceed 20% of the total revenue. The opening of new markets will be subject to permission of a regulatory Board whose members will also include members elected by also groceries and small business participants as well as deputy of governor. (BGC06.11)

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6.5 Ankara Publishes Its 2008 Economic Program

Ankara officially published its 2008 Economic Program in the Official Gazette. According to the plan, public sector fixed capital investments will decrease by 3.9% while the private sector's capital investments are estimated to grow by 8.5%. Open inflation targeting policy will continue to operate in 2008. That means the central bank will keep using key interest rates as its basic policy tools and that the floating exchange rate regime will continue to reign. The agriculture sector will contribute to growth by 0.3%. Industry's contribution is estimated to be 1.7%. The biggest share of growth in 2008 will belong to the services sector, 3.5%. According to the program, the government will monitor the fiscal, monetary and revenues policies and work hard to run them all in harmony in order to protect macroeconomic stability. The planned price hikes in oil and tobacco have also come up. It is also mentioned that automatic pricing in electricity could be introduced in March 2008. The Sugar Factories will be privatized in two years and highways privatizations will be completed in 2008. The auctions regarding the electricity distribution are planned to start in 2008. There will be no cut in social security premiums in 2008. (BGC30.10)

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6.6 Turkey Climbs Up 6 Spots In WEF Competitiveness Rating

Turkey improved to 53rd place, up by 6 spots among 131 countries in the overall ranking of The Global Competitiveness Report 2007-2008 released by the World Economic Forum. This year Turkey has passed Croatia (57th), Greece (65th), Romania (74th) and Bulgaria (79th). Last year Turkey was only ahead of Romania and Bulgaria among EU and EU-candidate countries. (BGC01.11)

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6.7 Nuclear Energy Bill Passed From Turkish Parliament

The nuclear bill "The Law Concerning the Construction and Operation of Nuclear Power Plants and the Sale of Energy" passed in Parliament on 9 November. As it might be recalled, the bill was rejected by the former President Sezer. Accordingly, Atomic Energy Authority (TAEK) will publish the criteria for the companies who will enter this business in a month. The law allows private companies seeking to establish a nuclear power plant to strike partnerships with state-owned companies, which can be established only upon Cabinet approval. Public companies will be able to construct and run nuclear energy plants by themselves if the ministry assigns them to such a task. They are also allowed to engage in similar investments abroad. (BGC12.11)

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6.8 IMF Sees 3.7% Cyprus Growth in 2008

The Cyprus economy will grow by 3.8% in 2007-matching that of 2006 and then slip marginally to 3.7% next year, according to the latest projections given by the International Monetary Fund. The IMF's projections are below the Finance Ministry's more optimistic forecasts of 4.2% and 4% GDP growth in 2007 and 2008 respectively. In its World Economic Outlook 2007, the IMF sees the consumer price index down to 2% in 2007 from 2.5% in 2006. It is seen as rising to 2.4% next year. These estimates are below those given by the Finance Ministry-2.2% in 2007 and 3% in 2008. Unemployment is seen as remaining steady at 4% in 2007 and 2008, an improvement on the 4.5% of 2006. The Finance Ministry sees unemployment at 4.3% in 2007 and 4% in 2008. The IMF projects the fiscal deficit at 1% of GDP in 2007 and 0.6% next year, very close to the ministry's own estimates of 1% and 0.5%. The current account deficit is projected at 5.5% of GDP in 2007 and 5.6% in 2008. (Cyprus Weekly 19.10)

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6.9 Cyprus Government To Set Up Company For Natural Gas Import

Cypriot President Papadopoulos said that the government will take all necessary steps to help set up a company for the import of natural gas. This, he pointed out, has to be done as quickly as possible. He explained that a market can be declared “emerging” only if there is an importer or when all the necessary preparations have been made to have somebody to import who will get the license. They have invited the Cyprus Electricity Authority to participate in this company with a 39% stake. Though they are currently not interested, the government will go ahead with this decision. (FM12.11)

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6.10 Cyprus Seeks To Lure Low Cost Airlines

In a bid to reverse falling tourist numbers, the government aims to give incentives to foreign airlines to start flights to Cyprus, but will need EU backing for the project. The Cyprus Tourism Organization (CTO) is putting the final touches to the plan, which will involve co-financing airlines' travel costs. The move aims to tap into the Italian, Irish and Central European markets, as arrivals from these countries are currently very limited. But as the project involves subsidization, it will need to be approved by the EU. The CTO is reportedly confident Brussels will give the green light, as it had done for Malta, which is implementing a similar five-year scheme. In fact, the Maltese endeavor has served as the model for the CTO plan. The European Commission approved Malta's project as it deemed the Mediterranean island could be given an exemption due to its "geographical particularities", a trait shared by Cyprus. Some of the conditions placed on Malta were that the plan should be of a specific duration (five years), that the procedures should be completely transparent and that funds should be available to any interested party, ruling out discrimination and unfair treatment. The Maltese government undertook to cover up to 40% of the airlines' initial costs, including marketing costs. The CTO hopes the low air fares will make Cyprus a more popular destination, both in terms of cost and flexibility, as visitors will no longer need to buy package tours. (Cyprus Mail 03.10)

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7: GENERAL NEWS AND INTEREST

7.1 Saudi Arabia Bans Forbes Issue Over King's Wealth

Saudi Arabia has banned the latest issue of the Arabic-language edition of Forbes magazine for an article about the wealth of the king and other Arab leaders, its managing editor said on Wednesday. The reason was a two-page report on the wealth of 15 ruling dynasties, seven of which are Arab. The Saudi distribution company was told about the ban and instead of removing the pages of the report, the authorities decided to ban the magazine altogether. Saudi authorities have ordered columns by Khalid al-Dakhil, a prominent Saudi analyst and university lecturer, to be ripped out of Forbes Arabia twice so far this year. Authorities in the conservative kingdom also tear out pages from newspapers and magazines before they hit newsstands if they contain pictures deemed indecent. (Various24.10)

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7.2 EU Warns Turkey on Regenerating the Reform Process

Turkish Justice Minister Sahin said Ankara had completed work on reforming a law curbing freedom of expression and would present it to parliament soon following the European Commission's report saying that Turkey must make "significant further efforts" on freedom of expression and religion to move forward its bid for EU entry. The European Commission urged Turkey to avoid military action in northern Iraq. As a final note, enlargement commissioner Olli Rehn declined to speculate on the impact of a possible military incursion into northern Iraq on Turkey's accession process, but he strongly urged Ankara and Baghdad to deal. Rehn also noted that he proposed that amendment of Article 301 become a benchmark for the opening of accession negotiations on one of the 35 chapters, namely the one on fundamental rights, meaning that talks will not be opened on this chapter unless Turkey amends the article. Rehn mentioned that EU should open new chapters with Turkey as soon as they are technically ready and said at least two chapters (consumer and health protection as well as trans-European networks) could be opened in the coming weeks. (BGC07.11)

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8: ISRAEL LIFE SCIENCE NEWS

8.1 Belgian Company Licenses Hebrew University Biodegradable Plastic

Yissum Technology Transfer Company of the Hebrew University of Jerusalem has signed a new licensing agreement with a Belgian holding company for the commercialization of a new clean technology developed at the university. Yissum will receive a licensing fee and royalties on sales of future products derived from the technology. Hebrew University researcher Prof. Brown has developed technology enabling the production of biodegradable plastic for the food-packaging industry, by using protein-rich crops, such as soy beans, canola rapeseed, and corn. The economic advantage of the plastic is the simple chemical reaction that replaces at least some pf the primary amines in the protein-based material with a different chemical group, in order to produce a new "building unit" for construction of the plastic. The technology converts vegetable protein using a simple chemical modification into a starting material for plastic production using existing industrial technologies. (Globes 05.11)

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8.2 Ferndale & Foamix Develop Innovative Foam for the Treatment of Atopic Dermatitis

Ferndale, Michigan's Ferndale Laboratories and Foamix announced that the two companies have agreed to jointly develop non-steroidal foam for the treatment of atopic dermatitis. According to this agreement, Foamix will be responsible for developing the foam formulations and Ferndale will have an option to continue definitive development and worldwide commercialization of the product. Additional terms were not disclosed. The development of the foam product will be directed to fortify the skin barrier by delivering a very high concentration of barrier-enhancing oils in an easy-to-apply formulation. Non-steroidal therapy is important for safe, long-term management of atopic dermatitis and the associated symptoms. Headquartered in Ness Ziona, Israel, Foamix (http://www.foamix.co.il) is a specialty pharmaceutical company focused on the development of topical foam products for prescription, OTC and cosmetic applications. Foamix's state-of-the-art foams provide controlled delivery of a variety of active ingredients. Foamix is a privately held company, whose business model is based on partnering with leading pharma companies to develop products utilizing its proprietary foam technologies. The company's development capabilities range from initial development of foam formulations to scale-up, GMP manufacturing, preclinical and clinical studies. (Foamix05.11)

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8.3 Yissum Commercialization of Biodegradable Plastic Produced from Protein-Rich Plants

Yissum signed a licensing agreement with a Belgian holding company for the commercialization of an innovative clean technology for the manufacturing of biodegradable plastic produced from protein-rich plants. According to the agreement, Yissum will receive licensing fees and royalties from sales of future products. Professor Braun, from the Hebrew University of Jerusalem, has developed a unique technology enabling the production of biodegradable plastic for the food-packaging industry that is manufactured from dregs left after processing protein-rich crops such as corn, canola, rapeseed and soy beans. The economic advantage resides in the use of a simple chemical reaction that replaces some of the primary amines in the protein-based material with a different chemical group, in order to produce a new "building unit" for the construction of plastic. The technology enables to convert an agriculturally-produced protein into new raw material similar in qualities to polypropylene, yet retaining the organic properties which render it highly degradable.

