Fortnightly - February 6, 2008

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1: ISRAEL GOVERNMENT ACTIONS & STATEMENTS

1.1 El Al Waives Exclusivity on Foreign Lines

In exchange for the government agreeing to increase its share of financing the company's security costs, El Al Israel Airlines has agreed to forgo its exclusivity on lines from Tel Aviv to overseas destinations. The airline's acquiescence remains subject to formal approval by the relevant company bodies. On 27 January, the government approved a proposal by Transportation Minister Mofaz to increase its coverage of Israeli airline companies' security costs from 50% to 80%. The changes will enable the two Israeli airlines that compete with El Al, Arkia and Israir, to start supplying regular flights to destinations that had been El Al's exclusive province, which will improve their competitive status vis-à-vis foreign carriers. El Al's security costs run at about $90m a year. The security outlay by Arkia and Israir also come to tens of millions of dollars a year. Initially, the government faces extra costs of $27m a year for El Al. The government resolution passed despite initial opposition by the Finance Ministry. The Ministry urged limiting the government's involvement in security costs at 60%. The Ministry also insisted on providing that financing only later on, once the "open skies" policy - creating genuine competition in and to the local aviation companies - was in place. However, that opposition was overcome. During 2007, Israel signed a series of new aviation agreements with Britain, Belgium, France, Slovakia and Russia, allowing airlines from each of the countries to operate regular lines to Israel. However, while the foreign airlines were free to take advantage of the new agreements, the local ones were restricted by the government's agreement with El Al, which was signed on the eve of the company's privatization. (Various27.01)

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2: ISRAEL MARKET & BUSINESS NEWS

2.1 Ecofin Invests $105 Million in Solel Solar Systems

Ecofin Limited, a London based investment manager specializing in the utilities and infrastructure sectors with approximately $5.4b million of assets under management, is pleased to announce a major new investment in Solel Solar Systems Limited (Solel). Ecofin, on behalf of its funds and certain co-investors, has invested $105m in shares of Solel through a combination of subscription for new equity and secondary share purchases. Solel will be undertaking an additional round of capital raising, following which Ecofin will hold a very significant minority stake in the company. Solel (http://www.solel.com) specializes in the design, manufacture and installation of solar fields and critical solar field components for large scale power generation. Solel is the world’s largest solar thermal company with over 20 years experience in the sector. It specializes in the commercially proven technology – parabolic troughs which have been operational since 1985 in the Mojave Desert. These nine solar energy generating system (SEGS) plants produce 354MW of clean, renewable electricity per annum using Solel equipment and technology. They supply the needs of half a million consumers and eliminate the need for 2 million barrels of oil a year. Solel employs approximately 300 staff and its headquarters and R&D centre are based in Bet Shemesh, Israel. (Ecofin 28.01)

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2.2 PayPal Agrees to Acquire Fraud Sciences

eBay announced that PayPal has agreed to acquire Fraud Sciences, a privately-held Israeli company with expertise in online risk tools, in a cash transaction with an aggregate transaction value of approximately $169m. The acquisition of Fraud Sciences fits into eBay’s recently announced plans to significantly improve trust and safety across its sites in 2008. Key personnel from Fraud Sciences will join the company’s technology and fraud management teams. This acquisition, which is subject to the satisfaction of certain conditions, is expected to close during February. eBay does not expect this acquisition to have a material impact on its 2008 financial guidance. Israel's Fraud Sciences is a leading innovator in online risk tools. Following years of intensive research, Fraud Sciences has developed a technology that differentiates between real and fraudulent transactions with unprecedented accuracy. Using this groundbreaking technology, Fraud Sciences offers a unique transaction verification service to manage online fraud. Fraud Sciences is funded by BRM Capital, Redpoint Ventures and other US and Israeli investors. (eBay28.01)

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2.3 SVB Financial Group Opens Its Doors in Israel

Santa Clara, California's SVB Financial Group, the parent company of SVB Silicon Valley Bank and financial partner to more than half of all venture capital-backed technology companies in the United States, announced the opening of its fourth international subsidiary. SVB Silicon Valley Bank now provides Israeli-based high growth technology companies and private equity firms access to customized financial services through SVB Israel Advisors Ltd. SVB's operation in Israel enables the company to more readily offer its services to local technology firms and their investors. Herzliya, Israel's SVB Israel Advisors, like its parent company, gives Israeli-based clients access to financial services, including debt financing, deposits and treasury management and provides its clients with the guidance, introductions and support they need to grow. (SVB 28.01)

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2.4 Israeli Dates Head to Wal-Mart

The Hatzer Kinneret factory will sell date products under the Jordan Valley brand name in Wal-Mart chain stores. The initial transaction is $1m. Hatzer Kinneret, manufacturers of a variety of sauces and spreads based on dates, will soon start marketing its products in the giant U.S. retail store, Wal-Mart. According to Hatzer Kinneret, there has been an increase in demand for date products due to the fact that consumers are becoming more health conscious and are seeking natural substitutes for sugar and chocolate. (KTW04.02)

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2.5 Israel's Sushi Market Thriving

It was reported that some 100 sushi outlets operate in the Tel Aviv area alone, out of which 62 are actual Japanese restaurants, or eateries specializing in sushi. Another 13 are restaurants in which sushi compromises a major part of the menu, according to the Web site 2EAT.co.il. Twenty of these "sushi bars" are strictly kosher, the site adds. The Japanese delicacy is so popular in Israel that 12% of all of Tel Aviv's restaurants are sushi-related. It's the largest growth segment among specialty restaurants. Tel Aviv has the highest proportion of sushi outlets per capita, 1.2 times more than in London and 1.4 times more than in Amsterdam. (Various27.01)

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2.6 Cold Wave Sets Record For Israel's Electricity Demands

Israel's recent freezing weather and drifting snow brought with it a new record for electricity usage on the evening of 30 January at 7:30 P.M. The Israel Electric Corporation's (IEC) control center recorded an all-time high of 10,200 megawatts of demand. The IEC's maximum generating capacity is 10,800 megawatts, which left the electric company only a 5.5% reserve in case of technical problems or increased demand. The previous record was set only last summer during a heat wave. The old record was 10,070 megawatts. The IEC has again requested the public to not use appliances with high electrical demands, such as water heaters, washing machines and dishwashers, during the peak hours of 5 to 9 P.M. The IEC said it would continue to make every effort to supply customers with all the electricity they need. (Various31.01)

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3: REGIONAL PRIVATE SECTOR NEWS

3.1 Ayass Motors Launches First Jordanian Vehicle Manufacturing & Assembly Plant

Ayass Motors announced the launch of Jordan’s first vehicle manufacturing and assembly plant during a ceremony held recently under the patronage of King Abdullah. Prime Minister Dahabi represented the King at the ceremony which was attended by government officials and ministers in addition to political and business dignitaries The venture is the product of Jordanian, Chinese and Iraqi collaboration, and will be sold to customers according to Jordanian and international quality standards, providing a premium vehicle, all produced in Jordan. He indicated that the company is in the middle of negotiations with a number of international firms which are interested in assembling their products in Jordan. The vehicle plant will provide job opportunities for about 300 engineers and workers in the early stages, the majority of whom will be Jordanians who will be trained in China. In the long-run, Jordanians will replace foreign labor used in the early stages of the project. Ayass Motors is the first Jordanian company specialized in vehicle manufacturing and assembly using the latest automotive manufacturing technologies in the Middle East, as it specializes in manufacturing a variety of vehicles under the name “Ayass Motors” according to the highest international standards. These vehicles include pickups with single and dual-drive cabins, small vehicles and 4-wheel drive sport cars. The company will start its operations by producing 5,000 vehicles during its first year, and will increase its production capacity to 12,000 vehicles annually in order to compete on a local, regional and international scale. (JT03.02)

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3.2 Gulf Investors Bargain Hunting in Troubled US Economy

Arab Business reported that rather than pack up and leave the US fearing recession, banking and corporate leaders at the recent Davos conclave were looking for bargains in the US financial sector, battered by the credit crisis. Policymakers, managers of burgeoning state-run investment funds and heads of major investment banks at the annual meeting of the World Economic Forum said the US was the best place to be at a time of a global slowdown. This is because the rest of the world is likely to suffer a sharper downturn than the world's largest economy. "This is a pure investment opportunity," said Bader Al Sa'ad who runs Kuwait's over $200b sovereign wealth fund (SWF). His Kuwait Investment Authority (KIA), which spent $5b in buying stakes in troubled US banks Merrill Lynch and Citigroup in January, is looking at the US financial and real estate sectors - which have been the epicenter of the crisis. The crisis has also attracted Sultan Ahmed bin Sulayem, chairman of Dubai World, which has a $20b portfolio of real estate outside Dubai, to the world's biggest economy.

But some Gulf investors were keener to focus on their home region. Abdul-Aziz Abdulla Al-Ghurair, chief executive of Mashreqbank, Dubai's second-largest lender by market value, is eyeing Arab markets including Egypt. Elsewhere, investors are looking to turn the growing fight against climate change into a money-spinner. Andrei Marcu, head of the International Emissions Trading Association, an independent body that develops trading in greenhouse-gas emissions, said there was a doubling of carbon funds investment in 2007 from 2006. Investors poured $5 to $7b last year into specialized funds which invest in efficiency improvements in power stations and other installations in developing countries to sell those credits to European industries required to offset emissions. (AB28.01)

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3.3 Arcapita Completes $695 Million Acquisition of 800 MW US Power Generation Facility

On 29 January Arcapita Bank, a leading international investment firm headquartered in Bahrain, announced that it and its affiliates have completed the acquisition of the Bosque power generation facility located in Texas, United States, for a total transaction value of $695m. This is Arcapita’s largest asset-based investment in North America to date, and means that Arcapita has now completed deals with a total transaction value of over $22.5b. Located in Laguna Park, Texas, the Bosque facility commenced operations in 2002 as a natural gas fired power plant, and is currently undergoing conversion to a more efficient combined cycle facility with a capacity of over 800 megawatts. Bosque sells its energy and ancillary services into the Texas power market, where increasing demand is leading to tightening reserve margins. The Bosque facility will be managed by Fulcrum Power Services L.P., an experienced energy management services company with a strong existing relationship with the Bosque management and detailed knowledge of its operating history. The acquisition is Arcapita's largest US asset-based investment and follows recent transactions such as the $369m acquisition of Varel Holdings, the world's fastest growing manufacturer of drill bits, and the $4.2b acquisition of Viridian Group, the Northern Ireland electricity utility. (Mena Report 30.01)

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3.4 Cemtrex to Supply Two Continuous Emission Monitors for Qatar Airport Complex

Farmingdale, N.Y.'S Cemtrex announced that it has received an order to design, supply and install a Continuous Emission Monitor Systems (CEMS) for a large airport complex in Doha, Qatar. The order valued at over $250,000 involves two CEMS for measuring total Hydro-carbons, Hydrogen Sulfide, Sulfur Oxides, Nitrous Oxides, Oxygen and Opacity in the flue gases discharging at the stack from the Solid Waste Incineration Plant which reduces the volume of solid wastes generated from passenger aircrafts at the airport. The CEM systems will be integrated with an emissions reporting software package over the TCP/IP network in the control room of the airport complex. Cemtrex CEMS uses Dilution Extractive technology to completely remove moisture before transporting to the sampling system and analyzers, so that water absorbing gases like ammonia can be measured very accurately. (Cemtrex 05.02)

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3.5 Lawson Software & Dubai-Based E3 Announce Partnership

St. Paul, Minnesota's Lawson Software and Dubai-based E3 agreed that E3 will resell Lawson S3 enterprise software applications exclusively to hospitals in the Middle East and North Africa. The agreement reflects Lawson’s commitment to increasing its presence in the region via channel partners. Using Lawson S3 enterprise software solutions, healthcare organizations will be better positioned to manage their businesses so they can focus on providing quality patient care. Lawson S3 solutions support some of the largest healthcare organizations in the world, helping them manage their supplies, workforce, and financial systems. To meet an increasing demand for quality healthcare services in the Middle East, Gulf Cooperation Council (GCC) governments in the region are continuously encouraging global providers, such as Lawson, to establish a greater presence in the region. This also gives existing technology providers in the region, such as E3, the opportunity to expand into these markets, through partnerships like the Lawson and E3 relationship. E3 is a newly formed company created by the shareholders and management of Lawson partner, Simtix, with whom Lawson has an existing long term relationship. E3 will be based in Dubai with staff servicing clients across the Middle East and North Africa from offices in Jordan, Saudi Arabia as well as Dubai. (Lawson 28.01)

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3.6 ePlanet Ventures Invests in Pakistan's Naseeb Networks

Redwood City, California's ePlanet Ventures, a leading global venture capital firm, announced an investment in Pakistan’s leading consumer Internet company Naseeb Networks. Naseeb provides online recruitment, social networking, classifieds and related services in Pakistan. The round was led by ePlanet Ventures (ePlanet) with Draper Fisher Jurvetson (DFJ) participating. Naseeb will use the funds to accelerate its growth and leadership position in target markets by investing in sales force and marketing expansion and enhancing its product portfolio. Naseeb Networks operates a portfolio of websites including ROZEE.PK and Naseeb.com. ROZEE.PK is Pakistan’s largest and fastest growing job portal. The site has delivered over 1.4 million applications to jobs posted by 8,800 employers. ROZEE.PK is used by some of Pakistan’s most sought after employers to recruit human capital. The company’s flagship Internet property, Naseeb.com, offers matchmaking and social networking services for the Pakistani and Arab Diaspora communities. With over 1.3 billion Muslims worldwide, Naseeb.com has achieved a leadership position in a huge market. (ePlanet 25.01)

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3.7 Diakinisis Automates Greek Distribution Center with RFID Solutions from Alien Technology

Morgan Hill, California's Alien Technology, an industry leader in Radio Frequency Identification (RFID) products and services, announced the completion of a warehouse distribution center system for inventory and shipment tracking for Diakinisis’ warehouse distribution center. Located in Athens, Greece, the system uses Gen 2 Squiggle and ‘M’ tags and ALR-8800 readers from Alien Technology, with RFID installation services provided by Business Effectiveness, a preferred Alien Technology solution integrator. Business Effectiveness specified Alien’s Gen 2 field-proven readers and tags for three separate RFID applications within the Diakinisis warehouse and DC environment. Diakinisis is the first company entered in third-party logistics industry in Greece which offers integrated logistics services of the highest standards, serving not only multinational clients but also leading firms in the Greek market. Business Effectiveness, based in Athens, Greece, is a leading provider of RFID integration services, RFID hardware and supply chain solutions in Greece and the wider region. Business Effectiveness is at the forefront of RFID innovation and plays an important role in enabling companies to improve their businesses through the adoption and strategic application of RFID. (Alien Technology 28.01)

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3.8 Value of Gulf PC Market Touches $3.3 Billion

The value of PC market in the Gulf is expected to surge to $3.3b this year, an increase of 26.92% compared to $2.6b in 2007, according to PCs and Systems, IDC Middle East and Africa. Total PC shipments into Gulf region are expected to be 2.65m units for 2007, 23% year-on-year growth compared to 2006. Total PC (notebooks and desktops) shipments in UAE is expected to touch 1.1m units in 2007 and Saudi Arabia is expected to ship one million units. The UAE surpassed Saudi Arabia as the biggest PC market in 2006. The region's fourth-quarter shipments are projected to stand at 660,000 units, registering a 9% year-on-year growth compared to Q4/06, slightly less than 702,062 units recorded in Q3/07. This year's mobile PC shipments are expected to stand at 2.3m units, an increase of 34.10% compared to 1.73m units in 2007. In 2006 it stood at 1.25m units. Vista has played a key role in boosting the PC sales in the consumer segment. Most of the product shipped is preloaded with Windows Vista. But it is almost nil in the corporate segment. (AB01.02)

