Fortnightly - April 2, 2008

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1: ISRAEL GOVERNMENT ACTIONS & STATEMENTS

1.1 Fischer Reports Israel's Growth Faster Than Both the US & Europe

Governor of the Bank of Israel Fischer announced on 1 April that economic growth in Israel 2007 exceeded the benchmark level in OECD member countries and the EU. Fischer reported 5.3% economic growth in 2007, against 2.2% only in the US, 3.1% on average in the EU, and an average 3.5% in OECD member countries. GDP per capita in Israel grew by 3.4% in 2007, compared with 1.2% only in the US, an average 2.4% in the EU, and an average 2.9% in OECD countries. However the GDP per capita in Israel is still 37% less than the $35,800 GDP per capita in OECD countries, 45% less than the $40,800 in the EU, and 50% less than the $44,600 in the US. (Globes 01.04)

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2: ISRAEL MARKET & BUSINESS NEWS

2.1 AqWise Closes $3.6 Million Financing Round

AqWise announced closure of financing round at $3.6m through existing investors: AHMSA Steel Israel, Elron Electronic Industries and Israel Clean Tech Ventures. AqWise will use the proceeds to grow its presence and market reach around the globe, as well as to continue development of its innovative AGAR (Attached Growth Airlift Reactor) fixed biofilm moving bed process. Aqwise has already gained significant commercial success in 2008 by winning several significant projects in industrial and municipal sectors. Organizations around the world are using AqWise's solution to meet stringent effluent quality requirements both cost effectively and on a truly scalable basis.

Herzliya, Israel's AqWise - Wise Water Technologies (http://www.aqwise.com) is a world leader in the development and implementation of innovative wastewater treatment solutions which address today's urgent need for cost-effective wastewater treatment plants for both industrial and municipal clients. AqWise's proprietary AGAR (Attached Growth Airlift Reactor) family of solutions increases capacity of BOD and nutrient removal in wastewater treatment plants, and may be used for rapid, scalable and economical upgrade of existing plants or for new plants which require a limited footprint.

AHMSA Steel Israel, a subsidiary of Altos Hornos de Mexico, the largest integrated steel producer in Mexico, was founded in February 2004 as an investment and holding company, for diverse industrial sectors, from mining through wastewater solutions. Elron Electronic Industries (http://www.elron.com), a member of the IDB Holding Group, is a leading Israel-based technology holding company directly involved in the long-term performance of its group companies. Israel Cleantech Ventures (http://www.israelcleantech.com) was established in 2006 to provide value added growth capital to exceptional entrepreneurs building Israel's energy, water and environmental technology leaders. ICV's investment professionals combine industry expertise gained through decades in senior management positions at Israel's outstanding cleantech companies. (AqWise25.03)

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2.2 Gilat Satellite Networks to Be Acquired by an American & Israeli Investment Group

Gilat Satellite Networks has entered into a definitive merger agreement for the Company to be acquired by a consortium of private equity investors that includes The Gores Group, Mivtach Shamir Holdings, companies affiliated with Roy Ben-Yami, Ami Lustig and Eytan Stibbe and DGB Investments, in a transaction valued at approximately $475m. Under the terms of the agreement, Gilat shareholders will receive $11.40 per share in cash at closing, representing a premium of approximately 38% over Gilat's average closing share price during the 30 trading days ended 25 April 2007, the day in which Mivtach Shamir Holdings issued a formal offer to the board of directors of Gilat to purchase 100% of the Company's shares. There is no financing condition to the obligations of the buyers to consummate the transaction.

Petah Tikva, Israel's Gilat Satellite Networks (http://www.gilat.com) is a leading provider of products and services for satellite-based communications networks. The Company operates three business units: (i) Gilat Network Systems ("GNS"), which is a provider of network systems and associated professional services to service providers and operators worldwide; (ii) Spacenet Inc., which provides managed services in North America for businesses and governments through its Connexstar service brand and for consumers through its StarBand service brand; (iii) Spacenet Rural Communications, which offers rural telephony and internet access solutions to remote areas, primarily in Latin America. (Gilat 30.03)

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2.3 Israel's BMT Systems to Represent California's B&E Manufacturing

Stanton, California's B&E Manufacturing has appointed BMT Systems as its exclusive representative in Israel and for all Israel based projects. B&E Manufacturing has been manufacturing and supplying precision quality AN, AS, MS, and NAS hydraulic tube fittings, used in conjunction with Aerospace, Commercial, and Military applications. In addition, they also manufacture Specialty type fittings and Machining parts in accordance with customer supplied drawings and specifications. Ra'anana, Israel's BMT Systems (http://www.bmtsystems.co.il) is an independent distribution agency focusing on the defense industry. Clientele includes the Ministry of Defense; IDF - the Israel Defense Forces (e.g. Air Force, Computing Division, Technology & Logistics Divisions, Navy, and Military Intelligence), Israeli defense industries and others. Based on years of direct personal experience, BMT has valuable personal connections with key decision-makers in these organizations. (BMT01.04)