Yissum (http://www.yissum.co.il) was founded in 1964 to protect the Hebrew University's intellectual property and commercialize it. Hebrew University technologies licensed out by Yissum have generated $1b in annual sales. Ranked among the top technology transfer companies in the world, Yissum has registered 5,000 patents covering 1,400 inventions; licensed out 400 technologies and spun out 60 companies. (Yissum08.11)

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9: ISRAEL PRODUCT & TECHNOLOGY NEWS

9.1 Magal Receives $1.2 Million Orders for its DreamBox System With Intelligent Video Analysis

Magal Security Systems recently received two orders for approximately $1.2m to protect an air force base along a seashore and dozens of gas storage sites in Western Europe. The first order is for protection of an air force base situated next to a seashore from intruders infiltrating the base from the sea. The order includes the Magal's MTC-1500 Thermal Day and Night Surveillance cameras and DreamBox system with its built-in intelligent video analysis technology. The second order is for protection of dozens of gas storage sites from illegal and unauthorized entry into the secured area. The order includes Magal's DreamBox system with its integrated intelligent video analysis technology. DreamBox is a state-of-the-art embedded hardware and software product which in these two orders integrates intelligent video analysis, digital video recording and a video matrix switcher with its security management system. Yehud, Israel's Magal Security Systems (http://www.magal-ssl.com) is engaged in the development, manufacturing and marketing of computerized security systems, which automatically detect, locate and identify the nature of unauthorized intrusions. Magal also supplies video monitoring services through Smart Interactive Systems, Inc., a subsidiary in the U.S. (Magal01.11)

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9.2 JPMorgan Chase Selects Voltaire InfiniBand for Unified Data Center Fabric

Voltaire announced that JPMorgan Chase (JPMC) has selected and deployed Voltaire InfiniBand-based Grid Backbone solutions for a unified data center fabric. By using Voltaire solutions, JPMC is able to use a new computing architecture that accelerates performance of their applications while significantly reducing overall data center costs. Unified fabrics provide seamless, high performance networking services between InfiniBand fabrics, Fiber Channel SANs and Ethernet LANs over a single high performance fabric with multiple virtual interfaces replacing actual physical adapters. Voltaire's Grid Director switches enable unified fabrics for the next generation data center by addressing all three types of networking traffic within a single chassis. JPMC selected Voltaire Grid Director™ InfiniBand-based switches for the compute fabric and Voltaire IP Routers which provide seamless connectivity to Ethernet LANs. The Voltaire solutions were deployed as part of a risk analysis grid in its North Harbor, U.K. data center. Headquartered in Herzliya, Israel, Voltaire (http://www.voltaire.com) designs and develops server and storage switching and software solutions that enable high-performance grid computing within the data center. Voltaire refers to its server and storage switching and software solutions as the Voltaire Grid Backbone. (Voltaire 02.11)

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9.3 West Telemarketing Corporation Selects NICE Perform

NICE Systems announced their NICE Perform system was chosen by Omaha, Nebraska's West Corporation, a leading provider of outsourced communication solutions, to help standardize the West Corporation enterprise. NICE Perform is a part of the NICE SmartCenter family of solutions. Selected West contact centers will use NICE's next generation VoIP Recording Gateway (VRG) for a centralized and more cost-effective recording solution. NICE's VRG is a unique VoIP gateway technology that addresses the latest trends and needs in VoIP environments. Organizations are faced with changing business needs and new regulations that require them to record customer interactions in remote locations and branches. This constitutes a major challenge for conventional recording systems, where the VRG makes this task highly efficient and cost effective. Ra'anana, Israel's NICE Systems (http://www.nice.com) is the leading provider of Insight from Interactions solutions and value-added services, powered by advanced analytics of unstructured multimedia content – from telephony, web, radio and video communications. NICE's solutions address the needs of the enterprise and security markets, enabling organizations to operate in an insightful and proactive manner, and take immediate action to improve business and operational performance and ensure safety and security. (NICE Systems 02.11)

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9.4 Alvarion's Mobile WiMAX Technology Chosen by ITRI for New Application Lab

Alvarion announced that its Mobile WiMAX technology has been chosen for the first WiMAX Forum M-Taiwan WiMAX Application Lab (MTWAL), managed by ITRI at the campus in Hsinchu. The new lab, also referred to as a Proof-of-Concept (PoC) lab, has just been opened by ITRI for the purpose of testing and developing innovative Mobile WiMAX applications. Alvarion's IEEE 802.16e end-to-end 4Motion solution will provide various applications over Mobile WiMAX, and promote multi-vendor interoperability performance of WiMAX equipment at the 2.5 GHz frequency band. Alvarion's all-IP OPEN WiMAX architecture is the foundation of its operator-centric best of breed 4Motion solution. Whether providing a complete Alvarion-based network, or combining BreezeMAX's superior radio technology with network elements from its world-class ecosystem of partners, Alvarion delivers an end-to-end solution that is tailored to the specific requirements of each operator.

With more than 3 million units deployed in over 150 countries, Alvarion (http://www.alvarion.com) is the world's leading provider of innovative wireless broadband network solutions enabling Personal Broadband to improve lifestyles and productivity with portable and mobile data, VoIP, video and other services. Alvarion is leading the market to Open WiMAX solutions with the most extensive deployments and proven product portfolio in the industry covering the full range of frequency bands with both fixed and mobile solutions. Alvarion's products enable the delivery of personal mobile broadband, business and residential broadband access, corporate VPNs, toll quality telephony, mobile base station feeding, hotspot coverage extension, community interconnection, public safety communications, and mobile voice and data. (Alvarion 05.11)

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9.5 New Participation TV Formats Now Available with Screenpeaks SlideTV

After launching the industry's first Participation SlideTV solution, Screenpeaks now offers a suit of new exciting Participation SlideTV applications to its customers, allowing them to further expand their variety of TV programs and to optimize their revenues. Participation SlideTV allows for viewers to interact with the TV content over SMS, MMS, IVR or over the internet, and to display their personal inputs as part of the SlideTV program. Viewers can now interact with each other and participate in SlideTV SMS to TV chats, quizzes, games, voting and auctions or just share their personal content with other viewers – all with a dramatically enhanced viewer experience and satisfaction. Participation SlideTV provides interactivity regardless of the set-top-box. With its proven, highly flexible, real-time Participation SlideTV platform, Screenpeaks continuously develops additional Participation SlideTV formats focused on various markets and communities. Screenpeaks also invites its customers to take part in this exciting opportunity and to ‘realize their wishes' for new revenue-generating applications. Rosh Ha'Ayin, Israel's Screenpeaks (http://www.screenpeaks.com) is the leading provider of SlideTV platforms operating dozens of Channels worldwide. Screenpeaks SlideTV is an end-to-end ultra-thin-band digital slide TV channel - broadcasting slides and voice programs over digital satellite or cable TV, focused on revenue-generating advertising, entertainment and information, consumed over premium rate calls and premium SMS. Viewers are able to instantly and easily react and move-to-action over mobile and fixed phones and to generate instant revenues to broadcasters, mainly from Premium telephony and SMS. This unique combination of content, platform and format proves to increase advertising efficiency and to be highly profitable for Screenpeaks customers. (Screenpeaks05.11)

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9.6 Sagem, Orca & BitBand Team for First-Class End-to-End IPTV Solution in Colombia

France's Sagem Communications, a worldwide market leader of IPTV CPE, Orca Interactive and BitBand have been selected by UNE-EPM Telecomunicaciones in Colombia to jointly offer a powerful End-to-End IPTV solution, focused on an enhanced quality of experience for users. Following the successful joint IPTV deployments of Darty in France and On Telecoms in Greece, Sagem Communications, Orca Interactive and BitBand realized that service providers need a reliable and service-enabling solution with the unique advantages offered by their combined solution. The current deployment with UNE-EPM demonstrates the continuing demand for the tailored IPTV solution provided by this truly global and proven alliance. The readily-available solution offered by the three companies and implemented, in this case, by Union Electrica S.A., enables the delivery of a full spectrum of dynamic TV services, ranging from Enhanced broadcast TV to On-Demand content. Utilizing the companies' joint solution guarantees the utmost Quality of Experience to IPTV subscribers, including fast channel zapping, top quality TV even over low quality access lines, the ability to pause and rewind live TV, and more.