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3.9 Parliament Ratifies Greece-Microsoft Agreement

The Greek parliament on January 24 ratified a cooperation agreement between Greece and Microsoft Corporation. The agreement was passed by majority vote, with all the opposition parties voting against it. Commenting on the deal, Economy & Finance Minister Alogoskoufis described it as "balanced" and said it brought important benefits and favorable terms for Greece but was not binding for the country and did not make the Greek public sector in any way "dependent". The finance minister also pointed to "major benefits for the public, particularly school children and students, small and middle-sized enterprises and the public sector" and said the deal was part of the government's digital strategy of forging closer cooperation between the public sector and private-sector companies on IT issues. e also particularly emphasized the provision under the deal for creating a Microsoft Innovation Centre in Greece and for centers for learning about technology in regional areas. (ANA25.01)

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4: ISRAEL MACRO-DEVELOPMENTS

4.1 Israel's Big Cities Pledge To Slash Greenhouse Emissions

A group of Israeli cities is pledging to reduce so-called greenhouse gas emissions by a fifth by 2020. The Forum of 15, an association of the fifteen largest metropolitan centers in Israel will pass a formal resolution will be passed to reduce greenhouse gas emissions in their communities. The level accords with the International Council for Local Environmental Initiatives (ICLEI) campaign. The Cities for Climate Protection (CCP) campaign aims to reduce the level of greenhouse gas emissions by at least 20% by 2020. The campaign is not just a declaration, but part of a practical, operative ICLEI plan to which hundreds of municipal authorities worldwide are party, including cities like Seattle, San Francisco and London. The campaign addresses four main areas: transportation and fuels, energy conservation and environmentally friendly construction, garbage and recycling, and green spaces. To demonstrate their commitment, each forum member has signed budgeting meant to provide the means for the campaign's operative actions. (Various30.01)

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5: ARAB STATE & PAKISTANI DEVELOPMENTS

5.1 Mideast Air Traffic Booms With Double-Digit Growth

The Geneva-based International Air Transport Association (IATA) announced in its full-year traffic results for 2007 that the Arab Middle East achieved double-digit growth in both air passenger numbers and cargo volumes last year, leading all other regions. Carriers in the Middle East recorded an 18.1% increase in passenger traffic, continuing a four-year trend of double-digit growth. However, cargo growth in the Middle East slowed down last year compared with 2006. Middle East carriers still led all regions in 2007 with a 10.1% increase in freight volumes, declining from 16.1% a year before. (AB.02)

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5.2 Gulf Steel Producers Urged To Consolidate To Survive

The chief economist for Kuwait-based Gulf Investment Corporation (GIC) said that Gulf steel producers must consolidate if they are to survive in the coming years, faced with growing competition from China and the tumbling value of the US dollar. He added that surging Chinese exports of cheap steel would force Gulf produces to cut prices in order to remain competitive. At the same time, the rising cost of raw materials linked to Gulf Arab states' currency peg to the weak dollar would increase production costs. Gulf states' peg to the dollar has driven up the cost of imports from region's such as Europe. The economist said the only way for Gulf companies to succeed as profit margins get squeezed would be to consolidate; giving companies better platforms for negotiations and the ability to ride out cyclical downturns in the sector. He did point to the GCC's abundance of energy and geographical location as advantages over other steel producing nations. He said that as the leading producers of hydrocarbon-based energy in the world, the GCC and wider Middle East region could execute the energy intensive production process at less cost, which would drive down costs and make them more competitive. He also highlighted the GCC's proximity to steel consumer nations as bringing down transportation costs and time. (AB03.02)

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5.3 Gulf Nuclear Plans Face Obstacles

The head of planning and economic studies at the International Atomic Energy Agency (IAEA) said plans for nuclear power stations in the Persian Gulf face a lack of infrastructure that the region's cash-rich states will take time to overcome. Gulf Arab states - among the world's largest oil and gas producers - are considering nuclear power as they look to meet escalating domestic electricity demand without burning more fuel and eating into record export revenues. Analysts say they could quickly buy the technology they need, and push through the planning, financing and licensing much more quickly than would be the case in more democratic countries. Even so, it is doubted that a nuclear power plant would be up and running in the Gulf before 2020. Sellers of nuclear technology might be eager for the business, but they would also be reluctant to see their product used without a fully developed industry framework in place. The IAEA is working with the GCC on the basic requirements for nuclear power, Rogner said. It is also working with the individual countries of the GCC. (Reuters28.01)

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5.4 Bahrain's Planned $1.2 Billion Power Grid Project on Track

Bahrain's Electricity & Water Authority chief executive Dr Al Awadhi announced that a $1.2b power grid, one which will link Bahrain with the electricity network of three other GCC countries, will be completed this coming December. More than 55 % of the work on the first phase of the project that will link Kuwait, Qatar, Bahrain and Saudi Arabia in a power grid has already been completed. The GCC Interconnection Authority, which supervises the project, signed 13 contracts with six companies in October 2005 for the implementation of phase one. Bahrain shares 11 % of the project's total costs and it will allow Bahrain to tap electricity from its neighbors. Board members of the authority, representing the six countries, held their third and last meeting in Manama with Canadian engineering-construction firm SNC-Lavalin late last year. The main objective of the GCC interconnection is the sharing of reserves between the member states without sacrificing individual supply reliability. The first phase, which includes the interconnection of four GCC states using submarine cables, is called the GCC North Grid. Another project connecting UAE and Oman, called the South Grid, has already been completed. The final phase, which will include the interconnection of the South and North Grids will be completed by 2010. Each member state will be able to import up to the value of its interconnection size, which for Bahrain is 600MW per day. (TradeArabia 26.01)

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5.5 Qatar Science & Technology Park and Cisco Collaborate on Human Capital And Development

Cisco announced that the company would establish a research and technology base at Qatar Science & Technology Park (QSTP). Cisco plans to invest approximately $40m in its centre at QSTP over the next three years. As part of this plan Cisco will collaborate with Qatar Foundation on a series of projects to help enable QSTP's vision of transforming Qatar into a knowledge-based economy, while facilitating youth employment across the country. The Qatar Foundation will work with Cisco on the launch of 'Project iQ', a global project aimed at building a collaborative platform comprising business and collaboration applications, including blogs, wikis, TelePresence, social networking and unified messaging. Through utilizing technology, the project will allow people from Qatar Foundation, Qatar and across the globe to collaborate on areas of research, education, health and youth employment.

The announcement follows Cisco's recent official recognition as one of the first global strategic technology providers for Qatar's newly launched Youth Employment Initiative, announced in Madrid on January 15. Through Cisco's capability in being co-located with QSTP, Cisco will share its knowledge and expertise in the industry's leading solutions, working with local partners and customers to introduce Connected Healthcare, Connected Education, Connected Tourism and Real

Estate industry solutions throughout Qatar. To enhance information technology skills in Qatar, Cisco will provide technical training to local universities, partners and customers as well as offer internship opportunities. Cisco further aims to address the needs of entrepreneurs and small-to-medium business owners at its Entrepreneur Institute. Working with local organizations, the program will develop or license educational content for entrepreneurs to enable sustainable business growth. (Mena Report 24.01)

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5.6 Dubai to Build World's Longest Arch Bridge

Dubai plans to build the world's longest arch bridge at a cost of $816.9m, Dubai's Roads and Transport Authority (RTA) said on 29 January. The RTA said it would take four years to construct the mega-bridge, which will measure 1,600 meters with an arch 205 meters high and 667 meters long. Once complete the bridge will overtake the Lupu Bridge in Shanghai as the longest in the world. The bridge connects the Bur Dubai and Deira areas of the city and will be the sixth creek crossing. Currently the five Dubai Creek crossings are Al Shindagha Tunnel, Al Maktoum Bridge, the Floating Bridge, Al Garhoud Bridge and Business Bay Crossing. At 64 meters wide, the bridge will accommodate 12 lanes of traffic and a metro line running down its centre. The bridge will also include a metro station, an abra station and the manmade island on which an Opera theatre will be constructed. The RTA is currently investing around $22b in Dubai's transport infrastructure as it looks to reduce congestion. The investment plan allocates $12b for new roads, $2.5b each for marine transport and tram systems, $6.3b for the Dubai Metro and $600m for new buses. (AB29.01)

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5.7 Work in Dubai Begins on Nakheel's Al Burj

French company Soletanche Bachy is likely to win the piling and foundations contract for what is expected to become the tallest building in the world, Nakheel’s Al Burj. With initial designs putting Al Burj, or the Tall Tower, at over a kilometer high, the building will easily overtake Emaar Properties' Burj Dubai as the world's tallest. The Burj Dubai is expected to be around 900 meters upon completion at the end of this year, although the final height remains a closely guarded secret. A spokesperson for Nakheel denied an official award had been made, but confirmed the French company had begun some work on the project. The spokesperson said testing work had been done on site and an official launch was planned in March. It is common practice in the region for companies to start work on projects prior to actually winning the contract. Al Burj was initially planned to form part of the Dubai Waterfront development, but the location was moved to between Jumeirah Lake Towers and Ibn Battuta Mall on Sheikh Zayed Road. Initial designs for the tower indicate there will be 228 floors, a four level basement and one service sub-level. The total built up area will be 1.49m square meters, with 492,000 square meters of usable space. The development will house offices, apartments and hotels. The top habitable floor will be at 850 meters, topped by a 200-meter central spire with a three level function area and three service floors. (AB29.01)

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5.8 Oman Rules Out Depegging, Single Currency

Oman has ruled out revaluing its currency or dropping its peg to the dollar, saying a weaker rial helps attract foreign investment and make exports more competitive, offsetting inflation effects. It also ruled out altogether joining a Gulf Arab plan to create a single currency, ostensibly by 2010, central bank Governor Al-Zadjali said on 2 February. Al-Zadjali said he was unaware of any talks by Gulf Arab partners such as Saudi Arabia, the UAE and Qatar to revalue their currencies in unison, though it was an option for them. Gulf Arab states, which supply about a fifth of the world's oil, are struggling to contain inflation that has soared to near all-time highs as near-record oil prices spur economic growth. All but Kuwait have long-pegged their currencies to the dollar. The weaker Omani rial contributes to about a fifth of domestic inflation, Al-Zadjali said, which struck at least a 16-year high in November of 7.6% on rising rents and food prices. Kuwait in May dropped its peg to the dollar, tying to a basket of currencies of which the US unit is still the biggest component. The Kuwait dinar has since risen almost 6% against the dollar. Like other Gulf states, Oman is trying to diversify its economy away from oil, which generates almost half the country's gross domestic product. In 2004, Canada's Alcan agreed to help develop an aluminum smelter in Oman, the first investment by a foreign firm in production of the metal in the region. Oman, where the population of 3.2 million is growing at about 3.2% per year, is also developing chemicals, fertilizer and liquefied natural gas industries. (Various05.02)

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5.9 Oman Considers Gulf's First Coal Power Plant

Oman is considering building the first coal-fired Gulf Arab power plant in the latest sign of concern about a gas supply shortage in the world's biggest oil exporting region, the Middle East Economic Digest (Meed) reported. Gulf Arab states have about 30% of the world's oil reserves and 8% of its gas, but an economic boom spurred by record crude prices is driving demand for power and water so rapidly that many are considering turning to coal imports. Oman Power & Water Procurement has told consultants they may have to study the option of using coal as fuel at its next power and water project. The plant will have capacity of 700 megawatts of power and 26 million gallons a day of desalinated water. Oman needs to increase gas supplies by 48% to 7.2 billion cubic meters a year by 2013 to fuel power and desalination plants, the magazine said, citing Oman Power & Water Procurement. Saudi Arabia, the UAE and Bahrain are also looking at the possibility of building coal-fired power plants, industry sources said last year. Gulf Arab states were struggling to feed the appetite for gas because the speed at which economic growth was driving demand has taken the region by surprise. According to data from the World Coal Institute, benchmark London Brent light crude cost five times more than coal in 2006. Gas was about four times the price of coal. Even adjusting for the lower amount of energy in coal, coal is still far cheaper a fuel source than oil. (Meed27.01)

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5.10 Much-Awaited Saudi Railway Project on Track

The winner of the contract for the much-awaited land-bridge project to link the Kingdom’s east with its west will be announced in April, Transport Minister Dr. Al-Seraisry said on 26 January. The total cost of the project is estimated at $5b. Four consortia have been qualified to carry out the project and they are due to present their offers in the second half of February and the winner of the contract will be announced in April. Seraisry’s statement came less than a week after the formation of a railway authority by the Council of Ministers. The authority will issue licenses to railway service providers, monitor unfair competition, and investigate railway accidents and losses. The land-bridge project involves construction of 950 km of new railway tracks between Riyadh and Jeddah and another 115-km line between Dammam and Jubail. It is the cornerstone of a massive multibillion-riyal railway expansion project and will be the first rail link between the Red Sea and the Gulf. The four consortia vying for the project are Agility PWC Logistics Consortium, Mada Consortium, Saudi Binladin Consortium and Al-Muhaidib/ACWA (Tarabot) Consortium. Seraisry emphasized the significance of the land-bridge project, saying it would strengthen the Kingdom’s position on the regional and international transport map. It will also bring about total change in the region’s shipping pattern. The project, which is being tendered on a build-operate-transfer (BOT) basis, is one of the largest of its kind in the Middle East. (AN26.01)

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5.11 Saudi Establishes Firm to Oversee Water Privatization

Saudi Arabia has set up a water company to oversee privatization of expensive sewerage services and efforts to save dwindling water resources. Minister of Water & Electricity Al-Husayen said the National Water Company would be wholly owned by the Public Investment Fund. It will assume control of all the kingdom's groundwater wells and sewage and desalination plants, which were previously in the hands of various government bodies in a convoluted system. The new firm also will take charge of privatizing urban water and sewerage services. The winner of a tender for Jeddah will be announced in three months, Al-Husayen said, and tenders will be held for Saudi Arabia's other big cities within three years. No reason has been given for the delay in deciding on bids which first came in two years ago and include France's Veolia and Suez, Britain's Thames Water and Singapore Utilities International. Al-Husayen said National Water has chosen a foreign firm, which he did not name, to manage the national water network in a five-year contract that includes incentives to devise ways of preventing water wastage. "We are still losing around 20% of our resources in pipeline leakage. It's one million cubic meters per day," he said. "We are targeting reducing per capita consumption to 150 liters per person per day. It is now 250-260 per day." Al-Husayen confirmed government plans to abandon a 30-year wheat growing program that has so far guaranteed self-sufficiency for the country of 24 million people. Cereal and dairy farms across the parched desert country account for 85% of water consumption. (AB23.01)

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5.12 Saudi Arabia Insists It Will Not Depeg Riyal

Hamad Al Sayyari, the governor of the Saudi Arabian Monetary Agency (SAMA), has reiterated the Kingdom's current policy of pegging the riyal with the dollar. He said the slowdown in the US economy will not have much effect on Saudi Arabia. Al Sayyari said there was no change in the Saudi currency exchange rate. The governor expected inflation in the Kingdom to maintain its 4.1% rates, which it reached at the end of last year, up from 2.2% the previous year. Al Sayyari noted that the Saudi economy was passing through an accelerated growth stage at all sectors. He added that this growth was strongly supported by the private sector's investments, which will increase production and create sustainable growth. Asked about what the Saudi authorities will do in case the US Federal Reserve again cuts interest rates by 50 points, Al Sayyari noted that if this happens it will immediately be studied and a decision will be taken. He pointed out that the measures taken by the government on Monday will positively increase citizens' income and help them facing inflation rates. (AB01.02)

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5.13 Egypt to Launch Tender for First Nuclear Reactor

On 26 January, Egypt announced that it would launch a tender for offers in February to build its first nuclear reactor. The Egyptian nuclear energy agency will release an international tender worth $1.5 to $1.8b for offers to build Egypt's first nuclear reactor. The type of reactor and its constructor will be chosen according to international safety standards and reputation, as well as costs. On 10 January Egypt said the reactor will be built at Dabaa on the Mediterranean coast, west of the port of Alexandria. Last October, President Mubarak announced the beginning of a national plan for setting up nuclear plants for peaceful uses. France has offered to share its nuclear expertise with Egypt, which initiated a nuclear energy program in the 1970s but abandoned it in 1986 after the Chernobyl disaster in the Ukraine. (AFP27.01)

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6: TURKISH, CYPRIOT & GREEK DEVELOPMENTS:

6.1 Turkey's Inflation Figures Came In At Better Than Expected

Turkey's CPI increased by 0.80% in January on a monthly basis, below the consensus of 1.08%. Monthly PPI change came in at 0.42%, again below the consensus of 0.89%. CPI and PPI on annual basis were 8.17% and 6.44%, respectively, versus 8.4% and 5.9% a month ago. Clothing and footwear which went down by 10.2% in January were the main reason behind lower than expected CPI. The indices rose for miscellaneous goods and services 2.61%, for food and non-alcoholic beverages 1.83%, for transportation 1.33%, for communication 1.02%, for hotels, cafes and restaurants 1.00% and for furnishings and household equipment 0.61%. The unprocessed food prices increased 2.9% mom. It is seen that VAT cuts were not fully reflected to service sector prices. Accommodation prices went up by 3.9%. PPI of agriculture increased 1.58% in January and PPI of industry section increased 0.13% mom. With the inflation rate coming below the market consensus, we expect Central Bank to cut rates for another 25 bps in its MPC meeting on February 14th. (BGC05.02)

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6.2 Turkey's Natural Gas Bill for 2008 Reaches $11.7 Billion

Turkey's state owned pipeline company Botas will import a total 35b cubic meters of natural gas in 2008, excluding liquefied natural gas, at a price of $11.7b, Energy Minister Guler announced. The average price of gas will rise by 20% to $336 per 1,000 cubic meters, up from $280 in 2007. In addition to the 35b cubic meters, Turkey will continue to buy LNG from Nigeria and Algeria in 2008 in an effort to bridge its supply gap after Iran halted gas deliveries earlier this month. Some of those deliveries have now resumed. Turkey aims to become a hub, connecting energy-rich Central

Asia to European markets through several oil and gas pipelines. Botas will pay $6.3b to its major supplier, Russia, in 2008 and $3b to Iran. The company will also pay $1.35b for gas imports from Algeria, $600m to Azerbaijan and $369m to Nigeria. Azerbaijan provides the cheapest gas to Turkey at $122 per 1,000 cubic meters. (TNA29.01)

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6.3 Greece & Turkey Aim to Strengthen Business Ties

In an effort to strengthen Greek-Turkish business relations, Turkish Prime Minister Erdogan and Greek Prime Minister Karamanlis hosted a business forum in Istanbul attended by Greek and Turkish business delegations covering all sectors The forum was held on the third day of the Greek prime minister's recent official visit to Turkey, the first official visit from a Greek premier since Karamanlis' uncle Constantine visited 49 years ago. Both leaders addressed business delegations from Greece and Turkey at a forum and encouraged them to press forward with investments and business collaborations. The common goal of the two countries is the further strengthening of cooperation between Turkey and Greece, said Karamanlis for his part, but the development of economic and commercial relations and promotion of investments are not limited to financial outcomes but form the groundwork for broader, mutually beneficial cooperation between the two countries. The dialogue on advancing economic relations between the two countries must be continuous, both prime ministers said, and to that effect Karamanlis noted that the Greek side has proposed that the 11th conference of the Greek-Turkish Cooperation Group on Trade and Economic Cooperation be convened in Athens in early February. Erdogan, on the other hand, said the fourth conference of the Greek-Turkish inter-ministerial economic committee was due to be held in Turkey in Q1/08. The trade volume between Greece and Turkey is nearly $3b, and Erdogan said both sides expect it to reach $5b soon. (TDN26.01)

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6.4 Cyprus Motor Registrations Up 33.1% In 2007

Motor registrations in Cyprus rose by 33.1% in 2007 as a result of a sharp cut in excuse duties in late 2006, in which the prices of saloon cars fell by up to 40%. This came only three years after another tax-induced boom in 2004. The Statistical Service Cystat said that the total number of motor vehicles registered in Cyprus during 2007 increased by 33.1% to 64,405 from 48,387 in 2006. Of these, 34,069 were new vehicles and 30,336 were used vehicles. Goods conveyance vehicles increased by 26.2% to 7,149 in 2007, compared to 5,665 in 2006. Light goods vehicles increased by 30.9% to 5,475, from 4,181 in 2006. Heavy goods vehicles increased by 12.8% to 1,674 in 2007 from 1,484 in 2006. Motorcycle registrations increased by 17.0% to 5,457 in 2007 from 4,664 in 2006. European Union Countries were the main suppliers of motor vehicles to Cyprus in 2007. The EU accounted for 56.2% of total vehicle registrations, while Japan’s share fell to 31.1%. Before Cyprus joined the EU, Japan tended to be the main supplier of cars. The Statistical Service did not say which EU brands were the most popular but judging by the number of nearly new silver Mercedes C class cars suddenly to be seen on the streets on Nicosia, the strongest increase may well have been in this brand. (FM27.01)

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7: GENERAL NEWS AND INTEREST

*ISRAEL:

7.1 Ethiopian Jewish Sigd Festival to Become National Holiday

The Ethiopian Jewish holiday of Sigd will soon become a national holiday. Preliminary legislation submitted by a National Union MK was approved on 31 January. The proposal was supported by MKs from National Union, NRP, Shas and Likud, as well as Labor and Meretz. The ramifications of adopting Sigd as a national holiday would be that the Education Ministry would teach about it in schools and employees would be given the option to take the day off, such as is currently the practice for days like Jerusalem Day and the holiday of Purim. The Prime Minister’s Office would also be assigned the responsibility of funding the yearly Sigd festivities in Jerusalem. Sigd takes place on the 29th of the Hebrew month of Cheshvan, exactly fifty days after Yom Kippur. The holiday is pronounced Sigd (one syllable), which means prostration in Amharic and shares its root with the word for temple. The ceremony resembles the one held for the renewal of the Divine covenant by Ezra the Scribe during the Second Commonwealth, described in the Book of Nechemia. "All the people gathered themselves together as one man into the broad place that was before the water gate; and they spoke unto Ezra the scribe to bring the book of the Law of Moses, which the LORD had commanded to Israel" (Nehemiah 8:1) Prior to their immigration to Israel, the Beta Israel (meaning 'House of Israel') or Falasha (meaning ‘strangers,’ a term used by their non-Jewish neighbors in Africa) community would observe Sigd each year on mountaintops outside their villages. The Kessim, the community's rabbis and ritual leaders, would ascend the mountain, which was meant to represent Mount Sinai. The bill will next be voted upon by the Knesset’s Labor and Welfare Committee. (INN31.01)

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*REGIONAL:

7.2 New Report: Close To 50% of Arab Women Illiterate

Nearly one in three people in the Arab world is illiterate, including nearly half of all women in the region, the Tunis-based Arab League Educational Cultural and Scientific Organization announced in 8 January. Three-quarters of the 100 million people unable to read or write in the 21 Arab countries are aged between 15 and 45 years old, the Arab League group, known by its acronym ALECSO, said. Some 46.5% of women in the region are illiterate, the organization declared, urging governments to put the fight against illiteracy at the top of their agendas. While describing access to primary school education as "indispensable," it also called on Arab nations to focus on adult education to avoid "serious incidents in the evolution of (Arab) societies". ALECSO has previously sounded the alarm on illiteracy in the region, noting it had failed to meet a 1990 United Nations goal to halve adult illiteracy over the subsequent decade. (Al Bawaba 08.01)

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7.3 Redesigned Iraqi Flag Hoisted Over Iraqi Cabinet

A new Iraqi flag stripped of Saddam-era symbols was hoisted over the Iraqi Cabinet building in Baghdad on 5 February. Prime Minister Al Maliki raised the new flag during a ceremony watched by leading dignitaries. Earlier this month, parliament voted to remove Saddam-related symbols from the banner, including the three stars thought to represent the objectives of Saddam’s now outlawed Baath party. The calligraphy of the Arabic words Allahu Akbar (God is Great), which was in Saddam’s own handwriting, was also changed to a different script. The changes were prompted by a row with Iraq's Kurdish minority, who threatened to boycott the old banner during a pan-Arab meeting in the country later on February. More than 100,000 Kurds were killed under Saddam's Anfal military campaign in the 1980s. The new flag is valid for only one year, after which parliament must pass another law to establish a permanent design.

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7.4 Sheikh Hamdan Appointed Dubai's Crown Prince

His Highness Sheikh Hamdan Bin Mohammad Bin Rashid Al Maktoum has been appointed as Crown Prince of Dubai. His Highness Sheikh Mohammad Bin Rashid Al Maktoum, Vice President and Prime Minister of the UAE and Ruler of Dubai, issued the decree, which goes into effect immediately. Sheikh Mohammed also issued a decree naming Sheikh Maktoum Bin Mohammed Bin Rashid Al Maktoum and Sheikh Hamdan Bin Rashid Al Maktoum as Deputy Rulers of Dubai. (WAM01.02)

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7.5 Four Earthquakes Strike UAE

Four moderate earthquakes hit the UAE early on 3 February, just a day after a tremor measuring 3.4 on the Richter scale struck Deba Al Fujairah on the east coast. The latest earthquakes were felt by residents up and down the east coast, but there were no reports of injuries or damage to property. The National Centre for Meteorology and Seismology (NCMS) said the first earthquake had a magnitude of 4.4 of the Richter scale and hit at 01.25.03 local time, with the quake's epicenter in the Gulf of Oman about 140 kilometers east of the city of Al Ain. The second earthquake had a magnitude of 3.2 and hit at 01.25.15 and was centered north of the city of Fujairah. The third, measuring 2.57, occurred at 03.34.24 and was also centered north of Fujairah, while the fourth measured 3.2 and took place at 08.30.00 with the epicenter around Qeshm Island in the Strait of Hormuz. The NCMS said the first three earthquakes were recorded in local seismic observatories and not in any of the regional observatories. (AB03.02)

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7.6 Saudi Tightens Grip on Internet Use

The Kingdom of Saudi Arabia has begun implementing new laws for controlling the use of technology for terrorism, fraud, pornography, defamation, violating religious values and disregarding public etiquette. The new information technology law contains 16 articles, and provides a maximum penalty of 10 years and a $1.333 fine for persons found guilty of running web sites in support of terrorist organizations. A maximum penalty of three years and a $133,000 fine will be handed to anyone found guilty of financial or data fraud, or found guilty of attacking the private life of another subject. The new law also covers the religious and social use of information and communications technology. Those who produce and distribute IT materials that violate public law, religious values and public etiquette will receive up to five years in jail and An $800,000 fine. Those who use information technology to spread and market pornography will face the same punishment. The new law comes into effect as Saudi Arabia faces the world's attention for its treatment of Saudi blogger Ahmad Fouad Al-Farhan. Al-Farhan was arrested for violating “non-security regulations", and is believed to be the first online critic to be arrested in the kingdom. Punishment will be extended to those who aid those who commit IT crime; while those show that they exhibited intent to commit the crime through their actions, even if the crime didn’t take place, will receive up to half the maximum sentence. (AB27.01)

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7.7 Saudi Arabia’s First Girls’ Soccer Match

The first soccer match between female teams has taken place in Saudi Arabia's Eastern Province. No men were allowed in the stadium, and the referee and her linesman, as well as the fans, were also female. The Prince Mohammad Bin Fahd University team defeated their guests, the Al-Yamamah College, from the capital, Riyadh, in a penalty shoot out after the game had ended 2-2 on 26 January. Al-Yamamah college's goalkeeper was declared "woman of the match." The match was held at a 35,000 capacity stadium in the city of Dammam. Saudi Arabia's male national soccer team is one of Asia's most successful teams, currently ranking 57 in the FIFA ratings and has taken part in the last four World Cups. It is unclear if a female Saudi national soccer team is in the offing and whether they would participate in international competitions. (Saudi Gazette 26.01)

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7.8 AK Party & MHP Agree to End Headscarf Ban

Turkey's ruling Justice & Development (AK) Party and opposition Nationalist Movement Party (MHP) have reached "a general consensus" about how to lift a ban on headscarf in higher education institutions, said a joint statement from the two parties. High level officials of the two parties met recently at the parliament to discuss a proposal by AK Party to amend articles 10, 13 and 42 of the constitution. (TNA25.01)

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8: ISRAEL LIFE SCIENCE NEWS

8.1 Hercules Provides $20 Million to Kamada

Palo Alto, California's Hercules Technology Growth Capital, a premier specialty finance company providing venture debt and equity to venture capital and private equity backed technology and life science companies at all stages of development, announced that it provided $20m in debt financing to Kamada in January 2008. The deal is the first financing Hercules has provided as a result of its alliance with Market Bridges, a financial services and business-development firm bridging between emerging Israeli growth companies and international capital markets.