Netanya, Israel's BitBand's (http://www.bitband.com) advanced video delivery solutions over IP broadband networks help Next Generation Service Providers and Telcos realize the Triple Play offering, enabling quick entry into new markets, faster ROI and a safe track to profitable large scale service. The company's solutions are targeted at large scale deployments of TV-centric residential subscribers and feature high-scale streaming and robust performance optimized for hybrid and distributed network architectures. Ra'anana, Israel's Orca Interactive (http://www.orcainteractive.com) is a market pioneer and innovation leader in providing IPTV middleware and applications, bringing the power of next generation interactive TV to help service providers and broadband network operators drive growth. (Sagem08.11)

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9.7 Tower Semiconductor Releases a New Offering of Advanced Image Sensor Pixels

Tower Semiconductor announced the availability of its new Image Sensors Platform. The new offering adds advanced imaging capabilities onto the base of its 0.18-micron technology platform and is produced in Tower's advanced Fab2 facility. The latest release in this family, the 2.2-micron pixel, exhibits excellent noise and dark current performance even at elevated temperatures. The most important parameters for low light conditions, dark current and dark signal non-uniformity (DSNU), achieve world class performance results of less than 1.5e/sec and 9e/sec respectively, at room temperature. This new 2.2-micron pixel joins Tower's broad family of advanced pixel IPs which includes the 2.8-, 3.2- and 3.6-micron pixels, already manufactured in mass production with very high yields. The race to reduce pixel size just hit another mark. Using smaller pixels, designers can increase the camera's resolution without increasing its size, thereby attaining a very cost-effective solution for high-volume applications. Migdal Ha'Emek, Israel's Tower Semiconductor (http://www.towersemi.com) is an independent specialty foundry that delivers customized solutions in a variety of advanced CMOS technologies, including digital CMOS, mixed-signal and RF (radio frequency) CMOS, CMOS image sensors, power management devices, and embedded non-volatile memory solutions. (Tower 13.11)

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9.8 Leadcom & Optibase Partner to Deliver Advanced End-To-End IPTV Solution in Kazakhstan

Optibase and Leadcom Integrated Solutions announced a strategic alliance to roll out integrated TV over IP services. The first project will be delivered to a leading Telco operator in the Republic of Kazakhstan. Leadcom selected Optibase's pre-integrated, advanced IPTV platform in order to enhance its offering by adding high quality, broadcast TV and interactive IPTV services. The joint deployment in Kazakhstan includes Optibase's end-to-end IPTV solution consisting of Video on Demand (VOD), personal video recorder (PVR) services, middleware, set-top-boxes (STB) and the Optibase Media Gateway (MGW) carrier-grade H.264 encoding platform. Countries such as Kazakhstan are experiencing strong growth due to new legislation and liberalization of the telecom sector. The IPTV solution provided by Optibase and Leadcom is ideally suited for this fast growing market, offering a state-of-the art system, which can be deployed both quickly and effectively.

Hod Hasharon, Israel's Leadcom Integrated Solutions (http://www.leadcom-is.com), established in 1982, is an international leader in innovative telecommunications solutions. Incorporated in Israel, Leadcom was admitted to London's AIM market in April 2005. Herzliya, Israel's Optibase (http://www.optibase.com) provides professional encoding, decoding, video server upload and streaming solutions for telecom operators, IPTV service providers, broadcasters and content creators. The company's platforms enable the creation, broadband streaming and playback of high quality digital video. (Optibase13.11)

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9.9 Elbit Systems to Supply UAV Systems to the Israeli Defense Forces

Elbit Systems received a new UAV order for the Israeli Defense Forces (IDF). The order, valued at approximately $30m, includes the development, manufacture and supply of new and improved UAV systems, as well as the upgrade of existing UAV systems, designed to enhance and expand the IDF's existing UAV platform. Development and supply is scheduled to take place over a period that exceeds three years. The Hermes 450 is an original development of Elbit Systems, and the IDF has been operating UAVs based on this platform for several years. During the recent war in Lebanon its UAVs flew many combat sorties proving their efficiency in performing their missions by providing effective operational results and achieving their goal - the supply of necessary, visual intelligence to the ground forces. The Hermes 450 UAVs are operated by various military forces worldwide and are deployed in battlefields such as Iraq and Afghanistan to the full satisfaction of the customers.

Haifa, Israel's Elbit Systems (http://www.elbitsystems.com) is an international defense electronics company engaged in a wide range of defense-related programs throughout the world. The Elbit Systems Group, which includes the company and its subsidiaries, operates in the areas of aerospace, land and naval systems, command, control, communications, computers, intelligence surveillance and reconnaissance (C4ISR), unmanned air vehicle (UAV) systems, advanced electro-optics, electro-optic space systems, EW suites, airborne warning systems, ELINT systems, data links and military communications systems and radios. (Elbit Systems 12.11)

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10: ISRAEL ECONOMIC STATISTICS

10.1 Foreign Investment Continues Flowing Into Israel

The Bank of Israel announced on 13 November that total direct and portfolio investment by nonresidents amounted to $1.25b in October, greater than 10% of the total $9.3b investments made since the beginning of 2007. The Bank of Israel reported foreign exchange activity data, which showed that nonresidents' investments in Israel continue to be strong, following a trend of large amounts of total direct and portfolio investments, which totaled $22.5b in 2006 and $8.6b in 2005. Foreign direct investment in October totaled 1.87b, and has totaled 8.1b since January. The October figure was impacted significantly by the purchase by a nonresident of an Israeli company producing communication equipment. The direct investment from that deal totaled $1.2b. Half of this amount was already held by the nonresidents as a portfolio investment, so that alongside the direct investment of $ 1.2b, sales of about $ 600m from the nonresident's portfolio holding were also recorded. Direct investment abroad by Israeli investors reached $110m in October and has reached $5.1b since January. (BoI13.11)

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10.2 Israel's Car Imports Jump

The Israel Tax Authority announced in 4 November that 17,635 cars were imported to Israel in October, 31% more than in October 2006. The value of imported cars rose by 40% to $1.93b, because of additional accessories and fittings. Car imports totaled 158,437 in January-October, an increase of 29% over the corresponding period in 2006. The sharp increase in the quantity and value of car imports is attributed to the low shekel-dollar exchange rate and rising standards of living in Israel. Imports of appliances in January-October, compared with the corresponding period included: refrigerators - up 11% to more than 293,000 units; washing machines - up 13% to 212,000; clothes dryers - up 20% to more than 44,000; dishwashers - up 19% to more than 56,000; televisions - up 10% to more than 433,000; and video and DVD recorders, up 11% to 513,000 units. Some 252 million cigarette cartons were imported in January-October, 2% more than in the corresponding period. (ITA04.11)

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11: IN DEPTH

11.1 PERSIAN GULF: Elusive Unity

The Economist Intelligence Unit observed that there seems to be an ineluctable logic to the GCC's attempts to mimic the EU's integration process. The sooner the six-state body gets to proposed convergence deadlines, the bigger the divisions between members states over meeting those self-same targets. The long-promised EU-GCC free trade agreement remains stuck in limbo. Even more egregiously, as the 2010 deadline for monetary union comes within touching distance, the member states have shed any semblance of unity about a single GCC currency.

Oman – in an echo of the stance of its close ally Britain towards European single currency - was first to opt out, in May 2007. Oman's absence was a blow, but the coup de grace came when Kuwait abandoned its dollar-pegged exchange rate regime that same month, scrapping a previous agreement to keep it in place until the launch of the single currency. Kuwait's decision to break ranks followed the dollar's slide on global markets, with its toxic inflationary impact. The switch of its exchange rate mechanism to a basket of currencies, in an effort to forestall import-driven inflation, precipitated a wave of speculation about currency pegs in the other Gulf countries.