Founded in 1990, Kamada (http://www.kamada.com) is a public biopharmaceutical company, traded on the Tel Aviv Stock Exchange (KMDA). The company develops, produces and markets specialty life-saving therapeutics – including specific immunoglobulins and other prescribed medicines – using its proprietary chromatographic purification technology. Kamada is pursuing new therapeutic products specifically for the treatment of underserved diseases. For instance, the company recently announced that it successfully completed Phase I clinical trials designed to test the safety and tolerability of the aerosolized version of Kamada’s flagship product, Alpha-1 Antitrypsin (AAT), for the potential treatment of various lung diseases. EMEA has already approved the company’s clinical plans for Phases II-III, enabling the company to move forward with the development of the aerosolized AAT product. In addition, the company’s intravenous AAT product is undergoing Phase III clinical trials in the United States. (HTGC27.01)

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8.2 BioLineRx' BL-1021 Safe & Effective in Treating Neuropathic Pain

BioLineRx presented data from pre-clinical trials of BL-1021 at the Isranalytica meeting 2008 held in Tel Aviv, Israel, on January 22-23, 2008. Recent pre-clinical trials demonstrated that BL-1021 was safe and effective in pre-clinical testing for the treatment of neuropathic pain. BL-1021 is an orally available small molecule for the treatment of neuropathic pain. In pre-clinical trials, BL-1021 showed a significant reduction in symptoms of neuropathic pain with reduced side effects. The molecule was given orally and in all cases was found to be superior to available treatments due to its increased efficacy and minimal side effects. Furthermore, the experiments demonstrated that BL-1021 demonstrated potent analgesia drug without noticeable side effects of sedation and cardiac arrhythmias, which often plague other anti pain compounds. Jerusalem, Israel's BioLineRx (http://www.biolinerx.com), a clinical stage drug development company traded on the Tel Aviv Stock Exchange (TASE:BLRX), is dedicated to building a robust pipeline of promising therapeutics for unmet medical needs. The Company’s leading programs are BL-1020, currently in Phase 2 testing for the treatment of schizophrenia, and BL-1040, about to initiate clinical trials for the treatment of damaged heart tissue post-myocardial infarction. Additional products under development include compounds for the treatment of cancer and CNS, cardiovascular, metabolic, infectious and autoimmune diseases. BioLineRx advances projects from early stage discovery and lead generation to advanced clinical trials. (BioLineRx 27.01)

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8.3 Stemedica Cell Technologies Enters Into a Collaborative Agreement with Lumenis

San Diego, California's Stemedica Cell Technologies, a leading manufacturer of best-in-class adult stem cells, has entered into a Collaboration Agreement with Lumenis. This collaboration agreement will focus on the implementation of a first-of-its-kind, comprehensive clinical study for the treatment of macular degeneration using Stemedica’s MCT (Multiple Cell Technology) adult stem cells and the Lumenis SRT Laser. The clinical study will be conducted at the Fyodorov Eye Institute in Moscow, Russia. The year-long study will begin in March, 2008 and will determine the safety and efficacy of the use of Stemedica’s proprietary MCT stem cell lines in combination with the Lumenis SRT laser. Yokneam, Israel's Lumenis (http://www.lumenis.com) is dedicated to improving people’s lives with advanced technological solutions for treating their medical and aesthetic conditions. Started in 1966, Lumenis is Israel’s largest medical device company with more than 1,000 employees worldwide. The company invests heavily in research and development and holds a leading position in the markets in which it serves. Lumenis has over 250 patents worldwide, over 75 FDA clearances, presence in over 100 countries, and an installed base of over 70,000 systems. (Stemedica 29.01)

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8.4 Oramed Pharmaceuticals Teams up with OnQ Consulting

Oramed Pharmaceuticals signed an agreement with OnQ consulting, a clinical research organization (CRO) located in Johannesburg, South Africa, to conduct Phase 1 clinical trials for its rectal application of insulin. These studies are intended to assess the safety and feasibility of Oramed’s product, that the company is developing using its cutting-edge technology. The product is targeted towards individuals diagnosed with diabetes who are unable, or find it difficult, to receive insulin via injection. These trials are scheduled to be completed by Q3/08. Oramed Pharmaceuticals (http://www.oramed.com) is a Jerusalem, Israel-based company that focuses on the development of oral delivery solutions based on proprietary technology. Diabetes, one of the most rapidly growing diseases in the world, requires constant and an often unpleasant monitoring and drug therapy regimen. Oramed is concurrently developing an oral insulin capsule for the treatment of diabetes, and has recently commenced Phase 1B of its clinical trials. (OnQ 30.01)

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8.5 Teva Announces Tentative Approval of Generic Flomax Capsules

Teva Pharmaceutical Industries announced that the U.S. FDA has granted tentative approval for the Company’s Abbreviated New Drug Application (ANDA) for Tamsulosin Hydrochloride Capsules, 0.4 mg. Final approval of this product is expected upon expiry of patent protection for the brand product in October 2009. Upon final approval, Teva’s product will be the AB-rated generic equivalent of Boehringer Ingelheim’s Flomax Capsules, a product indicated for the treatment of signs and symptoms of benign prostatic hyperplasia (BPH). Teva Pharmaceutical Industries (http://www.tevapharm.com), headquartered in Israel, is among the top 20 pharmaceutical companies in the world and is the leading generic pharmaceutical company. The company develops, manufactures and markets generic and innovative human pharmaceuticals and active pharmaceutical ingredients. (Teva01.02)

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8.6 Merck Signs Licensing Agreement with Sol-Gel Technologies

At the end of 2007 the Merck KGaA turned its existing exclusive contract with Sol-Gel Technologies Ltd. in Israel into a licensing agreement. This licensing agreement allows Merck, besides the exclusive rights to marketing and global sales, also the permission to manufacture Sol-Gel's UV-Pearls. Behind the UV-Pearls brand name hides a technology developed by Sol-Gel Technologies to encapsulate UV absorbers. Merck uses this process to encapsulate its organic UV filters. The corresponding products are available under the brand name Eusolex UV-Pearls. Through the encapsulation of the UV filters, it remains on the skin surface in order to unfold its full potential. Merck brought the first encapsulated organic UV filter to the market already in 2001. Since then Eusolex UV-Pearls have been established with leading international cosmetic manufacturers as a high-end gold standard, and can be found in many well-known sunscreen formulations. This year Merck will construct a corresponding production facility in Darmstadt to be able to expand the current Eusolex UV-Pearls product portfolio. Sol-Gel Technologies is a privately held-company based in Bet Shemesh, Israel. The company provides innovative drug delivery solutions and life cycle management opportunities using patented, sol-gel based encapsulation systems in silica. The technology enables new and stable combinations of Active Pharmaceutical Ingredients resulting in improved efficacy, safety and patient compliance. (Sol-Gel 01.02)

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8.7 Foamix Signs Term Sheet to Acquire License to Organo-Boron Antifungal Molecules

Foamix and Ramot at Tel Aviv University have reached an agreement on the commercial terms of a worldwide exclusive license for Organo-Boron Antifungal Molecules which are useful for topical and systemic treatment of fungal disease. Under the terms of the agreement, Foamix will have the exclusive rights to develop and commercialize Ramot's proprietary Organo-Boron compounds and which possess potent fungicidal activity, as demonstrated in laboratory studies. The financial terms of the agreement were not disclosed.

Headquartered in Ness Ziona, Israel, Foamix (http://www.foamix.co.il) is a leading developer of topical foams for dermatology and gynecology. 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. Foamix is currently collaborating with 8 pharmaceutical companies on 10 projects in the development of proprietary dermatological and gynecologic foam drugs, and has its own in-house pipeline of dermatological and gynecological drugs in foam presentation.

Founded in 1963, Tel Aviv University (http://www.tau.ac.il) is one of Israel's foremost research and teaching universities. Located in Israel's cultural, financial and industrial heartland, Tel Aviv University is at the forefront of basic and applied research in a wide variety of scientific research disciplines, including engineering, exact sciences, life sciences, medicine, social sciences, management, law, humanities and the arts.

Ramot (http://www.ramot.org) is the technology transfer company of Tel Aviv University. Ramot fosters, initiates, leads and manages the transfer of new technologies from university laboratories to the marketplace by performing all activities relating to the protection and commercialization of inventions and discoveries made by faculty, students and other researchers. Ramot provides a dynamic interface connecting industry to leading-edge science and innovation, offering new business opportunities in a broad range of emerging markets. (Foamix 31.01)

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9: ISRAEL PRODUCT & TECHNOLOGY NEWS

9.1 China’s Ministry of Railway Selects NICE’s IP Video Security Solution for First High-Speed Rail-Line

NICE Systems has received a follow-on order from the Ministry of Railway (MOR) in China, for its advanced video IP based solution. The NICE solution was selected following successful implementation on the Qing Zang rail – the railroad connecting Lhasa in Tibet to Germu in Qinghai. The NICE solution will be used to enhance the safety and security of up to 32 million passengers in 2008 and a projected 54 million by 2015, traveling on the Beijing-Tianjin inter-city passenger line — the country's first high-speed passenger rail service. NICE’s advanced real-time distributed digital video solution will be deployed to help protect the railway including its tracks and stations, to verify that there is no destruction and to prevent accidents. By providing real-time alerts to security personnel, the result will be enhanced passenger safety and better asset protection. 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. (NICE28.01)

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9.2 Continuity Software RecoverGuard Named Finalist for Storage Magazine's Products of the Year

Continuity Software announced that its RecoverGuard software has been named a finalist for the SearchStorage.com and Storage magazine 2007 Storage Products of the Year Award, in the Backup and Disaster Recovery Software category. The finalists, chosen by the industry's leading analyst experts and the editors of SearchStorage.com and Storage magazine, were judged in the areas of innovation, performance, ease of integration, manageability and functionality. Tel Aviv, Israel's Continuity Software (http://www.continuitysoftware.com) is a leading provider of Disaster Recovery Management (DRM) solutions. Its RecoverGuard software mitigates data protection and disaster recovery (DR) risks by detecting replication infrastructure gaps and configuration vulnerabilities between customers' primary production and disaster recovery sites. With RecoverGuard software, customers can now confidently validate their DR strategy, and ultimately, ensure their business continuity and data protection goals. (Continuity28.01)

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9.3 Sterna Technologies Officially Launches First of Its Kind Business Positioning System (BPS)

Sterna Technologies announced the launch of its revolutionary Business Positioning System (BPS). Much like a GPS, Sterna BPS navigates and focuses business communities - such as Sales, Marketing, Planning, Logistics, and Procurement - on the enterprise's targets, provides central and common visibility to all users, is simple and intuitive to use, and is updated and aligned at all times with the dynamic business environment. Sterna BPS is a groundbreaking business analytics platform that uniquely merges capabilities of strategic business intelligence (BI), operational BI, and predictive analytics, together with principles from the field of System Dynamics, into a single, intuitive solution, that empowers managers to control the organization as a system and to maximize profits. Using its powerful mathematics engine, the BPS continuously calculates operation performance and alerts users to financial implications - present and future - driving managers to proactive action. This enables executives to capitalize on business opportunities and mitigate threats as they occur. Sterna Technologies has already deployed its business analytics solution in multi-billion dollar global companies in industries such as Food and Beverage, Chemicals, and Travel. The Sterna BPS business analytics platform may be deployed on-premise or hosted as a service. It is currently generally available, and end-user pricing is subscription-based. Israel's Sterna Technologies (http://www.sternatech.com) is the pioneer of Business Positioning Systems, empowering managers to control the organization as a system and to maximize profits. The company has leveraged hundreds of man-years of experience in delivering real-time Command & Control defense systems, artificial intelligence, and human factors design to bring its Sterna BPS business analytics platform to market. (Sterna Technologies 28.01)

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9.4 Minicom's Unique Business Model to Appear at Paris' IT Partners

Jerusalem, Israel's Minicom Advanced Systems (http://www.minicom.com) will be showcasing its unique business model at the IT Partners show in Paris, February 5-6. Minicom has long been dedicated to building and maintaining long term partnerships with customers and vendors and much of the foundations of their success have been built on this ethos. Minicom has developed a sales strategy based on partnerships with distributors and resellers in the indirect distribution channel. Minicom Advanced Systems is a principal manufacturer of KVM solutions for out-of-band server management and distribution systems for digital signage. Synonymous with both innovative know-how and commitment to partnerships, Minicom is leading the development of internet-based centralized KVM access technologies and multi-media distribution systems. Founded in 1988, Minicom has a global presence in over 50 countries, with regional headquarters in North America and Europe. In 2005, Minicom acquired Replicom, a leading developer of remote KVM systems, which now operates as Minicom's R&D center for IP technology. (Minicom 28.01)

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9.5 Elbit Systems to Supply Dutch Advanced Battlefield Management System (BMS)

Elbit Systems has been awarded a contract from the Netherlands MoD for the supply of advanced Battlefield Management Systems - BMS. Elbit Systems won the contract, scheduled to be completely delivered over five years, following an international tender participated by several of the leading defense companies in the world. Elbit Systems will supply systems to the Royal Netherlands Army's (RNLA) Ground Forces that will include Enhanced Tactical Computers - ETCs, incorporating Tactical Communication Devices and Data Communication Software. The systems will be installed in more then 1,800 of the RNLA's vehicles, including tanks, armored vehicles and others. The project involves extensive cooperation with the Netherlands MoD's C2 Support Centre.

Haifa, Israel's Elbit Systems (http://www.elbit.co.il) 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 Systems27.01)

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9.6 Radvision Selected as Unified Visual Communications Company of the Year

Radvision and its products have received a series of awards from leading industry analyst Videoconferencing (VC) Insight. Radvision was chosen as VC Insight’s “Unified Visual Communications Company of the Year 2007.” In the award selection, VC Insight took the user’s perspective and looked for innovation, reliability, ease of use, and price-performance. Radvision made significant advances in its product line in 2007, including the introduction of SCOPIA V5.5 with support for advanced high definition capabilities and optimized capacity as well as SCOPIA Desktop, resulting in an award-winning portfolio. The SCOPIA Desktop Video Conferencing client was also chosen as one of “The 10 Best New Video Conferencing Endpoints of the Year 2007.” Radvision’s SCOPIA Desktop is a software based video conferencing endpoint which offers an extension of the SCOPIA conferencing platform. SCOPIA Desktop extends video conferencing deployments based in meeting-rooms allowing remote users to connect to conferences and fully participate in audio, video, and data collaboration. SCOPIA Desktop is a Web-based plug-in client that can be used by anyone inside or outside the enterprise firewall.

Tel Aviv, Israel's Radvision (http://www.radvision.com) is the industry’s leading provider of market-proven products and technologies for unified visual communications over IP, 3G and IMS networks. With its complete set of standards-based video networking infrastructure and developer toolkits for voice, video, data and wireless communications, Radvision is driving the unified communications evolution by combining the power of video, voice, data and wireless – for high definition video conferencing systems, innovative converged mobile services, and highly scalable video-enabled desktop platforms on IP, 3G and emerging next-generation IMS networks. (Radvision29.01)

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9.7 VocalTec and RedLinX Solutions Selected by Several USAL Operators in South Africa

VocalTec Communications and RedLinX, a successful telecoms systems integrator in South Africa, announced their cooperation in providing complete VoIP solutions to the service provider market as well as the ones acting under the “Under-Serviced Area License”, (USAL), amendment to the South African Telecommunications Act. A USAL is a licensed service provider acting under the “Under-Serviced Area License” amendment to the South African Telecommunications Act; the goal of which is to spur the growth of telecommunications services in under-serviced areas. The joint affiliation of VocalTec and RedLinX has been selected by several telecom USAL operators, which have successfully deployed VocalTec’s Essentra CX, Trunking solution, for delivering carrier-grade voice services across its licensed network, the Essentra EX, VoIP Peering Manager and the Essentra BAX, VoIP Class 5 Softswitch. The Essentra CX, Trunking solution, enables to smoothly migrate to a VoIP Next Generation Network, while maintaining seamless connectivity to PSTN/SS7 services, reducing operating costs and enhancing service flexibility. The Essentra EX, VoIP Peering Manager, facilitates peering between SIP and/or H.323 networks by fully addressing requirements in the areas of protocol interworking, routing, accounting/billing and security. These deployments also include implementations of the Essentra BAX, Class 5 Application Server, which provides cost-effective residential and enterprise VoIP services.

Herzliya, Israel's VocalTec Communications (http://www.vocaltec.com) is a global provider of carrier-class multimedia and voice-over-IP solutions for communication service providers. A pioneer in VoIP technology since 1994, VocalTec provides proven trunking, peering andresidential/enterprise VoIP application solutions that enable flexible deployment of next-generation networks (NGNs). (VocalTec 29.01)

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9.8 Alvarion Deploys Wireless Broadband Network for NGI in Italy

Alvarion announced that NGI, one of the main ISPs in Italy, has deployed its BreezeACCESS VL and BreezeNET B to offer high speed broadband wireless services in Northern Italy. The new network provides extended voice and data services to Lombardia, Veneto and Piemonte regions, covering approximately 15,000 km2. This deployment project increases broadband service availability to both business and residential users, while offering the benefits of extended coverage, especially in regions where xDSL and cable broadband services are inadequate. With Alvarion’s solution, NGI is able to maintain the continuous expansion of the network, covering close to 1100 municipalities to date. With more than 3m units deployed in over 150 countries, Tel Aviv, Israel's 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 architecture 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 29.01)

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9.9 Greek Telecom Innovator Increases Network Storage Capacity With BitBand’s Auto-CDN

BitBand has implemented its Auto-CDN technology at ON Telecoms, enabling increased storage space and reduced traffic load in ON’s network. On Telecoms, a new generation telecommunications company successfully completed installation of a metropolitan fiber optic network totaling 220 km of fiber in the Attica region of Greece. The company offers voice telephony, high speed broadband and television to residential and business customers accessing till now 1.350.000m households and 300.000 companies in wider Attica area. BitBand Auto-CDN is a dynamic, real time mechanism for content positioning in the network according to actual usage of assets, maximizing streaming throughput, optimizing storage capacity and minimizing network load. Utilizing BitBand’s Auto-CDN, On Telecoms can leverage network resources and further expand its offering to Greek customers.

Netanya, Israel's BitBand’s (http://www.bitband.com) advanced content 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. BitBand's On Demand IPTV solutions form the most scalable and cost-effective solution existing today for the IPTV environment, including the BitBand ISIS automated Video Delivery Network, BitBand Maestro Content Distribution and Video Network Management Suite and BitBand Vision appliance servers. (BitBand 29.01)

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9.10 Crescendo Networks Offers Replacement Program for Discontinued Juniper DX Acceleration Line

Crescendo Networks announced an aggressive global replacement program for customers who have purchased Juniper DX acceleration equipment. The replacement program will allow qualified customers to replace their existing Juniper DX products with a Crescendo Networks application front end solution. The program, which offers aggressive pricing and incentives, is scheduled to run from January 28th through March 28th, 2008. Juniper recently announced that it would discontinue the DX application acceleration product line because it regards it as “insufficiently distinguishable” from competitive solutions. Located in Tel-Aviv, Israel, Crescendo Networks (http://www.CrescendoNetworks.com) is a leader in the Application Acceleration Market and is the only vendor that offers both a multi-gigabit, and a multi-tier acceleration and optimization solution. Crescendo currently offers two product families, both enabled on its award winning, purpose built, Maestro Platform. The AFE (Application Front End) product line accelerates application delivery, intelligently managing, protecting and optimizing web based applications. The ALP (Application Layer Processing) product line offers sophisticated acceleration capabilities to inner application tiers (including the Web tier) within the data center. (Crescendo 30.01)

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9.11 Idearc Media Corp. Places Order for NICE SmartCenter Solutions

NICE Systems announced that Idearc Media Corp., home to Superpages.com and publisher of the Verizon Yellow Pages, has placed an order to expand its NICE environment by deploying NICE SmartCenter solutions, including Adaptive Interaction Analytics, Customer Feedback and Performance Management. Idearc Media will use NICE SmartCenter solutions to continue improving overall customer service. NICE’s Adaptive Interaction Analytics will allow Idearc Media to analyze large amounts of call data to gather business intelligence about its customers, predict behavior and drive strategic decisions and actions. The NICE Customer Feedback solution will improve surveying capabilities and link results to process and service improvements. NICE’s Performance Management solution provides strategic performance metrics in a single, consolidated view. Idearc will receive performance scorecards which are based on predefined performance criteria, thresholds and targets, enabling KPI-based (Key Performance Indicator) management.

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 the convergence of advanced analytics of unstructured multimedia content and transactional data – from telephony, web, email, radio, video, and other data sources. 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. (NICE30.01)

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9.12 Magal Receives $45 Million Order to Protect Critical Infrastructure Facilities

Magal Security Systems recently received a series of orders totaling approximately $45m for a turnkey project to protect critical infrastructure facilities. The turnkey project incorporates fence perimeter protection systems, access control systems and CCTV products. Magal's management expects to recognize income from these orders over the next two years. 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. The Company's products are currently used in more than 70 countries worldwide to protect national borders, airports, correctional facilities, nuclear power stations and other sensitive facilities from terrorism, theft and other threats. (Magal30.01)

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9.13 VocalTec Powers VoIP for WiMAX Network in Latin America

VocalTec Communications announced that its VoIP technology has been selected by a leading PTT in Latin America to provide voice services over its WiMAX network. The deployment involves the provision of VoIP/NGN services over a WiMAX Access Network and includes the Essentra iCX media gateway controller; a carrier grade solution offering high-quality voice services, carrier grade reliability and maximum service flexibility. Featuring an open architecture and interfaces to non-proprietary media devices and application servers, Essentra facilitates the creation of best-of-breed network solutions. Its embedded Megaco/H.248 control and SIGTRAN (M3UA) support provides an integrated IMS/TISPAN SIP-to-SS7 solution. Herzliya, Israel's VocalTec Communications (http://www.vocaltec.com) is a global provider of carrier-class multimedia and voice-over-IP solutions for communication service providers. A pioneer in VoIP technology since 1994, VocalTec provides proven trunking, peering andresidential/enterprise VoIP application solutions that enable flexible deployment of next-generation networks (NGNs). (VocalTec 31.01)

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9.14 Radvision Receives Internet Telephony Magazine’s 10th Annual Product of the Year Award

Radvision announced that Technology Marketing Corporation’s Internet Telephony magazine has named Radvision SIP Server Platform as a recipient of its 2007 Product of the Year Award. Radvision SIP Server Platform is a unique software framework for the rapid development of high performance, robust and interoperable SIP applications and services for Next Generation Networks. Radvision SIP Server Platform is part of a comprehensive server solution for the development and testing of SIP Network Equipment and SIP Application Servers. Radvision also offers custom turn key server solutions. Radvision (http://www.radvision.com) is the industry’s leading provider of market-proven products and technologies for unified visual communications over IP, 3G and IMS networks. With its complete set of standards-based video networking infrastructure and developer toolkits for voice, video, data and wireless communications, Radvision is driving the unified communications evolution by combining the power of video, voice, data and wireless – for high definition video conferencing systems, innovative converged mobile services, and highly scalable video-enabled desktop platforms on IP, 3G and emerging next-generation IMS networks. (Radvision 01.02)

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9.15 Velingo Announces Content Recommendations for Search

Velingo announced that its Spotlight technology is now available both as a Firefox add-on and as a widget for any search engine. Spotlight is based on collecting vast amounts of data - such as users’ behavior and user-generated content - analyzing it, and building global knowledge to provide optimized and personalized recommendations for each customer and service. The patent-pending technology exposes users to relevant content, building loyalty while increasing providers’ revenues. Unlike other social search systems that rely on manual voting and tagging by users, Spotlight builds massive knowledge base - transparently and automatically, without involving users in the process. Spotlight for Firefox is compatible with the three major search engines: Google, Yahoo and Live. By using Spotlight recommendations, users can easily expand or narrow their searches, for a better search experience. In addition to Spotlight for Firefox, Velingo also released a web-based code generator wizard that helps providers embed Spotlight into their search pages. Code generation for a search engine takes only a few minutes, after which, all that is required is to paste the code inside the search page. Founded in 2006, Netanya, Israel's Velingo (http://www.velingo.com) has developed a unique, patent-pending search technology. Velingo’s Spotlight engine collects extensive amounts of data and creates a social knowledge base that helps find and recommend content and results that are directly relevant to the user's search. Velingo’s solution is compatible with any Mobile / Web search engine and is already installed on several sites by leading content providers. (Velingo 05.02)

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9.16 Triplay Launches Its Supermessaging System In Germany

TriPlay announced the launch of its SuperMessaging system in Germany. SuperMessaging is a novel technology for transferring messages and various types of media files among any PC and mobile devices. The technology has been launched to the German public through a national Internet advertising campaign. As part of the campaign, the German public has been offered to try TriPlay for 45 days free, during which time they can send and receive text messages

(SMS), multimedia messages (MMS), pictures, songs, and video clips to and from every type of cellular phone. In addition, TriPlay has allocated a storage space of 1GB accessible by any device that allows subscribers to share pictures, songs, and animations between their computers and cellular phones. TriPlay was one of four Israeli companies selected to present their products at Deutsche Telecom’s Innovation Day — Focus on Israel. The four companies were selected from among 250 Israeli companies. TriPlay (http://www.triplay.com) was founded in 2004 by a group of entrepreneurs with proven record in the fields of the internet, interactive TV, interactivity, and telecom. The company has offices in New York and Israel. (TriPlay 05.02)

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10: ISRAEL ECONOMIC STATISTICS

10.1 Israel's Fresh food Prices Rise 8.8% in 2007, 1.5 times the CPI

On 28 January, the Ministry of Industry, Trade & Labor announced that Israel's fresh food prices increased by 8.8% during 2007, more than 1.5 times the overall consumer price index (CPI). Contributing to the fresh food price index in 2007 were sharp increases in basic grocery items, including milk & dairy products, eggs, bread, fish, chicken and beef. These became more expensive mainly because of the price of grain soared by some 70% - 100% and grain accounts for the bulk of livestock feed. Perishable fresh food items constitute a central component of household expenses, averaging $447 monthly for most homes. Exceptionally high price increases were recorded for carrots (117%), cucumbers (102%) and peppers (96%). January is also expected to show a sharp increase in the price of fresh foods, due to the cold weather. An increase in the price of fresh water fish is also expected, after many were killed by the cold. (MOITL28.01)

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11: In Depth

11.1 JORDAN: New Goals for Information & Communication Technology Sector

In a bid to further strengthen its growing information and communication technology (ICT) sector, Jordan has begun implementation of a new policy to enhance "e-participation", outlining a set of aggressive targets to boost internet usage and access across the country by 2011.

In 2007 Jordan's Ministry of Information and Communications Technology (MoICT) issued a new ICT National Strategy 2007-2011, which significantly revised the kingdom's initial 1999 ICT policy, which was known as the Reach Initiative. The new policy outlines a number of objectives for the country to reach within the next three years, including fostering a $3bn ICT sector, encouraging the development of 35,000 jobs and pushing the internet penetration rate towards 50%. The strategy was devised with extensive input from the private sector, including the Information Technology Association of Jordan (Int@j), an industry lobbying group.

According to Zeid Shubailat, country manager for Microsoft Jordan, "The Jordanian IT sector has remained just at the tipping point and we are hoping that this new initiative will create enough critical mass for a truly developed information technology ecosystem [...] This will be hard to reach without the government really driving it forward."

Jordan has traditionally been one of the most developed knowledge economies in the region, with statistics pointing towards an annual growth rate of 50% in recent years. When the Reach Initiative was initially proposed eight years ago, the ICT sector was expanding rapidly, with a number of innovative start-ups such as Maktoob.com and d1g, as well as a labor force that was in increasing demand. To capitalize on this, the initiative proposed the creation of 30,000 ICT-related jobs, $550m worth of exports and $150m of FDI, all by 2004. However, by 2006, Jordan was still below the Reach targets; in some ICT sectors, the kingdom had even fallen behind its neighbors.

According to a UN global e-governance index, between 2002 and 2005 Jordan ranked below the UAE, Egypt and Lebanon in terms of its e-government projects and its overall online engagement. As of late 2007, in spite of the Reach efforts, Jordan's ICT-related workforce remained at 16,000, while government statistics indicated that internet penetration hovered around 11%. Similarly, PC ownership was only 7.1%, while ADSL penetration was less than 1%.

Jordan's ICT sector also suffers from something of a brain drain, as high Gulf salaries lure away talented staff. Although an estimated 5,000 ICT students graduate each year, skilled labor can be difficult to come by. Batoul Ajlouni, the vice-president of business development at Jordan-based Integrated Technology Group, told OBG, "This is a major challenge facing us as many of the IT graduates are simply not sufficiently trained to begin working and require a good deal more investment from the private sector. Employees often take six to nine months of additional training, particularly in soft skills, and this represents a significant cost to us, as well as a risk of investment should the employee leave."

The 2007-2011 strategy directly addresses these and other weaknesses; including the high cost of broadband access, legal and regulatory challenges, and the lack of diversified ICT demand (the government is the major buyer of ICT services in Jordan). According to Bassem Roussan, the minister of ICT, the new policy will provide a more detailed approach to facilitating government support and encouraging greater investment. The new policy looks to boost the sector's current 10% GDP contribution by focusing primarily on connectivity, research and development, labor and education, regulation and the investment climate.

Although the policy is still quite new, the private sector is responding to the strategy with enthusiasm. According to Ajlouni, "With this new government, the private sector and academia are extremely keen to revitalize this whole process and our citizens should start to see major changes within three to five years. [ICT] has to be a major priority and is now very high up on the national agenda."

Foreign companies are also showing interest, with industry heavyweight Cisco Systems having selected Jordan as a training centre for its Middle East and North Africa operations. Niche sectors with ICT services are also becoming increasingly visible, with the Jordan-based animation and multimedia company Rubicon recently announcing a production and licensing partnership with Hollywood's MGM studios. (AB24.01)

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11.2 GCC: Moody's Says Gulf States' Spending Hikes Could Have Future Ratings Impact

Moody's Investors Service (http://www.moodys.com) observed that the inflation-fuelled ramp-up in expenditure by governments across the six-member Gulf Cooperation Council (GCC) risks triggering an inflationary spiral that would be difficult to control in the absence of other policy options and would further raise fiscal pressures. Although the consequences for governments' creditworthiness - and thus ratings - are limited in the short to medium-term, there could be longer-term adverse implications, the rating agency cautions.

According to Moody's, available data show a clear trend of accelerating government expenditure: the GCC's unweighted average nominal growth in government spending rose from 4% in 2002 to 22% in 2006 and expenditure growth is likely to have again been very strong across the GCC as a whole in 2007.

GCC governments face multiple pressures to raise expenditure. "Firstly, as the primary source of income -- hydrocarbon export revenues -- accrues directly to governments through their ownership of oil and gas producers, they feel socially obliged to redistribute oil wealth through higher public spending, typically resulting in a pro-cyclical fiscal policy," explains Tristan Cooper, a Moody's Vice-President / Senior Analyst and author of the report.

"In addition, the economically justified desire to raise public investment levels in order to stimulate private investment, foster economic diversification, and raise potential growth rates has been another key driver of the expenditure increases. There is a clear need to raise productivity levels across the GCC to support growth over the longer term and through the oil price cycle," Mr Cooper says.

"However, an increasingly important and potentially troubling driver of government expenditure hikes is inflation. Inflation rates have risen sharply across the GCC over the past two years, thus eroding purchasing power, leading to demands for increases in government salaries and subsidies and significantly raising the cost to governments of purchasing goods and services," Mr Cooper adds.

Although governments' attempts to offset the effects of inflation by raising salaries and subsidies may provide short-term relief to citizens, they risk exacerbating price growth by stimulating demand, which would in turn generate further calls for spending hikes. "Such an inflationary spiral would be difficult to control in the absence of other policy options: Gulf states' fixed exchange rate pegs and open capital accounts rule out a significant tightening of monetary policy. In fact, monetary policy has had to be loosened in response to recent interest rate cuts in the US," Mr Cooper cautions.

Moody's acknowledges that, over the short to medium-term, the robust creditworthiness of GCC governments is unlikely to be undermined by strong spending growth. This is because oil prices remain at historically high levels, generally wide fiscal surpluses are being maintained despite spending increases, and GCC governments have accumulated large cushions of net assets with which to meet potential future liabilities.

"However, there could be longer-term adverse implications: the danger is that governments will find themselves dependent on ever higher oil prices to balance their budgets, making it more difficult for them to adjust in the event of a downturn in revenues. Large increases in current expenditure are of particular concern as they are more difficult to reverse than hikes in capital spending in the event of a potential downturn in revenues," Mr Cooper concludes. (Moody's 29.01)

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11.3 GCC: Awash With Cash - Surplus Totals $730 Billion

GCC countries have built up a cumulative current account surplus of some $730b over the past five years, Merrill Lynch reported, and capital inflows have increased in pace driven by the oil windfall. The accumulation of massive current account surpluses is helping the GCC build up international reserves, reduce indebtedness, finance structural change and invest in social and economic projects, it said. Having learned from their past mistakes, GCC countries have saved some 80% of the oil windfall, nearly triple the amount they saved in past oil booms. Based on flat oil prices in 2008–09, the bank estimates that $75b of the region’s current account surplus is likely to be eaten up.