Lip Service

In public at least, GCC leaders are still sticking to the 2010 timeframe. The GCC's secretary-general, Abdulrahman al-Attiyeh, told a conference in Amsterdam on October 30th that the deadline would remain place. But this appears to be at odds with the consensus view that emerged from a meeting of GCC finance ministers and central bank governors three days earlier in Jeddah. This hinted at a reassessment of the deadline, rather than a commitment to it.

“The situation will be assessed taking into consideration the economic situation in the region in order to set a new date for the monetary union of the council,” said Hamad al-Sayari, governor of Saudi Arabian Monetary Agency (SAMA, the central bank). A final decision on timetables is now expected in early December at the full GCC heads of state summit in Doha. If the 2010 deadline is to be set in stone, the GCC may find itself committed to a two-speed union, under which those states which are ready would launch in 2010, and the stragglers would come on board at a later date.

This option looks unpalatable, since it would dramatically weaken the wider dynamic of economic integration taking root in the Gulf. More likely is that GCC heads of state will agree to postpone the deadline for a few more years, allowing time for the members to forge some kind of unity over monetary union. Even the more zealous advocates of currency union have indicated that the project could wait until 2015 if need be.

Inflation Spike

This underscores the message that Gulf states will need to get the politics right if they want to meet economic integration deadlines, not just on monetary union, but on the a formal agreement on the convergence criteria and establishment of a common market and customs union by 2008. Stuttering progress currency union reflects the continued primacy of national interests over common goals. Kuwait had adopted the dollar peg in 2003 as part of the GCC's preparation for a single currency. However, the inflationary spike that prompted its decision to remove the dollar peg resonated more strongly with policy makers than its likely impact on the 2010 deadline.

Following the Fed

Kuwait's problems are to some extent shared by all GCC states. They have all found the dollar peg increasingly hard to defend, with their hydrocarbons-inflated surpluses now sharply at odds with a US economy racked by multi-billion dollar deficits. The Fed's rate cuts in September and October, totaling 75 basis points, have put GCC central banks on the spot - some, notably SAMA, declined to follow the Fed on the first cut, but they all fell into line after the second cut, quashing speculation that revaluation might be at hand.

Now the focus is to accentuate the positive, and build firmer foundations for future cross-border initiatives. Customs union has so far proved a smooth process. Since it unified tariffs in 2003, intra-GCC trade volumes have risen from 6% to 20%. Despite the free-trade agreements (FTAs) signed by the US with Bahrain and Oman, there is still a strong commitment to maintaining a common GCC negotiating position as the EU and a host of other key trading partners queue up to sign FTAs with the GCC as a single bloc.

Focusing on the common market may make more sense than chasing after a single currency. Politically, the GCC looks in better fettle than for a couple of years. Qatar and Saudi Arabia have undergone a public kiss and make up in order to keep the GCC summit on track. Cross-border economic projects are proliferating. Member states are serious about striking a trade pact with Brussels, likely to be inked by 2008. Others will follow, adding ballast to the six states' other integration programs.

Secretary-general Attiyah told the Amsterdam audience that the GCC's chosen style of economic integration was to take practical steps over ambitious plans that never get implemented. By putting currency union on the backburner, they may in the event do far more for integration than foisting ill-timed politically inspired plans on its member states. (EIU06.11)

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11.2 PERSIAN GULF: Moody's Explains Why Wealthiest Gulf States Are Not Rated Aaa

Moody's (http://www.moodys.com) released an explanation on its rating for the Persian gulf states on 7 November The six member states of the Gulf Cooperation Council - Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, United Arab Emirates - have enjoyed an unprecedented economic boom over the past five years. Reflecting their enhanced creditworthiness and ability to cope with potential shocks, they have received sovereign ratings upgrades from Moody's Investors Service of between two and four notches since 2003.

Such has been the degree of their economic improvement that some GCC countries now outperform even Aaa-rated countries according to several of Moody's comparative ratios. Yet even the wealthiest Gulf states (Kuwait, Qatar and the UAE) do not currently have ratings higher than Aa2, Moody's says in a new Special Comment. In essence, this is for three key reasons: regional geopolitical vulnerabilities, the developing state of domestic institutions, and the volatility of economic performance associated with a heavy concentration on hydrocarbons.

"Measured in output per capita, the prosperity of the six GCC countries has climbed sharply in recent years, in some cases to very high levels, on the back of soaring global oil prices and impressive progress in economic diversification. Perhaps most importantly from a sovereign ratings perspective, there has been a dramatic strengthening of governments' balance sheets over this period as fiscal and current account surpluses have widened. This is despite a strong pickup in government expenditure and imports," says Tristan Cooper, a Moody's Vice-President / Senior Analyst and author of the report.

"The considerable enhancement to governments' creditworthiness has been well reflected in Moody's sovereign ratings, which now range from A2 for Bahrain and Oman, to A1 for Saudi Arabia, and Aa2 for Kuwait, Qatar and the United Arab Emirates. These are high investment-grade ratings and denote a very low risk of default," Mr Cooper notes.

"However, even though some GCC states now outperform even Aaa-rated countries on some economic indicators, even the wealthiest among them are not rated Aaa. This is for several reasons. Firstly, Aaa-rated countries tend to be located in regions with a long track record of political stability, whereas the Middle East -- and, particularly, the Gulf region -- has a more troubled political history," Mr Cooper explains.

"Secondly, institutions in the GCC continue to be of a more developing nature than those in Aaa-rated countries. The evaluation of institutional strength encapsulates the quality of governance, including the effectiveness of countries' administrative, legislative and judicial apparatus. Such factors are important for determining sovereign ratings because they are an indication of the likely stability and consistency of the domestic policy environment over the longer term. GCC states also face some challenges in regard to the quality and scope of economic data, which hinders effective monitoring," Mr. Cooper adds.

"Finally, GCC countries' economic performance has exhibited marked fluctuations, far more pronounced than those of Aaa-rated countries, in light of the still heavy concentration of their economies on oil and gas despite material progress towards diversification. This trait is pertinent to the assessment of sovereign risk because, globally, countries displaying higher levels of economic volatility have tended to be more prone to shocks and therefore to have a greater risk of default. However, Moody's of course notes the stabilizing role of growing sovereign wealth funds in the region."

"While all six GCC member states share these distinguishing attributes, there are differences in degree and there remain significant variations in economic and financial strength among these states. These differences continue to be reflected in Moody's GCC ratings," Mr. Cooper concludes in the Special Comment entitled "Why Are the Wealthiest GCC Countries Not Rated Aaa?" (Moody's 07.11)

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11.3 KUWAIT: Ahead of the Gulf in Competitiveness

The latest edition of the Global Competitiveness Report (GCR) published recently came as a surprise for Kuwait, which was listed as the most competitive economy in the Gulf Cooperation Council (GCC) for 2007-2008. Ranked as the 30th most competitive economy worldwide, Kuwait outperformed its GCC counterparts, including Qatar, Saudi Arabia and the United Arab Emirates (UAE). The position represents a leap up from previous rankings, which had previously listed Kuwait behind the UAE and Qatar. Kuwait was also the second highest-ranked Middle East and North Africa (MENA) country behind Israel, which was listed at 17th in the 2007-2008 report. The US topped the rankings.

The Global Competitiveness Report lists Kuwait's greatest strength as macroeconomic stability, surprisingly ranked as the best in the world, due in large part to the massive oil-fueled budget surpluses and the high national savings rate. While this can be partially attributed to external factors - namely the escalating price of oil - Kuwait's government can be praised for taking a prudent fiscal approach towards reinvesting the excess funds. Indeed, since prices began to rise in 2007, Kuwait has made significant investments in diversified holdings and the private sector. Even so, Middle East OPEC members are left with high budget surpluses as their expenditure represents less than 40% of their total revenue, as opposed to 80% during the 1970s.

One of the reasons for the unexpected reversal of rankings of GCC companies was due in part to a change in the methodology used to measure competitiveness. Countries have different priorities for reform, the report stated, and factors that might encourage economic growth in Oman might be limiting in Egypt. As a result, according to WEF economist and GCR co-author Thierry Geiger, "Kuwait receives more weight on public institutions, infrastructure, macroeconomic stability, health and primary education. For instance, with regards to internal macroeconomic stability, Kuwait ranks first out of 131 countries, whereas the UAE rank 39."

"We use a concept of stage development," continued Geiger, "The UAE is in stage 3, same as the US or Switzerland or other developed countries. It's the highest stage. Kuwait, because of its high dependence on oil, recently transitioned from stage 1 to stage 2, moving toward stage 3. Stage 1 countries do not compete on the same grounds as stage 3 countries, however, they do have some competitive advantages," he explained.

As to emphasize that time-honored adage which asserts that no separate groups of experts agree, the 2007 World Investment Report by the United Nations Conference on Trade and Development (UNCTAD) painted a very different portrait when it stated that Kuwait Foreign Direct Investment (FDI) performance has been relatively low, with foreign investors traditionally concentrating on the manufacturing sector and, to some extent, the services sector. It also reported Kuwait as having one of the smallest inbound investment flows in the region, at $250m, far behind the UAE ($12bn), Saudi Arabia ($4.6bn), Qatar ($1.4bn) and Bahrain ($1bn).

Echoing the UNCTAD findings, the World Bank released a report earlier this year on the global business environment, which ranked Kuwait 121st in the world in terms of the ease of starting business. Doing Business 2008, which compared and evaluated the business regulations of 178 countries, found that Kuwait suffered from lengthy and cumbersome bureaucratic procedures, which had a particularly negative impact on business start-ups. Kuwait was also ranked 99th in terms of contract enforcement and cross-border trading regulations.

Kuwait has also suffered in other global rankings on more specialized issues. A recent World Economic Forum report on network readiness, which ranked over 120 countries according to a set of information technology (IT) indices, saw Kuwait drop eight spots to 54th - the lowest of any GCC country. (OBG09.11)

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11.4 BAHRAIN: Clean Hands

Bahrain has moved fast to polish up an image somewhat tarnished by a recent report suggesting corruption was on the rise in the kingdom. The latest study on the rates of perceptions of corruption in countries around the globe conducted by Transparency International (TI) said the levels in Bahrain have significantly worsened over the past year. The report gave Bahrain a mark of five out of ten. According to TI, any country that scores less than seven needs to put in place measures to improve public officials' integrity.

For a country that has worked hard to develop itself as a major international centre of business and finance, the news is a blow, even though Bahrain ranked the fourth least corrupt state out of the 14 Middle Eastern countries covered by the Corruption Perceptions Index. On the international rankings, Bahrain slipped ten positions, coming in 46th. The state responded swiftly, launching a major crackdown on corruption, commissioning Bahrain Mumtalakat Holding Co, which handles the state's holdings in 33 companies, to have oversight of the series of probes.

Crown Prince Sheikh Salman Bin Hamad Al Khalifa declared at the beginning of October that the fight against corruption had to be made a priority and that no one, not even government ministers, would be spared if implicated in malpractice. Among those either charged or under investigation for corruption so far have been two managing directors at Aluminum Bahrain (Alba), an executive of the Arab Shipbuilding and Repair Yard Co, and nine employees, including one senior foreign official, of national flag carrier Gulf Air.

Acknowledging the issue, Abdul Aziz Abul, the chairman of the Bahraini parliament's financial and economic committee, said many local companies lacked transparency and there was a less than satisfactory level of co-operation by many managers with the committee. "Also, some political blocs in the parliament are trying to hinder our efforts to disclose irregularities and expose corrupts by complicating investigation procedures," he said during a seminar conducted by the Bahrain Economists Society on corruption and economic development on October 3.

It is not just the state that is taking action. In line with Bahrain's policy of corporate governance and economic reforms, Alba, which had come under scrutiny, launched on October 28 a new code of conduct for its employees, setting out guidelines for staff on how to carry out their duties and how to avoid any involvement with corruption. "In Alba, we believe in upholding the highest standards of ethical and professional behavior in everything we do," Ahmed Saleh Al Noaimi, Alba's chief executive, said. "We have therefore implemented the Code of Conduct as a document that outlines the conduct expected of our employees."

While circumstances of individual frauds may differ from case to case, Al Noaimi vowed that any instances of incorrect behavior would be "promptly investigated and appropriate action taken".

Even before the crackdown was officially announced, at least one senior official said that progress was being made. In an interview with the local press on September 30, Labor Minister Majeed Al Alawi said liberal reforms in Bahrain had allowed the issue of corruption to be brought out into the open, a major step in combating the problem.

"The parliament in Bahrain often discusses corruption and fights illegal practices", Al Alawi said. "This is great achievement by the people of Bahrain. I was, as a minister of labor, questioned by parliament on issues related to the ministry of labor. I feel this is good and I am proud of it happening now because it was not possible in Bahrain seven years ago." (OBG02.11)

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11.5 BAHRAIN: Enterprising Women

Hailed as a regional leader in promoting greater involvement of women in business, the Oxford business group reports that Bahrain's efforts to assist start-up enterprises and the liberalizing of its economy have been touted as major factors in this success.

Bahrain's model for assisting business start ups, with support services providing training, financing and marketing, has been a catalyst for creating a greater awareness among Arab businesswomen, according to Hashim Hussein, the head of the Bahrain office of the United Nations Industrial Development Organization - Investment and Technology Promotion Office. Fatima Al Balushi, Bahrain's minister for social development, said the government had put in place policies to empower women and to provide opportunities to access funding, training and marketing services.

One of the measures will be a new training centre dedicated to women entrepreneurs in Bahrain, which will provide support to established businesswomen as well as those just embarking on professional careers.

Bahrain is a regional leader in the number of businesses registered to women, with the figure currently standing at 31%

of the kingdom's total, according to United Nations Development Program Arab Countries gender consultant Dr Fatima Khafagy. However not all of these enterprises may necessarily be owned and operated by women, as some may be family affairs. Still, a full 60% of these registered businesses are listed as being solely owned by women, a high rate for the region.

Despite the successes of programs to assist women with fledgling businesses in Bahrain, there are still a number of hurdles. One of these is seen as a cultural issue. A recent study by the Centre for Arab Women Training and Research (CAWTAR) showed that many Bahraini women were reluctant to seek financial assistance for their businesses through conventional channels. This was given as the reason why 77% of Bahraini women entrepreneurs did not finance through loans from banks or financial institutions, the report said. "Women may also be hesitant to approach financial institutions or deal with male bankers and potentially negative attitudes towards female clients," said the CAWTAR report, released in June.

One measure that may help overcome this reluctance is a plan to establish a bank designed to assist women obtain project financing. "We have already taken concrete steps in the establishment of the Innovators Bank which is aimed at providing financing to micro enterprises which will in turn result in economically empowering Bahraini women," said Sheikh Ebrahim bin Khalifa Al Khalifa, the chairman of the Bahrain Development Bank (BDB), announced on October 30.

The bank will be jointly owned by the BDB and Arab Gulf Program for United Nations Development Organizations, which will each hold a 40% stake, with private investors having the remaining 20% of shares. The bank, which will have an authorized capital of $26.5m, will provide micro credit loans to entrepreneurs and is expected to be fully operational by the end of the year, said Al Khalifa.

The CAWTAR study noted Bahraini women still had to embrace technology in their businesses, with just 25% of the kingdom's businesswomen making use of the internet to research new business opportunities and only 32.3% of them having a company website. However, the state is seeking to address this problem too, offering information and courses through its business support programs and encouraging wider awareness of information technology options.

According to Sheikha Hissah Al Sabah, the president of the Arab Businesswomen's Council, it is "just a matter of time before Arab women will be seen as equal partners in the national economic and social developments of Arab countries". (OBG07.11)

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11.6 NORTHERN EMIRATES: Expanding Expansion

Officials at the Sharjah International Airport recently announced that passenger numbers have increased so much that the airport, now becoming a major rival to the airports in Dubai and Abu Dhabi for regional flights, needs yet another round of expansion work. Last year, a little over 3m passengers passed through the airport. A 36% increase over the previous year, this was mainly the result of the arrival of Air Arabia, the region's largest budget airline, which uses the airport as its base of operations.

The director-general of Sharjah International Airport, Ghanem Al Hajri, stated that to handle an increasing passenger load, airport authorities are seeking to raise $500m in debt to finance either expansion of the current terminal or a second terminal building and a new runway. "We are considering whether to raise this money through bank loans or a sukuk [Islamic bond]," Al Hajri told media.

Meanwhile, as part of an overall airport modernization program, new computer equipment is being added to support 105 check-in counters and workstations. This is expected to maximize the airport's terminal space and will reduce the need for additional dedicated check-in facilities.

The new expansion plan comes just a year after the completion of another $62m upgrade that was finished in July 2006. The project, carried out by the construction firm Saudi Bin Ladin Group, increased the size of the airport fourfold and raised its capacity to 8m passengers. However, it was clear even before the work was completed this would be inadequate to meet the rise in airport traffic.

Even more impressive than the growth in the airport and visitor numbers has been the rapid rise of Air Arabia, which saw its passenger volume increase by 58% to 1.23m in the first half of 2007. Airline officials said the carrier expects to carry 4.5m passengers a year by 2010, compared with 1.6m passengers in 2006.