Despite some short-term bottlenecks, this is likely to keep GDP growth at 5.7% on average in 2008–09, it said. Economic growth in the GCC is becoming less of an oil story, the Merrill Lynch study added. GCC countries have grown at a 7.3% real average rate since 2002, and this high growth is becoming less dependent on the oil sector, it said. While the contribution of the non-hydrocarbon sector to GDP growth was 49% back in 2003, it increased to 85% in 2006.

As governments introduce market liberalization measures, privatization and tax reforms to improve the investment environment, this trend is likely to become more pronounced as FDI inflows multiply, the study said. Contrary to previous oil booms, GCC governments have been quite prudent on spending. "While we do not expect a significant reversal in oil prices in the short term, fiscal spending is likely to gain pace as mega investment projects are launched across the region," it said. Together with increased private sector confidence and involvement, investment projects to be implemented in the next five years are estimated to total $1.5 trillion, according to Meed Projects.

Inflation is on the Rise

Big investment projects are kick starting one after another and some supply-side bottlenecks seem inevitable in the short term (e.g. in the housing sector in the UAE and Qatar), the study said. "With heated domestic demand, pegs to the sliding US dollar not only import inflation and fuel domestic liquidity but, more importantly, they also import easing monetary policy as the Fed cuts rates and GCC countries follow suit. This pushes inflation further.

"Inflation is likely to stay on an increasing trend in the short term. In a region with constrained policy choices, we expect currency strengthening to be used as a policy tool in the fight against inflation. Therefore, de-pegging and/or revaluation of the currencies will remain under spotlight," it said. The view that inflation in the GCC is mainly driven by supply bottlenecks is true but not complete, said the study.

"We expect the GCC to spend more of its fiscal surplus in the coming years and that oil prices will stay high. Without currency appreciation or tools such as higher reserve requirements, there will be too much money chasing too few goods / services in the short term, consequently pushing inflation higher. Rapid population growth and a lack of human capital tighten supply bottlenecks and feed into inflation through high wage increases. Big projects that would ease the supply constraints have also seen delays due to labor and capacity constraints and rising costs."

Inflation Not Temporary

GCC governments see high inflation purely as a welfare cost and are attempting to overcome it via non-market measures such as higher subsidies, allowances, irrational wage increases, caps on rents, etc. These measures are mostly “soon to be inflationary” and, with rising costs hidden by subsidies and transfers, domestic demand will continue to grow unabated, it said.

"We do not agree with the GCC governments’ 'inflation is a temporary phenomenon' view, but feel that it will remain their common mantra in 2008," the bank said. High inflation is a major medium-term challenge to the sustainability of the GCC’s business model and needs to be addressed in a more credible way, it said.

"The region’s strategy of diversifying away from an oil-dependent economy is well grounded, given the painful swings in the past, along with oil and gas prices. However, resources are still scarce in terms of human capital and physical absorptive capacity is limited. The GCC plans to alleviate these supply bottlenecks through two main channels: an increasing expatriate population and mega infrastructure projects. Inflation threatens the sustainability of both of these channels as cost of living and the cost of production and construction are increasing at an accelerated pace. "There has been some scaling back of major projects, and this could become a drag on growth and simultaneously further fuel inflationary pressures.

"On the other hand, high wage increases and transfers and subsidies aiming to mitigate the effect of rising prices not only erode the fiscal surpluses but also create a self-fulfilling inflationary dynamic. Finally, currency weakness and high inflation eats out of the fiscal incentives for business and labor and dent the region’s attractiveness."

"Our house expectation of Fed rates of 1.00% by Q1 2009 suggests that GCC countries will introduce a significant monetary stimulus to their economies if they continue following US monetary policy. In such a case, we believe that monetary policy in the Gulf would be too expansionary, as real interest rates would plunge further, thereby fuelling the fire of inflation. We believe that the GCC’s macro backdrop does not leave any room for further easing, but, on the contrary, does call for some tightening via more valuable currencies. With double-digit inflation rates and broad-based strong GDP growth, UAE and Qatar are on our watch list, as our Global Currencies Strategy Team expects them to be the first to revalue and re/de-peg," said the report. (TradeArabia 27.01)

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11.4 KUWAIT: Set to Soar

The Oxford Business Group observes that Kuwait's moves towards a more efficient market economy took another big stride forward in January, when parliament passed a bill to privatize the emirate's national carrier, Kuwait Airways. Privatization of the airline, which has experienced mixed fortunes since its foundation in 1954, will take place within two years. Under the terms of the bill, 40% of the airline will be sold to Kuwaiti citizens through an initial public offering (IPO); 35% to specialist foreign firms and listed Kuwaiti firms (but not domestic aviation companies); 5% will be retained by Kuwait Airways Corporation (KAC) workers; and 20% will remain in the hands of the state, with the possibility of a sale at a later date. The bill will become law when approved by the emir, Sabah IV Al Ahmad Al Jaber Al Sabah. Two advisers will be appointed to value the carrier ahead of the listing.

This is the latest in a string of IPO-related excitement in the Gulf Cooperation Council (GCC) region's lively aviation sector. Sharjah-based low-cost carrier Air Arabia floated last year and the biggest Arab airline, Dubai's state-owned Emirates, is also reported to be considering the sale of shares.

Potential investors may be buoyed by the performance of Kuwait's Jazeera Airways, the Middle East's first fully private commercial carrier. Established in 2004, it listed on the Kuwaiti bourse on January 14, 2008, with shares more than quadrupling to $1.69 on the first day of issue. Although nine-month profits fell to $3.77m to September 2007, compared with $9.66m for the same period of 2006, the airline is targeting a 2008 profit of $14.66m off the back of some strategic investments, and hopes to be flying 82 routes across the Middle East within the next five years.

The company is a real local success story. It is particularly noted for having thrived in spite of never having received any state subsidies or state management. It has undoubtedly helped to spur interest in private enterprise. Echoing the country's increasingly free-market sentiments, Jazeera Airways chairman and CEO Marwan Boodai asserts he is not daunted by the prospect of competition from a privatized Kuwait Airways.

"I am a firm believer in privatization," Boodai said recently. "If you want to avoid power cuts in Kuwait, then privatize. If you want a better airline, privatize. Government should be in the business of governing and leave other businesses to the private sector, but this will take time."

In the case of Kuwait Airways that time has come. It posted losses for 15 of the last 16 years. While critics may blame bloated public-sector management practices, in truth, much of KAC's fleet was destroyed during the 1990 Iraqi invasion. Losses since the invasion total nearly $2bn. But this was not the only factor and many local analysts agree that, even allowing for the country's turbulent recent history, there have been questionable decisions under public management. As recently as mid-2007, heavy losses were sustained when the organization controversially cancelled an order from Kuwait's Aviation Lease and Finance Company for 19 Airbus and Boeing planes.

Anxious to avoid a repeat and thinking perhaps that the free market will offer the best incentive for good business practice, Ahmed Baqer, head of parliament's financial committee, said during the recent bill's passing that new orders with manufacturers will be placed only after privatization. Privatization is still a contentious issue among Kuwaitis reared on state largesse. To allay some domestic concerns, the state has pledged that it will guarantee employment to any Kuwaiti KAC employees who lose their jobs as a result of privatization. KAC says it will also offer generous early retirement packages where appropriate.

The privatization of Kuwait Airways is not the only buzz in the emirate's aviation sector. Last year saw the start of a $2.1bn expansion of Kuwait International Airport, doubling capacity, with a second terminal due for completion in 2010. As well as obvious boosts to the air industry, this plan, which naturally increases accessibility to foreign investors, is part of the government's overall design to turn Kuwait into a pivotal business centre.

Greater collaboration between Kuwait and its neighbors in terms of open-sky agreements is also on the agenda, with a delegation from Bahrain, for example, visiting the emirate recently to discuss updating air transport agreements between the two countries. Low-cost carrier Bahrain Air is to commence services between Kuwait and Bahrain in February, while Mumbai-based Jet Airways has begun to run daily services from Kuwait to Delhi and Cochin in India. A Kuwait-Mumbai route is expected to open soon, with total services to the sub-continent scheduled to double to four a day.

The huge strides being taken by Kuwait's aviation sector appear to be anything but fly-by-night. Tourism is growing across the GCC region as a whole, and combined with the area's high population growth and often sub-standard land-transport infrastructure, it seems the gains being made in the aviation industry are more than sustainable. Indeed, according to UK-based think tank Global Futures & Foresight, capacity across the region is forecast to reach over 300m passengers by 2025. (OBG25.01)

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11.5 QATAR: Sovereign Strength

The Oxford Business Group observed that this year has already been active for the Qatar Investment Authority (QIA), the country's sovereign wealth fund (SWF), with several moves announced for the near future. Sheikh Hamad bin Jassim bin Jabr Al Thani, the prime minister of Qatar, said on January 27 at the World Economic Forum in Davos, Switzerland that the QIA would be investing up to $15bn in blue-chip American and European banks, with transactions expected to take place within the first quarter.

The process appears to have already begun, with press reporting that the QIA is considering a 5%, $3bn stake in Credit Suisse. If the deal goes through, an investment in Credit Suisse could signal a change from the past, when SWFs usually stepped in to help banks in a crunch. Credit Suisse is not known to have been highly exposed to the US sub-prime crisis and therefore is not considered in tremendous need to attract capital to stem the effects of large write-downs. "This is not about shoring up an ailing balance sheet," a market observer was quoted as saying in the British press. "This would not dilute Credit Suisse's capital structure or signal anything like the other banks' huge write-downs and their need to attract large foreign investments has sent out."

The QIA has grown rapidly since its establishment in 2005 and analysts estimate it now has some $60bn in assets. Like many other funds, it saw a particularly strong year in 2007, with SWFs around the world providing massive amounts of capital to US institutions as they struggled to recover from write-offs caused by the sub-prime mortgage crisis.

Government officials and global financiers alike are showing growing confidence in funds like the QIA's Delta Two fund, which now owns a major stake in J Sainsbury, one of the UK's largest supermarket chains. Although the QIA had pulled out of its original $20.7bn takeover bid late in 2007 after four months of negotiations, its final acquisition of 25%, revealed in January, nevertheless shows significant involvement in the company. The QIA also owns nearly 10% of Sweden's stock exchange operator OMX Nordic Exchange and remains one of the two biggest shareholders in the London Stock Exchange, with a 15% stake.

Panelists at the World Economic Forum were in agreement that the financial power of sovereign wealth funds should be welcomed. "These are among the most professional investors in the world," said Stephen A Schwarzman, the chairman and CEO of the US's Blackstone Group, a global asset manager and financial advisory service. "In our experience, there is virtually no difference between going to a sovereign fund [for investment capital] and going to a state pension fund in the US."

A recent report by McKinsey predicted that oil-rich countries pump anything from $147bn to $628bn annually into the global financial stream. More than 20 countries presently have SWFs, but the holdings remain largely concentrated, with the top five funds (Abu Dhabi, Norway, Singapore, Saudi Arabia, and Kuwait) accounting for about 70% of such assets, the report said. The International Monetary Fund (IMF) estimates that assets under management by SWFs are between $2trn and $3trn. The IMF predicts the total size will reach $10trn by 2015, which would account for almost 10% of all financial assets in the world. (OBG30.01)

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11.6 UAE: Abu Dhabi Commits $15 Billion to Alternative Energy & Clean Technology

On 25 January, in an address before delegates of the World Future Energy Summit, General Sheikh Mohammed bin Zayed Al Nahyan, Crown Prince of Abu Dhabi and Deputy Supreme Commander of the U.A.E. Armed Forces, announced the most ambitious sustainability program ever launched by a government – an initial investment of $15b in projects targeting solar, wind and hydrogen power; carbon reduction and management; sustainable development; education; manufacturing; and research and development. The investment will be channeled through the Masdar Initiative, a company that aims to explore, develop and commercialize future energy sources. Masdar will leverage the Abu Dhabi government’s initial $15b investment with joint ventures and other investment partners for a grand portfolio many times larger, comprised of projects in Abu Dhabi, the MENA region and globally.

The emirate of Abu Dhabi, the capital of the United Arab Emirates, has been a leader in the field of hydrocarbons for nearly half a century. One of Masdar’s primary objectives is to build upon Abu Dhabi’s energy leadership and develop an entirely new domestic economic sector built on energy innovation and intellectual property, thereby establishing the emirate as the regional and global center of future energy solutions. “For nearly half a century, the emirate of Abu Dhabi has used its natural resources to contribute to growth, development and security – our own as well as that of other countries,” said Masdar CEO Dr. Sultan Al Jaber.

The $15b Masdar commitment as announced will be directed to the following areas:

• Investments

• Manufacturing Future Energy Solutions

• Education and R&D

• Carbon Management

• Sustainable Development & Planning

• Renewable Energy Infrastructure Projects

Masdar and Hydrogen Energy, the joint venture between BP Alternative Energy and Rio Tinto, announced the signing of an agreement to work together on the front-end engineering design of an industrial-scale hydrogen-fired power generation project with capture of the carbon dioxide (CO2), which would then be available for transportation and storage. The plant would be located in Abu Dhabi. Natural gas would be processed to create hydrogen and CO2. The hydrogen fuel would generate low-carbon electricity. Rather than being emitted to the atmosphere, the CO2 would be captured, ready for transportation and injection into a producing oil field where it could replace natural gas currently being injected into the field to maintain pressure. The injected CO2 has also the potential to increase the proportion of Abu Dhabi’s oil that can be recovered.

Work has already started and front-end engineering and design of the project is planned to be completed by the end of 2008, at a cost of some $45m. At the heart of the plant would be a natural gas reformer and carbon capture facility where 100m cubic feet of natural gas per day would be transformed into hydrogen and CO2 gases. The hydrogen gas would be used to fuel gas turbines and generate around 420MW of low-carbon electricity, with water vapor being the main emission. This would be enough to provide more than 5% of all Abu Dhabi’s current power generation capacity.

The project would limit greenhouse gas emissions by capturing some 90% of the CO2 generated, and safely and permanently storing up to 1.7m tons of CO2 per year - the equivalent of decarbonizing Abu Dhabi’s entire domestic transport sector.

The CO2 would replace the natural gas currently being injected into oil fields, allowing the gas to be used to fuel Abu Dhabi’s continued growth, or to be exported. If this process was deployed at scale it would potentially release a significant amount of additional natural gas for Abu Dhabi and United Arab Emirates.

The CO2 injected into the oil fields could also potentially enable previously unrecoverable oil to be produced. If deployed widely, this enhanced oil recovery process could boost Abu Dhabi’s oil production significantly. The CO2 would remain stored securely and permanently in the oil field beneath its natural impervious seal.

The overall project would require total capital investment (excluding the investment in CO2 transportation and sequestration) of about $2b. Subject to the completion of the engineering design and agreement on an enabling commercial structure, the partners aspire to make the decision to proceed with construction by early 2009. This should allow the plant to come into commercial operation in 2012. At peak, about 1,000 jobs would be created during construction of the onshore facilities, with up to 100 permanent jobs when the plant is operational.

Announced on the opening day of the Abu Dhabi World Future Energy Summit, the project demonstrates Abu Dhabi’s desire to turn words into action and is a major step for Abu Dhabi to establish leadership in the area of alternative energy technologies. (Al Bawaba 25.01)

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11.7 UAE: Dubai's Nuclear Prospects

French President Sarkozy recently completed a sweeping tour of the Middle East, taking in several Gulf nations in a three-day visit. It was his third trip to the region in as many weeks, and once again, business was high on the agenda. As noted by the Oxford Business Group, by the time he left on January 17, Sarkozy had signed an agreement with the United Arab Emirates (UAE) that will see the building of two 1,600MW nuclear reactors by French firms over the next decade. For its part, the UAE has already applied to the International Atomic Energy Agency (IAEA) to supervise any potential civil nuclear activity.

Sarkozy is not shy in stating his policy: he believes Arab Muslim nations have as much right to civil nuclear power as the West, and he knows that France - with its 50 nuclear reactors and wealth of industry knowledge - is exceptionally well-placed to take advantage of future growth in the nuclear market. Where the US has faltered - uncertain if the region is sufficiently stable - France is proceeding boldly, with the UAE agreement joining recently signed deals with Algeria and Libya.

The agreements mark a significant resurgence of French interest, and indeed ambition, in the Middle East. Nuclear cooperation in the UAE is set to go hand-in-hand with military partnership, with plans announced for the establishment of a permanent French base in the UAE to include around 500 soldiers, sailors and airmen, alongside a branch of the St Cyr military academy in Qatar. Meanwhile, a visit to Saudi Arabia on January 16 saw Sarkozy make a convincing bid for a $14bn plus border surveillance project, among total contracts with the kingdom estimated at a potential $60bn.

If Sarkozy's motives in the region are transparent, the UAE's are less easy to fathom. Despite abundant natural resources - or perhaps because of them - the emirates are increasingly keen to secure their independence from energy in the future. This means moving away from a reliance on oil and gas, and toward renewable and non-fossil fuel alternatives. Why the concern when sitting on so much cheap, abundant energy (nuclear remains significantly more expensive than either oil or gas)? Geopolitical concerns are one factor: the UAE sits along the Strait of Hormuz, a thin channel shared with Iran, through which much of the world's oil passes. It has long been seen as a future clash point by strategists across the globe. Nuclear power would reduce the immediate effect of a future blockade on the domestic UAE economy. Moreover, Iran's well-documented nuclear program has increased the desire among nearby Arab states to develop their own.

Probably more important than geopolitics, though, is sustainability. The UAE currently has the third highest greenhouse emissions per head in the world - 34.1 tons, placing them just behind Qatar and Kuwait, according to 2004 figures. By comparison, the figure for the US is 20.6. There is an increasing realization in the Gulf that oil and gas rich nations must, at the very least, be seen to do their part in reducing consumption. Plans recently announced by Abu Dhabi to build "the world's first carbon neutral city" by 2009 at Masdar are a major step toward achieving this goal, and it seems the UAE is hoping to become a world leader in this area. President Bush was also treated to a preview of Masdar when he was in the region, including newly unveiled designs for a $15bn, 500MW hydrogen plant, to be powered by natural gas. The plant will use carbon capture technology to store CO2 gas in oil wells, reducing emissions and boosting oil output. The scheme will be carried out in conjunction with BP and Rio Tinto, the former of which had plans for a similar project at Peterhead in the UK thwarted by the British government.

Nuclear power remains the best bet in the medium term: costs per megawatt hour, though greater than oil or gas, are nonetheless still less than half those for renewable energy. France is likely to reap a major harvest in civil nuclear development in the next few years, as more nations come to view nuclear - until recently so unpopular - as once again an attractive alternative. French energy giants Suez, Total and Areva are all set to benefit from new contracts - including in the UK - with the only potential hurdle coming in the shape of France's domestic nuclear safety authority. The Nuclear Safety Authority (NSA) has the power to halt any projects involving French companies if it believes the correct legal and regulatory developments are not in place in a given country. Andre-Claude Lacoste, chairman of the NSA, recently said that attaining such a standard in countries like the UAE may take as long as 10 years. (OBG24.01)

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11.8 UAE: Dubai - Strong Export Growth

Statistics released in late January by Dubai World have revealed strong growth in the emirate's non-oil export market. Encouragingly, in percentage terms, exports grew up 48% and outstripped import growth, with the latter rising 35%. However, relative figures show a wide gap between non-oil exports and imports, with Dubai importing almost Dh297.7bn of goods in 2007 while non-oil exports totaled Dh27bn.

Dubai's total non-oil foreign trade is now worth a total of Dh678.8bn, up 29.6% on 2006. The additional figures are customs and free trade zones, worth Dh253.1bn, and re-exports, worth Dh101bn. Among imported goods, it perhaps comes as no surprise to find that over one quarter originates from China and India. India is also Dubai's largest export market, absorbing 43% of the emirate's goods.

The antecedents for such growth are long-standing. Dubai's industrial production has tripled over the past 10 years, and now accounts for about one third of the United Arab Emirates (UAE)'s manufactured goods - the second highest after Abu Dhabi. This is the result of a successful state-led program, which has seen investment concentrated on industries where Dubai holds a competitive advantage. Dubal, now the world's seventh largest producer of aluminum, exporting over 90% of its 861,000 tons annual production, provides a primary example of this policy. Though it has no raw alumina of its own, Dubai is able to maintain an edge due to the low cost of energy inputs in the emirate.

The growth of Dubai's non-oil economy comes despite World Trade Organization warnings of a global slow-down. Certainly, Dubai's long-term industrial policy looks to have insulated it from the effects of a US-led downturn. There is currently still a market in the East for manufacturers of goods such as metals, metal products, rubber and plastics - which Dubai specializes in. So long as growth in China and India remains strong, Dubai will continue to find a market for these materials.

Indeed, should the dollar weaken further, Dubai's manufacturers will arguably become more competitive. Energy price growth is one thing the emirate does not need to worry about. The government can effectively choose how best to cash in on the current high price of oil - either directly through petroleum exports, or indirectly through manufactured goods requiring high-energy inputs. As the price of the latter rises on international markets, the production costs in Dubai - or indeed any oil-rich state - will remain neutral.

Dubai's best chance of maintaining strong non-oil export growth into the future lies in the emerging markets of the East. The emirate's relationship with India is long-standing, with cultural links that extend centuries into the past. Relations with China are more recent, but trade links are already strong, with 14% of Dubai's imports originating there. The government is not resting on its laurels though. New opportunities are being actively cultivated, with investment emerging as a strong tool in the hunt for new markets for Dubai's goods. Hence this week's high level delegation from the Philippines, with President Gloria Arroyo encouraging Dubai's business leaders to invest in her country.

Exports from Dubai to the Philippines amounted to some Dh1.3bn in 2006. Most of this figure however was related to oil. By contrast, the Philippines exported goods to Dubai worth some Dh602m. President Arroyo has been calling for increased investment in mining, technology, tourism and infrastructure, stating that "in times of global uncertainty" economies need to draw closer together, further arguing that the Philippines oil bill entitled the country to greater investment from the UAE - "We import oil from the UAE... so we hope that the emirate would buy more from the Philippines."

That argument is unlikely to wash in Dubai - especially when remittances from Filipino workers in the UAE are taken into account (Dh1.47bn in 2007 - more than the previous year's oil bill). Rather, Dubai is likely to consider any investment in the light of diversifying trade between the two states. Dubai World's terminal and port handling firm, DP World, already operates in Manila, and is one of the Philippine's largest taxpayers. Further investment opportunities in infrastructure projects are more likely to attract Dubai than simply writing blank checks.

The story of Dubai's success in recent years has been based on diversification on the domestic front - encouraging international business and tourism through massive real estate development. The next step is carrying that diversification forward into the emirate's current account - increasing the role of non-oil in Dubai's balance of trade. The signs are good: oil already accounts for a diminishing share of Dubai's gross domestic product (5.1% in 2006 against 5.5% in 2005), while Dubai's non-oil trade represents 43% of the UAE's total non-oil GDP. The challenge for Dubai will be continuing this strong growth in increasingly choppy economic waters. A further 48% growth in direct exports for 2008 would certainly be some achievement. (OBG30.01)

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11.9 UAE: Fitch Rates Ras Al Khaimah 'A'; Outlook Stable

On 23 January, Fitch Ratings (http://www.fitchratings.com) assigned the Emirate of Ras Al Khaimah (RAK) Long-term foreign and local currency Issuer Default Ratings (IDR) of 'A'. The Outlooks for both ratings are Stable. Fitch has also assigned RAK a Short-term foreign currency IDR of 'F1'.

"Ras Al Khaimah's rating is supported by its relatively diverse economy, rapid economic development and high per capita income and the government's prudent fiscal policy and strong balance sheet," says Richard Fox, Head of Middle East and Africa Sovereign Ratings at Fitch. On average the budget has been balanced since 2002 and debt has only recently begun to grow as infrastructure spending has accelerated. As one of the seven emirates making up the United Arab Emirates, RAK also benefits from the institutions and resources of the federation, although it retains considerable autonomy, especially in the areas of economic development and budgetary policy.

The emirate is small, with estimated GDP of only $3.4bn in 2007 - just 2% of total UAE GDP - but is developing rapidly in areas complementary to its larger neighbors. It has few hydrocarbon resources but has comparative advantages in quarrying and the manufacture of construction inputs - in high demand in the region - as well as more high value-added manufacturing such as glass, ceramics and pharmaceuticals. Tourism is becoming more important. RAK's liberal business model, supported by state-provided infrastructure, has attracted major foreign investment since 2003 in two free zones, which are home to almost 4,000 companies. The public sector includes 13 wholly-owned strategic companies that are involved in quarrying, ports and tourism, among others, which together provide almost half of all budget revenue. The rest comes mainly from land and property sales and free zone licenses and fees. There is no domestic personal or corporate income tax.

The UAE's external position is very strong, with a large current account surplus and strong net external assets. The rating of individual emirates is determined more by their public than their external finances, as in other common currency areas. Public sector debt at end-2006 was just 7% of GDP, well below the 'A' median, with no external debt and limited foreign currency debt. However, debt rose to 20% of GDP in 2007, largely due to a $325m sukuk issued by the RAK Investment Authority (RAKIA), guaranteed by RAK, of which roughly half was taken up outside the UAE. If plans for a sovereign sukuk go ahead, debt will rise further in 2008 to almost 30% of GDP. However, this will still be below the 'A' median. Moreover, as spending has not risen as fast as borrowing, deposits have also increased so that net debt is estimated at just 8% of GDP at end-2007 and is forecast to rise to 16% of GDP this year. In addition, RAK's balance sheet benefits from minority stakes in locally listed companies with a market value of around $1.5bn or over 40% of GDP. This provides significant mitigation to the risks associated with debt-financed infrastructure expansion. Moreover, even excluding these assets, and with no significant external assets, RAK's public sector balance sheet strength is comparable to the 'A' category median. Future revenues will benefit from the increased economic activity that will be facilitated by enhanced infrastructure, with the budget projected to revert to surplus in 2009. Excluding capital spending, the current fiscal balance will remain in surplus.

RAK is politically stable with the Crown Prince, appointed in 2003, a key driver of the emirate's development program. Political stability is also cemented by the UAE's federal institutions. However, regional political risk weighs negatively on the rating, as in other emirates. Other weaknesses are limited public disclosure and the availability of financial data. Greater public transparency would strengthen accountability and policy credibility. Institutional constraints on executive power are also relatively weak. (Fitch23.01)

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11.10 OMAN: Busy Signal for Omantel

Oman's fixed line monopoly Omantel closed out last year on a high, turning in strong profit and growth figures while at the same time keeping an eye on what could be an end to its dominance in the sultanate's communications sector. On January 27, Omantel released its financial results for 2007, declaring a net profit of $289m for the 12 months ending December 31, an increase of 39% on the previous year.

Omantel and Nawras, its rival in the mobile phone service sector, benefited from the government's decision last year to reduce royalty charges. The tariff to be paid to the state on fixed line earnings went down from 10% to 7% and from 12% to 7% for mobile network revenue.

The results are just the sort of news the government would want to receive, ahead of a planned sell off of part of the state's 70% holding in Omantel some time this year. The government announced in October 2007 that it would be reducing its stake in Omantel to 51%, and dangled the carrot to prospective buyers that it could put 19% of the firm's shares up for sale. However, this would require a change in legislation and the approval of other shareholders. The initial public offering (IPO) in 2005 for 30% of Omantel's shares attracted strong interest and raised $729.5m.

However, interest in Omantel could weaken due to the planned opening up of the fixed line sector to competitors, something the government has mooted a number of times over the past few years. This proposal was given greater substance on January 27, when the chairman of Oman's information technology authority, Mohammed bin Nasser Al Khusaibi, announced there were plans to call for expressions of interest from firms to provide new fixed-line and broadband services. "There is a plan to open the fixed-line market in Oman during 2008, preparing the framework to bring in facility-based operators or facility-based service providers," Al Khusaibi reported.

The facility-based providers or operators would have to provide fixed, broadband and internet services, he said. As such, they would be in direct competition with Omantel, which has already seen major inroads made into its mobile phone operations since the launch of Nawras in 2005.

One of the reasons given by the government for offering a strategic holding in Omantel is to try to strengthen the company's management and expertise. While it is still just ahead of its rival Nawras in the mobile phone sector in terms of the number of subscribers, it has been pushed into second place in terms of technology and service provision.

Omantel has just announced that Chinese telecoms infrastructure company Huawei has been awarded the contract to put in place its 3G mobile phone network. Omantel is one of the few Gulf telecom operators yet to incorporate the advanced technology. The move will allow Omantel to offer improved services such as photo messaging and mobile broadband, services that Nawras has had since last year.

Discussing the plans for the sell off in November 2007, Ahmad bin Abdulnabi Macki, the minister of national economy, said any investor would have to enhance the company's ability to compete in the global market, improve quality and competitiveness of service, and involve the private sector in the economic development of the country. "A new investor should provide and contribute up-to-date, applicable technology and new practice, as well as managerial expertise," he said.

Omantel acquired a majority stake in Pakistani telcom Worldcall at the end of 2007, in an attempt to diversify away from its core domestic market in anticipation of the government's opening up the field. However, according to a report released by Vision Securities on January 22, Worldcall is not expected to become profitable until at least 2009. Local calls that will be paying Omantel's bills for some time to come.

With current mobile phone penetration in Oman estimated at between 60 and 65%, there is potential for strong growth in the sector. However, Omantel has to be careful its less advanced network and restricted services do not see it lose out. Nawras has already doubled its subscriber base to 1m in the past 12 months. (OBG29.01)

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11.11 OMAN: Private Power

Oman is pressing ahead with its program to privatize the utilities sector, with the switch being flicked for the sell off of the country's largest power transmission firm. On February 2, Mohammed bin Nasser Al Khusaibi, the secretary general of the ministry of national economy, announced plans were being drawn up to privatize the Oman Electricity Transmission Company (OETC), the company responsible for electricity transmission services to the Main Interconnected System (MIS) in the north of the sultanate.

Al Khusaibi told the opening session of the 6th Arab Electricity Regulators Forum in Muscat that both the OETC and the Al Ghubrah Power and Desalination Company had been slated for full privatization, with the Muscat Electricity Distribution Company, Majan Electricity Company and Mazoon Electricity Company to follow.

The sale of OETC is expected to generate a great deal of interest from prospective buyers, as the MIS network carries about 90% of the total electricity supplied in Oman. It also serves a growing market, with much of Oman's burgeoning industrial capacity being connected to the grid.

Though plans to open up the electricity sector were floated in the 1990s, and some progress made in forming public-private partnerships in the industry, the privatization program was given its main impetus in mid-2004, with the signing of a decree by Sultan Qaboos bin Said formalizing legislation that set the terms and conditions for the selling off of state utilities assets.