Established in 2003, Air Arabia is jointly owned by the Sharjah Civil Aviation Department (60%) and the Sharjah Airport Authority (40%) and is a member of the Arab Air Carriers Organization. Air Arabia flies from Sharjah to a number of destinations in the Middle East, North Africa, West Asia and the Indian sub-continent. Currently serving 37 routes, the airline is rapidly expanding the number of routes it flies with the latest new service flying to Bangalore four times weekly.

The airline has become the primary mode of transportation for migrant workers traveling from India to the United Arab Emirates (UAE) and for tourists on short weekend trips. It is this demand for inexpensive air travel that has turned the airport into the third busiest airport in the Gulf Co-operation Council (GCC) region after Dubai and Abu Dhabi.

Air passenger growth in the Gulf is by no means isolated to Sharjah. Air transport is booming across the region thanks to surging oil revenues, which have been the catalyst for rapid economic growth. Passenger traffic within the six Arab states in the GCC rose 12.8% to more than 109m passengers in 2006, well above the international average of 4.9%, according to the Arab Air Carriers Organization. Gulf countries have embarked on major projects to build and expand their airports, capitalizing on significant oil-generated surpluses and an ideal geographic location. Collectively, more than $38bn is being spent on these projects. (OBG07.11)

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11.7 OMAN: Boost for Gas Transportation

Oman is set to become a major importer of natural gas in early 2008, as reported by the Oxford Business Group, when it starts taking delivery of supplies from Qatar via the Dolphin pipeline project. From the first months of 2008, Oman will begin importing some 5.6m cubic meters of gas per day (m3/d) of Qatari natural gas, via a pipeline running through the United Arab Emirates, reversing a trend that prevailed for many years, when the sultanate exported gas to the emirates. In 2005, the Oman Gas Company (OGC), the major gas transportation company in Oman, delivered 6bn cubic meters of natural gas to its customers.

It is not as if Oman's own natural gas reserves are anywhere near exhausted. It is simply a matter of supply not being able to meet the demand generated by the booming economy, especially the industrial sector. Estimates by the ministry of oil and gas say that by 2015, Oman should have proven gas reserves of up to 112bn cu meters. Oman's average production of 71.3m m3/d in 2006 was enough to cope with domestic demand of 69m m3/d. However, with the major industrial development taking place across the sultanate, especially at sites such as Sohar on the Gulf of Oman, the ministry has projected Oman's requirements for gas will reach 107m m3/d by 2010.

The new industrial hub of Sohar is set to become the single largest destination by volume for OGC within two years, according to Yousuf Mohammed Al-Ojaili, the company's chief executive officer. "OGC is already supplying gas to four major industries in Sohar port with gas commissioning work to the fifth consumer near completion and site construction work to supply four more consumers progressing well," he told OBG. "Sohar will become the largest gas volume operation for OGC from 2009 onwards. OGC is already present in Sohar by means of pipelines, facilities and resources and we should not forget that OGC has also been supplying gas for the past six years to another important industry near the Sohar port, the Sohar Industrial Estate, which is the hub of several small to medium industries."

While the initial flow of gas from the Dolphin pipeline will be only 5.6m m3/d, representing just a small part of Oman's overall requirements, growth in the volume of imported gas will mean a re-jigging of OGC's network. However, Al-Ojaili is confident there will be no technical difficulties in making the transition from either exporting gas or transferring domestic supplies to carrying the new flow due to come on line shortly.

"Technically, the OGC network is capable in some areas of receiving more gas and, should this not be possible, then there is more than one solution available to upgrade the network," he said. "For example, the gas import from Dolphin to Oman Gas network will be done by reversing the flow through our existing pipeline system which was exporting gas and we are in the middle of installing compression stations to boost the Dolphin gas pressure."

Qatar is not the only source of gas Oman is turning to, to feed its hunger for energy. In mid May, Oman and Iran signed a memorandum of understanding (MoU) to co-operate in energy projects, one of which is the importing of up to 28m m3/d of natural gas. A final agreement on the terms and conditions of the contract is expected to be sealed early 2008.

Oman is also looking to boost domestic production to keep pace with escalating demand. On October 21, Oman's minister of oil and gas, Mohammed bin Hamed al Rumhy, announced the government was preparing to open a new round of bidding for exploration licenses for blocks both on and offshore. "Right now we are preparing the data. Hopefully before the end of November, we will have a round of invitations to bid for the new blocks - both offshore and onshore. And if everything goes according to plan, we should be in a position to sign the concession agreements early next year," he said. (OBG06.11)

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11.8 SAUDI ARABIA: Oil Partnerships

The Oxford Business group reported that Riyadh-based Jadwa Investment agreed to purchase ExxonMobil's share in the Saudi Aramco Lubricating Oil Refining Company (Luberef) recently for an undisclosed amount. The investment company is to partner with Saudi Aramco, the kingdom's state-owned national oil producer, which will retain its majority share in the refinery. The deal is significant in that it is Saudi Aramco's first domestic joint venture and has captured the attention of the kingdom's private sector. Many insiders believe that further similar opportunities for private investors in the lucrative energy market may become available.

Luberef, established in 1978, is a joint venture between Saudi Aramco, which holds 70%, and Exxon Mobil. It is Saudi Arabia's only producer of lubricating base oils, with motor oil as one of its primary products. It owns and operates two refineries: Luberef I, located in the city of Jeddah; and Luberef II, located in the industrial city of Yanbu. The two refineries have a combined capacity of 550,000 tons per year.

Insiders point to the importance of the lubricant industry in Saudi Arabia. Brad Bourland, chief economist at Jadwa, told OBG, "It's an attractive industry because its profitability tends to move in line with oil prices and economic prosperity in general."

Thanks to the merger of Exxon and Mobil in 1999, Luberef, with 20% of global capacity, is the world's largest manufacturer of lubricants. Although ExxonMobil has not given a reason for the sale, local press reported that Saudi Aramco wanted Luberef to expand, which did not fit in with Exxon's strategy in the lubricant market. Desmond Carr, ExxonMobil's chairman in Saudi Arabia, said, "We look forward to working closely together [with Saudi Aramco] both here in the kingdom and elsewhere."

Saudi investors will be offered another avenue into Saudi Aramco's refining business soon. January will see Saudi Aramco and Japan's Sumitomo Chemical list a 25% stake in their $9.8bn joint refining and petrochemical venture PetroRabigh. The sale, when underway, will represent the first initial public offering (IPO) to involve the state-owned company.

Other investment opportunities involving Saudi Aramco, which plans to raise its oil production from the current 10.8m barrels per day (bpd) to 12.5m bpd by 2009, include plans to sell stakes in joint ventures for two new 400,000 bpd oil export refineries. The first will be a full-conversion refinery in the industrial city of Yanbu on the Red Sea coast; the second will be a heavy crude refinery in Jubail on the kingdom's Gulf coast. Both facilities are scheduled to begin operations in 2011. The two refinery deals, valued at $6bn each, are part of Saudi Arabia's goal to become an increasingly important supplier of gasoline and heating fuel to international markets.

The kingdom is the largest oil exporter in the Organization of Petroleum Exporting Countries (OPEC), with estimated reserves of 264bn barrels. As oil prices continue to surge, so do government oil revenues. Oil, gas and refining were estimated to be worth 59.4% of Saudi Arabia's GDP in 2005.

Paradoxically, at the same time its coffers are benefiting from oil money, the kingdom has taken progressive steps to reduce the country's dependency on oil. Recognizing that the abundance of hydrocarbons will not last forever, the government wants to stimulate the non-oil private sector. According to Bourland, future growth in this sector will be impressive. "Saudi Arabia has strong oil revenues and high capital inflows but it also has a compelling story of reform and market liberalization and attracting foreign direct investment, as well as attracting investment from Saudis themselves," he told OBG.

Bourland believes this growth dynamic is set to continue. "Our forecast for non-oil private sector growth is, on average, 8% to 10% between now and 2010." He added, "The strongest sectors for growth will be financial services, construction and transport and communications." (OBG13.11)

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11.9 EGYPT: Sliding Into Danger

Cairo is one of the world's greatest cities, run on energy and passion that can build and destroy with equal force. Now, in the coming year, Egypt's ageing president Hosni Mubarak must decide whether he makes the country a thriving, democratic force in the region or whether he allows it to slide into chaos.

Egypt's economic growth has been a miracle. Prime Minister Ahmed Nazif has, with the president's blessing, embarked on a radical liberalization of Egypt's once clunking socialist economy in 2004, with near miraculous results.

Cairo is now in the midst of a frenzy of consumption. European retailers like Mothercare and Carrefour have set up shop in gleaming new malls. Over 79 state-owned companies have been privatized since 2004, the top rate of income tax has been cut from 42% to 20%, and foreign direct investment has tripled in the last year. Egypt's economy is now growing at 7.1% - one of the fastest rates of growth in the world.

But there is an underbelly, and it is growing hungry. The number of Egyptians living in absolute poverty has risen in the last few years, and the cost of basic food has tripled. The privatization schemes have sent unemployment sky high, and the numbers are likely to grow, as the no-redundancy clauses the government inserted into some of the privatization schemes are due to expire. There have been 200 industrial strikes in the last year. University graduates who had previously been guaranteed jobs in the public sector are now finding it tough to get the managerial positions they believe they are entitled to.

The government is urging the poor to be patient, promising them that within five years, Egypt's new wealth will trickle down to them and that they will soon enjoy access to healthcare, education and clean water.

But elsewhere, it is pursuing a political strategy that will only enrage the people who feel excluded from the country's growing prosperity.

On 4 November, the ruling National Democratic party elected Mubarak's son Gamal to its supreme council, clearing the way for him to run for president when his father either dies or steps down. Mubarak senior has always said he has no desire to create a political dynasty, but his son's rapid rise to power belies his words. The country's main opposition, the secular Kefaya movement, has campaigned vigorously to prevent Gamal coming to power, and they have the support of wide swaths of Egyptian society.

The regime is growing increasingly peevish with opponents. In September, four editors were fined and imprisoned for publishing articles critical of the government. Last month, 1,000 members of the Islamic Muslim Brotherhood were rounded up and thrown in jail. Tiny makeshift mosques and Islamic schools are already springing up in Cairo's slums, preaching to the disaffected and abandoned.

These are dangerous times for Egypt. Both illiterate and university educated young men feel neglected by a government that is sending troops to arrest and beat up their friends. In the meantime, militant groups whisper about revenge and justice into their ears. It is easy to understand why they will listen. Egypt's government must now prove it has the courage to implement political as well as economic reforms to silence the calls for the country's destruction. (The Guardian06.11)

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11.10 TURKEY: Reform Agenda Needs A Kickstart

The Deutsche Bank (http://www.dbresearch.com) noted that at a time when Turkey is confronted with PKK terrorism, frosty relations with Iraq and growing nationalism, the government's reform-mindedness is being put to the test. Turkey's challenges include maintaining rapid and steady economic growth, boosting employment, reining in the informal economy, enhancing competitiveness and making progress with respect to EU accession. While the latter is expected to be a long and complicated process, provided that it continues to move forward in one way or another it will remain a driving force for Turkey's reform efforts. The EU process will continue to create a forum for institutions to develop and for the political structure to mature.

Improving economic fundamentals

Turkey has successfully emerged from its 2001 economic crisis on a path of rapid growth and increased trade integration, underpinned by improved macroeconomic and political stability and important structural reforms. During the last five years real GDP growth has been impressive, with an annual average growth rate of 7.4%; inflation has moved from an average of 77.5% in the 1990s to single-digits on a sustainable basis; interest rates have declined with a cautious monetary policy stance; and reductions in the ratios of fiscal deficit and public debt to GDP have created a positive environment. These macro improvements have been coupled with structural reforms, including liberalization of key industries and reform of the banking sector. FDI inflows - an important indicator of the longer-term confidence of investors in Turkey - have increased to unprecedented levels (expected to come in at around $20b this year compared with $1b in 2002). Tellingly, more than half of the 17,400 multinational corporations operating in Turkey are of EU origin.

Overall, the economy and financial markets have become less vulnerable to external shocks. These improved economic fundamentals have helped Turkey to weather the current turmoil in global financial markets quite well so far.

Vulnerabilities need to be tackled

Dependence on capital inflows and thus on foreign investor sentiment. Despite strong foreign direct investment (FDI) - a more stable type of capital flows - in recent years, Turkey's high current-account (C/A) deficit makes it vulnerable to rising risk aversion of global investors and to external shocks in general. Foreign ownership in the local bond and equity markets has dramatically risen in the last two years to around $85-90b from $50b in 2005 and $28b in 2004. The country's large C/A deficit is gradually stabilizing at below 8% of GDP but is expected to remain a key macroeconomic risk over the medium term. Export growth is expected to slow in the coming months due to base effects and a stronger Turkish currency, while import growth is expected to pick up on the back of accelerating domestic demand, high commodity prices and real currency appreciation.

Growing corporate debt and FX risk. While public sector debt has declined over recent years, private sector foreign debt has more than doubled over the last three years, amounting to around $138b in 2007. Moreover, the corporate sector's net short FX position has increased from $40b at the end of 2006 to almost $60b at the end of Q3/07, making Turkish corporates more vulnerable to a sudden depreciation of the Turkish lira.

Somewhat weakening fiscal discipline and stubborn inflation. Compared to recent years, fiscal discipline has weakened as primary spending has increased and tax compliance has declined. The primary surplus for 2007 is expected to come in at around 4.5-5% of GDP, significantly lower than the government's (and the IMF program's) target of 6.5% of GDP. The new government's 2008 budget framework includes a primary surplus target of 5.5% of GDP, again lower than the IMF-mandated 6.5% of GDP. Granted, given currently favorable growth and interest rate forecasts, the budgeted primary surplus level should be enough for a further reduction in the debt-to-GDP ratio. Inflation is, however, a trickier matter. CPI is projected at 7.8% at end-2007, a long way above the central bank's 4% target. The central bank has started an easing cycle but this is expected to be very gradual, given negative factors such as proposed electricity price hikes and soaring oil prices.

High unemployment and low labor force participation. Despite the high rate of economic growth in the last five years, the Turkish economy has failed to create jobs to reduce the unemployment rate below 10%. The estimated labor force participation rate is only around 48%, compared with an average rate of 71% for the EU economies, and has declined significantly in recent years. The 2001 crisis and the decline in agricultural employment have been determining factors. Initiatives aimed at improving the investment climate and increasing the productivity of the private sector are necessary to increase employment in the medium term, particularly in the small and medium-sized enterprise sector.

Large informal economy. The informal economy, estimated at around 40% of the economy, remains a huge problem. It significantly impacts the government's revenues and the overall productivity of the Turkish private sector. Measures such as reducing administrative barriers and improving the tax regime to reduce informality, coupled with measures to improve the country's overall business environment would help to reduce gaps in the economy, maintain rapid growth and increase (formal) employment.

Turkey's key policy anchors: the IMF and the EU

Despite economic normalization and progress over the past years, Turkey still relies on two important external anchors - the IMF program and the EU accession process. The current IMF stand-by program (Turkey's 19th) has provided a powerful incentive (and useful domestic political tool) for the government to put in place solid macroeconomic policies and advance with reforms. The program is due to expire in May 2008. The best course of action would probably be for the government to maintain its relationship with the IMF – be it in the current or a different form. This would increase the likelihood of progress in important structural reform still pending such as social security, key privatizations, energy policy and the combating of tax evasion. The government has launched its own ambitious ‘2007-2012' economic plan that aims to tackle some of these challenges. The challenge, as usual, will be in the implementation.

On the EU front, after the EU froze eight chapters (out of 35 total chapters required for accession) of the acquis in December 2006, accession talks have continued at a modest pace, with four chapters in process and another two chapters potentially to be commenced shortly. Despite the government's published ‘national action plan' (to implement the full range of EU-related laws by 2013) there has not been much concrete progress this year. The AKP government was expected to capitalize on the favorable environment created after its sweeping victory in the July elections and abolish or revise the Article 301 of the Turkish Penal Code. Unfortunately, little if at all has been done. The annual European Commission Progress Report on accession, just published, is overall somewhat less critical than in previous years but it urges a reform push and especially calls for progress on Article 301. This will hopefully provide a chance to re-launch the delayed initiatives. Whether the goal of full membership of the EU in the next 10-15 years is realized or not, the continuation down the path towards membership is crucial for Turkey's institutional development and democratization.

Looking ahead: Prospects for Turkey

Despite a weaker external backdrop and economic vulnerabilities, Turkey has a historic opportunity to reenergize the reform agenda and to make a permanent leap forward as an emerging market. Continuing the era of stability and reforms will boost investor confidence and capital inflows further. The overall economic performance and outlook for Turkey is expected to remain comfortable in the short to medium run. Growth rates are expected to remain at around 5%. Continued fiscal consolidation and progress towards price stability will help to reduce the risk premium and bring down interest rates. FDI inflows are expected to remain strong, not least due to the increasing attractiveness of the Turkish domestic market. Turkey's favorable economic and market performance despite the global turmoil seems to indicate that market participants and investors are comfortable with the AKP economic program. This, together with the strong political mandate the AKP received in July, provides a historic opportunity for Turkey to embark more decisively on the reform path. (DeutscheBank08.11)

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11.11 TURKEY: Accession Progress

On November 6th, the European Commission released its annual progress report on Turkey's accession to the EU, mixing mild praise with calls for urgent action. Its criticisms, as noted by the Economist Intelligence Unit, in the area of freedom of expression and religion were tempered by support, for example, of the way parliament resisted pressure from the military during the presidential election. While the Commission has done well to find a balance, opponents of Turkish membership inside the EU (and among some nationalists in Turkey) are sure to seize on the report's criticisms to oppose entry of the large, predominantly Muslim country into the EU.