Among the provisions of the new law was the unbundling of the state's electricity assets, resulting in the establishment of a series of companies that provide generation, transmission and distribution, all under the umbrella of the Electricity Holding Company (EHC). The legislation also provided for the establishment of a monitoring agency for the sector, the Authority for Electricity Regulation (AER) and allowed private companies to construct and operate their own power plants.

In another change to the sultanate's electricity sector, Oman's power network is soon to be integrated with those of the other five Gulf Cooperation Council (GCC) states. Scheduled to be finalized by 2010, officials expect the $3.2bn project to result in savings of billions of dollars in the coming years, thanks to the pooling of generation reserves. The first phase of the project, linking Oman to the United Arab Emirates, is already completed.

While the new scheme promises improved stability of supplies, private investors will need to be aware of any obligations they may face as the sultanate's energy companies become part of a larger network. Oman's electricity sector has come under fire of late, not so much for failing to deliver but for the slow pace at which its development projects progress.

A number of these problems were highlighted at a meeting between EHC officials and contractors, consultants and equipment suppliers in Muscat on January 28. Among the difficulties, insiders listed delays in being granted permission for projects and a convoluted tendering process. Combined with shortages of supplies, in part a result of Oman's general construction boom, this has meant a number of projects are either behind schedule or are coming under pressure, in turn threatening to put a crimp on Oman's economic development. The EHC's deputy chief executive officer Hassan Abduwani told local press that measures were being considered to streamline the process.

John Cunneen, the director of the AER, said that while the electricity privatization program might see challenges in the future, it also had a lot to recommend itself, including few barriers to ownership. "Privatization is based on providing international investors the right to secure 100% of the companies in which they invest, with the subsequent requirement that they offer at least 35% through the local capital market," Cunneen said at the forum.

With Oman government figures showing demand for electricity expected to increase by at least 5% annually between now and 2015, there is plenty of scope for private investors to buy into a sector that has the potential to light up in the future. (OBG04.02)

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11.12 EGYPT: Rich Reservoir of Oil & Gas

Egypt is a significant oil producer and a rapidly growing natural gas producer, making its economy one of the most important in the Middle East. According to the Oil and Gas Journal, Egypt's estimated proven oil reserves stand at 3.7b barrels, or 0.3% of world reserves, while crude oil production averaged 579,000 barrels per day (bpd) in 2005, less than 1% of world production.

Due to major recent discoveries, natural gas is likely to be the primary growth engine of Egypt's energy sector for the foreseeable future. Natural gas production in Egypt averaged 3.6b cubic feet per day in 2004, while, according to the Oil and Gas Journal, Egypt's estimated proven gas reserves now stand at 58.5 trillion ft3, or roughly 1% of world reserves. As of January 2005, much of this is now exported as liquefied natural gas (LNG), adding to the country's hydrocarbon revenues. Although the country's gas production may be on the increase, oil production in Egypt however, has continued to decline from its 1996 peak of 922,000 barrels per day (bpd) of crude oil.

Production

Egyptian oil production comes from four main areas of the country: the Gulf of Suez (over 80%), the Western Desert (about 9%), the Eastern Desert (about 6%), and the Sinai Peninsula (about 5%). Under a Production Sharing Agreement (PSA) between BP, and the Egyptian General Petroleum Corporation (EGPC), the Gulf of Suez Petroleum Company (GUPCO) and the International Egypt Oil Company (IEOC) produce oil from the Gulf of Suez basin. The oil centre of 260,000 bpd capacity, gathers some 160,000 bpd from the onshore and offshore fields run by the operating company Petrobel.

Petrobel, Egypt's second largest oil producer is a joint venture between EGPC and Eni of Italy. While operating the Belayim fields near the Gulf of Suez, the company is also undertaking an enhanced oil recovery (EOR) program to stem declining production. Other major companies in the Egyptian oil industry include Badr el-Din Petroleum Company (EGPC and Shell); Suez Oil Company (EGPC and Deminex); and El Zaafarana Oil Company (EGPC and British Gas).

Egypt's overall oil production has been declining more slowly than in the Gulf of Suez fields, due to new output from independent producers like Apache and Seagull Energy at smaller fields, in the Western Desert and Upper Egypt.

Since 2000, Western GUPCO has been attempting to slow the natural decline in its fields through significant investments in EOR as well as in increased exploration activity. Due to these activities, desert production has risen substantially, accounting for roughly 27% of total oil production, more than double the levels in 2000.

Oil Transit: Suez Canal/Sumed Pipeline

Besides its decline in production levels, Egypt is in an important location for the transit of oil, relied on heavily for transits between the Arab Gulf and the Mediterranean area. Most of these shipments take place in the Suez Canal and Sumed (Suez-Mediterranean) Pipeline, a 200?km long pipeline from the Gulf of Suez to the Mediterranean coast - two routes for export of Persian Gulf oil.

The Suez Canal Authority (SCA) is continuing enhancement and enlargement projects on the canal. The canal has been deepened so that it can accept the world's largest bulk carriers, but it will need to be deepened further from its current 58 feet, to 68 or 70 feet, to accommodate very large crude carriers (VLCCs).

The Sumed pipeline is an alternative to the Suez Canal for transporting oil from the Persian Gulf region to the Mediterranean. The 200-mile pipeline runs from Ain Sukhna on the Gulf of Suez to Sidi Kerir on the Mediterranean. The Sumed's original capacity was 1.6m bpd, but with completion of additional pumping stations, its capacity today has significantly increased to 3.1m bpd.

Refining Capacity

Egypt's nine refineries have a combined crude oil processing capacity of 761,700b bpd. The largest is the 146,300 billion bpd El-Nasr refinery at Suez, which is owned by the Egyptian government and operated by the El Nasr Petroleum

Company. The oil-refining sector in Egypt looks set for big expansion, with at least two new projects being promoted by the government in the aim of increasing production of lighter products, petrochemicals and higher-octane gasoline.

One is a 500,000b bpd refinery to be built near the Suez Canal. The second is a 130,000b bpd refinery to be built at Ain Sukhna, on the Red Sea coast. The 500,000b bpd export-oriented oil refinery is to be a joint venture among Egyptian, Saudi Arabian and Kuwaiti investors; start up is scheduled for summer 2009.

LNG

In addition to Egypt's burgeoning oil sector, perhaps most significant to the country's progression, is the level of production and exports of LNG. Operating three trains, Egypt is now the sixth largest LNG producer in the world. In order to support its goals of doubling natural gas exports by 2010-11, the government aims to add 30 trillion ft3 to its proven gas reserves by 2010. Plans are for most of this increase to come from new natural gas discoveries offshore from the Nile Delta, and the Western Desert.

In the Nile Delta, recent offshore field developments include Port Fuad, South Temsah and Wakah. In the Western Desert, the Obeiyed Field is an important natural gas area currently under huge developments.

The International Egyptian Oil Company (IEOC), a subsidiary of Eni, is Egypt's leading natural gas producer, operating in the Gulf of Suez, the Nile Delta, and the Western Desert regions. In cooperation with BP, IEOC has been concentrating its natural gas exploration and development efforts in the Nile Delta region.

Two areas in the Western Desert, Obeiyed and Khalda have shown great potential for increasing Egypt's natural gas production levels in the near future. This area is appealing as it has both, lower development and operating costs than in the Mediterranean region, and an expanding network of pipelines and processing plants by which to quickly transport production upstream.

Obeiyed, with probable natural gas reserves estimated at 5 trillion?ft3, is producing 300m?ft3 per day. Production in the Khalda concession is currently around 275m ft3 per day. All of the offshore wells completed thus far have shown commercial quantities of natural gas, with reserves in the Western Mediterranean block estimated at around 3 trillion ft3.

Upstream Activities

Egypt is hoping that exploration activity, particularly in new areas, will discover sufficient oil in the coming years to slow the recent annual declines in output, while maintaining crude oil production comfortably above 800,000 bpd. Firms are beginning to explore offshore oil production possibilities in the Mediterranean. The largest concession was awarded to Shell in February 1999 for a large deepwater area off Egypt's Mediterranean coast. BP and Total were also awarded a large offshore block from the same bidding round. A smaller offshore concession was awarded to Eni. While most offshore discoveries in the Nile Delta have been natural gas, it is believed that there may also be significant quantities of oil in the area.

Shell reportedly is optimistic about the prospects for its North East Mediterranean Deepwater (NEMED) concession, but drilling so far has yielded natural gas rather than significant quantities of oil.

Discoveries

Dana Gas, the sixth largest natural gas producer in Egypt from among the 64 companies operating in the country, made the most recent of exploration successes in a new gas discovery. The Dabayaa-2 delineation well was drilled by Centurion Petroleum Corporation, the upstream division of Dana Gas in Egypt, on the eastern side of the West Manzala concession, in order to appraise the Dabayaa-1 discovery well in the Lower Abu Madi Sandstone formation. The well was drilled to a total depth of approximately 3?000 meters and encountered gas bearing zones in both the Upper and Lower Abu Madi formations. The Lower Abu Madi formation was tested and found to flow at a gas rate of over 10m ft3 per day, and 240 bpd of condensate.

According to Egypt's Petroleum Minister Sameh Fahmy, attracting international oil companies to the country's downstream gas sector to build up liquefied natural gas facilities, including new pipelines is a major priority for the country's development. And a fast development of its natural gas reserves will allow for Egypt to offset the decline in its oil production levels, and allow it to concentrate on, and maintain its present role as a leading exporting country. (AB28.01)

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11.13 EGYPT: Kuwait Looks to Cairo

Egypt is reaping the benefits of a significant wave of investment from its Gulf neighbors as they are looking to diversify their assets and pour liquidity out of overheating home markets. Earlier this January, NBK Capital, the investment arm of the National Bank of Kuwait (NBK), announced it would be opening a branch in Cairo this year and said it was looking to develop private equity investments in sectors including logistics, packaging and retailing. Amjad Ahmad, NBK Capital's chief executive for investment and merchant banking, said the bank had yet to make any deals in Egypt but was lining up bids.

As reported by the Oxford business Group, the parent company NBK is already active in Egypt, having bought an initial stake of 51% in Al Watany Bank of Egypt for $522m in August. It increased its stake to 93.77% at the end of October.

Kuwait has made investments in Arab countries a priority, through funds such as the Kuwait Fund for Arab Economic Development (KFAED). On January 16 the fund announced it would be significantly increasing its investments in Egypt, with a loan of $105m to the state-owned West Delta Electricity Production Company to expand a power plant in Abu Qeir, about 40km east of Alexandria. The deal takes the amount that KFAED has loaned in Egypt to $1.67bn.

The United Arab Emirates (UAE) also shows a strong presence in Egypt. The Financial Times recently reported that the UAE is the biggest Gulf investor in the country, pouring in $3bn last year. The UAE's activities in the North African country include a range of real estate projects and the $2.9bn purchase in 2006 of a mobile phone license by UAE telecoms firm Etisalat.

Gulf investors find Egypt an attractive investment destination for several reasons. As an Arabic-speaking Muslim country, it has a linguistic bond and cultural similarities with its neighbors. Egypt's large population is another draw, with a substantial market and a sizeable work force. Although its economy is growing very quickly, with 7.1% GDP growth in 2007, prices of assets and labor are still relatively low compared to those in Gulf states.

The six Gulf Cooperation Council (GCC) member states, including Kuwait, invested an estimated $60bn in the Middle East and North Africa (MENA) region in the five years between 2002 and 2006, according to the Institute for International Finance (IIF). In the 12-month period ending in June 2007, the GCC poured a total of $2.5bn into Egypt for new companies or the expansion of existing ones.

Egypt has responded favorably to these activities, and an investment promotion delegation visited Kuwait this January, meeting Kuwaiti businessmen and representatives of the Kuwait Chamber of Commerce and Industry (KCCI). Mahmoud Muhyideen, the Egyptian minister for investment, told Kuwaiti press on January 21, "Investors are welcome to invest in a wide range of industries," mentioning the medical industry, textiles, chemicals and automotive parts, as well as infrastructure projects. The opening later this year of a new stock exchange handling the shares of small- and medium-sized enterprises will broaden the opportunities for firms, funds and individuals to invest in Egypt, Muhyideen said.

He also cited the investment security legislation enacted in 2007 and said it would boost confidence in the country and help tackle problems faced by foreign investors in the past. Some of those present at the KCCI meeting mentioned issues including unreliable local partners and bribery.

Egypt's government has shown it is committed to a continuing process of reform that should lock in growth and improve the business climate. This was underlined last September when the World Bank and the International Finance Corporation declared Egypt was "the world's top reformer" of 2006-2007, citing the country's progress in lowering the cost of starting a business, easing the import-export process and setting up a private credit bureau. (OBG24.01)

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11.14 MOROCCO: A New National Strategy for Agriculture

Morocco's minister of agriculture and fishing, Aziz Akhannouch, recently announced the government's pledge to develop a new national agriculture strategy, aimed at improving productivity levels. Speaking at the opening of the 6th Annual Institutional Seminar on Agricultural Development in Rabat on December 12, Akhannouch emphasized the need for action. "The challenges to productivity and competition in agriculture in Morocco can be addressed only through a voluntary approach and sustained effort," he said.

According to the minister, the state must take a mediator's role between the sector and investors to speed up change. "Given the realities of the sector, the current situation of farmers calls for a redefinition of the state's role in the form of new relationships between the producers and industry players," he said, adding that the state must orchestrate programs that facilitate innovation, financing and access to markets.

Such active state support of the agriculture sector is of little surprise given the lack of rainfall in 2007. Directly or indirectly responsible for the livelihoods of roughly half of the country's population, agriculture represents a source of both concern and potential for the Moroccan economy. The agriculture sector's most immediate need concerns the country's significant dry spell. The government has already begun to address this particular issue by organizing an array of subsidies including the purchase of equipment to reduce water loss in irrigation systems.

In addition to addressing water-related issues, the ministry's new strategy must also address another major hurdle. Inheritance practices in rural Morocco dictate that land is transferred to successive generations and split into equal shares. This traditional practice has been responsible for the decreasing size of the average plot of farmed land. According to government statistics, roughly 69% of Moroccan farms consist of plots of less than 5 ha. Only 11,000 farms currently operate on lands in excess of 50 ha.

While small and medium-sized farming operations limit productivity levels, subsidies do not provide a viable solution in the long-term. As Morocco gradually integrates into the global market, its farmers will further fall behind more efficient and modernized foreign competitors, unless reforms are implemented. Moreover, the World Trade Organization and free trade agreement guidelines will apply greater pressure if the country fails to overhaul the sector.

To begin the restructuring process, the Moroccan government has pursued a strategy of leasing state-farms previously under the management of Societe de Developpement Agricole (SODEA). The tender procedure for leasing government lands has thus far been successful in attracting new sources of foreign direct investment (FDI) and skilled management to the sector. In 2004, 41,837 ha of agricultural leases were issued, generating $610m in revenue for the state coffers. According to government statistics, foreign holders of these leases injected $3.28m into the sector in 2006.

A similar tender involving an additional 38,731 ha of state farmland was concluded in early December. While the final awarding of the leases will not be announced until early 2008, it has been acknowledged that a large number of bids were made by agricultural businesses from France, Egypt, Spain and the United Arab Emirates.

Despite the success of the state-land lease program, the government's new agriculture strategy must address the critical issue of agricultural land segmentation and the lack of economic cooperation among the country's 850,000 small-plot farmers, who currently represent the backbone of the sector. Implementing further reforms regarding these issues will enable economies of scale and attract greater interest from foreign investors. (OBG04.01)

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- Israeli Shekel conversions done at a rate of NIS 3.80 = $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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