Praise & Blame

There had been hopes that the EU Commission's report, published on November 6th, might have been able to record substantial progress towards EU accession, following the overwhelming victory in the July general election of the pro-EU AKP, and the subsequent election as president in August of Abdullah Gul, the former foreign minister. Instead, the Turkish parliament had been pre-occupied with discussion of a new, more "citizen-oriented" constitution to replace the current 1982 military-inspired version, and distracted by armed attacks from the Kurdish PKK movement based in Iraq. The Commission thus reported that "the implementation of reforms was uneven and has slowed down since 2005".

The 2007 report did praise Turkey for continuing to fulfill the Copenhagen political criteria. It pointed specifically to the smooth resolution of the political and institutional crisis arising from parliament's election of Mr Gul, as president, in the face of sustained army opposition. "Democracy prevailed in a crisis in civil-military relations", the report stated, establishing the "primacy of the democratic process".

It also mentioned progress in reform of the public administration and the efficiency of the judiciary. But it was lukewarm about improvements made in women's rights and stopping torture, and called for greater effort to root out corruption, improve the rights of trade unions, and civilian oversight of the military, among other issues. It is also notable that the Commission has held its fire over potential military action against Kurdish militants in Iraq, given EU attention to Kurdish minority rights within Turkey.

But it is the question of freedom of expression and the rights of non-Muslim religious communities that has come under most intense focus. "Freedom of expression and freedom of religion are the most urgent issues on which we want to see the government take action without delay", the report states.

This is far from surprising. The EU has long been demanding progress in the area, particularly regarding the abolition, or at least a reform, of the controversial article 301 of Turkey's penal code, which has been used by the judiciary to prosecute writers for insulting "Turkishness" and was arguably a contributing factor to the murder of the Turkish Armenian journalist, Hrant Dink in January 2007. Although the government claims that no-one has been imprisoned under this code, the article amounts to a form of self-censorship.

No Mere Technicalities

In an attempt possibly to bolster the standing of a moderate Islamic government, the Commission indicated that reform of article 301 would pave the way for the start of negotiations on two more "chapters" of the EU body of laws (acquis communautaire) that Turkey must adopt for membership. The proposed two are relatively uncontroversial: consumer and health protection, and trans-European transport networks. That would be an important step for a government eager to show progress to Turkey's EU skeptical nationalists.

So far, detailed negotiations have been opened on only four of the 35 chapters since the accession talks were formally begun in October 2005: science and research, enterprise and industrial policy, statistics, and financial control. The Commission noted some progress on these but commented that more alignment in such areas as free movement of services, state aid, food safety and the environment was required.

The government suffered a setback in December 2006, when the European Council suspended eight chapters (free movement of goods, transport, the customs union, agriculture, fisheries, foreign relations, financial services, and right of establishment and freedom to provide services) until Turkey opens its harbors and airports to Greek Cypriot ships and aircraft. Turkey claims that the opening of its ports should be reciprocated by the opening of EU ports to shipping from Turkish northern Cyprus, which Turkey says the EU promised after Turkish Cypriots voted in favor of the UN's failed unification plan for the divided island in 2004. The Commission report effectively sidesteps this dispute--probably to Turkey's benefit--even though it had featured prominently in the 2006 report.

Wise Men?

Whether any new chapters are indeed opened anytime soon may depend not only on progress in amending the article 301, but on the attitude of the French president, Nicolas Sarkozy. Mr Sarkozy has suggested that in return for opening new chapters, the EU should establish a committee of "wise men" to consider the EU's long-term future. This, Turkey's supporters fear, would lead to a recommendation that Turkey be excluded from full EU membership forever.

France has been one of the most intransigent EU members on the issue of Turkish accession. Mr Sarkozy remains strongly opposed to full membership, and has adopted a confrontational stance with the Commission and those members of the EU, notably the UK, Italy and Spain, who are committed to the negotiation process and Turkey's eventual accession. Mr Sarkozy is willing to allow negotiations with Turkey to proceed, as long as they are limited to those chapters that only lead to his preferred option of a "privileged partnership" rather than full membership. This implies that France would probably block talks on economic and monetary union (it already did so earlier this year), regional policy, agriculture, EU budgetary provisions and institutions. This stance not only creates tensions among EU member states, but also raises doubts about whether the EU is negotiating with Turkey in good faith.

Placing obstacles in the path of Turkish accession also runs the risk of undercutting efforts by Turkey's AKP government to win over nationalists. The Commission therefore has to find a way to keep as many parties from all sides on board, build momentum for Turkish accession while also pressing the Turkish government into more reforms. The Commission has probably hit the right note this year, but plenty of discord lies ahead. (EIU06.11)

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11.12 TURKEY: Taming the Unregistered

It comes as possibly the most difficult challenge of all in Turkey's drive to secure itself a place among the world's most developed economies. Almost a year ago during the World Economic Forum in Istanbul, Turkey's then minister of state, Ali Babacan, openly confessed that the government had made limited headway in pushing back the size of the unregistered economy. That is the sizeable segment of economic activity which ducks beneath the taxman's radar screen, manned by an undocumented army of employers and employees. Since then the government has put together a multi-pronged strategy to confront the challenge.

The government's program for 2008 identifies the unregistered economy as a major area of concern and one that will be addressed. "Measures include strengthened coordination between government bodies, a strengthening of inspections and more effective use of banking," AK Security's chief economist Hakan Aklar told OBG. On the latter point, Kemal Unakitan, the minister of finance, recently announced that all employers would soon be obliged to deposit the salaries of their workers into bank accounts. The challenge of course is to get unregistered businesses to register first.

But the government has not just sprung from the starting blocks in its endeavor to tackle the unregistered segment. In June 2007, Unakitan prepared a five-year plan to reduce the size of the unregistered economy by 2% per annum. If 50% of Turkey's active workforce is unregistered - as held by most economists - then it would take at least 25 years for this unregistered segment of the labor force to evaporate.

The minister of finance at the time also pointed to a series of measures to ensure the gradual shift away from unregistered activity including the removal of tax exemptions and a reduction in the number of bureaucratic transactions, along with the implementation of a more effective auditing system and measures to limit the cash economy - which are expected to gain force over the coming two years.

Social security reform - which aims to reduce national unemployment in the registered economy by reducing social security premium payment rates by registered employers - is also on the cards. In an important move the government intends to cut social security premium payments charged to businesses for their employers by 5% some time next year, though when exactly this will be applied is not known. The high social security payments which companies are forced to cough up to the government has driven Turkey's smaller entities to avoid registration or minimize new recruitment, analysts say.

"Although the informal economy supports employment because of high costs, it has a negative effect on employment and the financial sector in the long-run," Central Bank governor Durmus Yilmaz told the press. Tahir Uysal, the chairman of the International Investors' Association of Turkey (YASED), has also previously referred to the unregistered economy as "the mother of all problems". So long as economic activity is unregistered it can not be guided and standards can not be set - a prerequisite for economic development.

That said, the unofficial economy has one selling point. Economists believe that the unregistered business buffers the Turkish economy from large-scale economic shocks, with workers less likely to lose their jobs. It is a symptom of the informal and strong social relationships that have allowed Turkish families and the society at large to withstand periods of hardship.

"Everyone in an Anatolian village knows who will finance a new undertaking but they know by word of mouth rather than the individual's official credentials," according to one Istanbul-based businessman. "Turkey will retain its strong social bonds but we need greater control and regulation." (OBG06.11)

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- Israeli Shekel conversions done at a rate of NIS 4.00 = $1.00

- Turkish Lira conversions done at a rate of NTL 1.2 = $1.00

- Cypriot Pound conversions done at a rate of C£ 1.00 = $1.60

- Jordanian Dinar conversions done at a rate of JD 1.00 = $1.41

- UAE Dirham conversions done at a rate of Dh 3.66 = $1.00

- Omani Rial conversions done at a rate of OR 0.385 = $1.00

- Pakistani Rupee conversions done at a rate of Rs 60 = $1.00

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