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3: REGIONAL PRIVATE SECTOR NEWS

3.1 SOFEX 2008 Opens in Amman

On 31 March, the Middle East Special Operations Commanders Conference SOFEX 2008 opened in Amman with a key note speech by Prime Minister Dahabi. The Conference is part of a three day exhibition held at the King Abdullah I Airbase in Marka, where over 300 local, regional and international exhibitors will be displaying the latest state of the art equipment and technology used by Special Operations Forces around the world. SOFEX is a premier international exhibition and conference that features the largest fully-integrated Special Operations Forces equipment and solutions in the world. Exhibiting at the event is Oklahoma City's SAF Consulting International, in conjunction with their Jordanian partner. This relationship was fostered by Oklahoma's representative office in the Middle East. A number of Pennsylvania companies will also be represented, including Fromm Barriers. The trade interests of Oklahoma, Pennsylvania and several other US states are represented by Atid, EDI (http://www,atid-edi.com), which serves as these states Middle Eastern trade office.

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3.2 Papa John's Opens Jordan Outlet

Papa John's, the renowned American pizza chain of restaurants, has opened its first outlet in Jordan. The new branch located in Sweifieh, Amman, comes as part of the company's global expansion plans. The company is represented in Jordan by the Jordanian American Food Company. With over 3,225 branches in 28 international markets, Papa John's has been operating in the Middle East since 2000 and has stores throughout the region including, Kuwait, Egypt, Oman, Bahrain and Qatar. Jordan American Food Company was planning to open another Papa John's branch in Jordan by the end of the year and would begin delivery service in May. Jordan American Food Co was established in 1997, with an aim to establish and manage a number of American style restaurants in Jordan. They currently operate the following international brands, Burger King, Apple bees, and Fuddruckers. (TradeArabia 25.03)

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3.3 Danish Engineers to Design Giant Bridge Over Red Sea

The Danish consulting engineering group COWI has signed a contract to design an enormous suspension bridge across the Red Sea that will create the first fixed link between the Arabian peninsula and Africa. The 28 kilometer-long structure will span the Bab El-Mandeb Strait between Yemen and Djibouti, and will involve constructing pylons towering 400 meters above the water, which is 300 meters deep in places. Under the contract with Middle East Development in Dubai, COWI will prepare the initial design and overall requirements of the link, taking into account the challenges of building in deep water heavily trafficked by shipping to and from the Suez Canal. Development of COWI's design is scheduled to be completed by summer 2008. COWI won the project by collaborating closely with colleagues in the Gulf region. The planned fixed link will join two new cities in Yemen and Djibouti that are part of Middle East Development's ambitious plans for the area. It will take approx. 12 years to design and construct the bridge, for which the estimated construction cost is in the order of $20bn. (COWI18.03)

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4: ISRAEL MACRO-DEVELOPMENTS

4.1 Israel to Issue $429 Million Tender for Fourth Desalinization Plant

The state will publish the minimal requirements for a tender for building a desalinization plant to provide 100 million cubic meters of fresh water a year. The estimated $429m new plant will be built on the coast at Soreq, between Tel Aviv and Ashdod. This will be Israel's fourth desalinization plant and will be built in a private finance initiative (PFI). A private firm or consortium will build the plant and operate it for 25 years. In return the state will commit to buy the desalinated water at a fixed price, as determined in the tender. The National Infrastructures Ministry and the Water Authority also intend on publishing another tender, for the right to desalinate another 75 million cubic meters (MCM) of water a year using existing facilities and expanding their capacity. This tender will be closed to the three existing desalinization plants: the VID group's 100 million cubic meter plant in Ashkelon; Via Maris' 30 million cubic meter plant at Palmahim; and IDE's Hadera plant, which is still under construction but will also provide 100 million cubic meters of fresh water a year. The tenders are a step toward implementing the cabinet decision to increase the supply of desalinated water to 505 million cubic meters a year. This total will be reached by adding to the existing 230 million cubic meters, another two 100 million cubic meter plants, the first of which is the present tender, along with the 75 million cubic meter expansion tender. (Various21.03)

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4.2 IUED Says Not Wasting Water Is Smarter Than Desalinating It

The Israel Union for Environmental Defense (IUED – http://www.iued.org.il), a membership-based environmental advocacy organization, stated that instead of depending on desalinization as a solution for Israel's shrinking water resources, the country should simultaneously invest most of its efforts in ways to save water. The IUED wrote a report on the Israeli water system in preparation for World Water Day. According to the IUED, there are a number of practical ways to save significant amounts of water, up to 500 million cubic meters annually. Among the proposals are installation of water-saving devices on faucets, toilets and elsewhere, which can bring about savings of up to 15% of all water usage. Other possibilities are enforcing existing water-saving laws, developing water-efficient gardening for local authorities and improving the efficiency of water usage in agriculture. The IUED regretted that Israel's preferred solution is building desalinization plants, which is based on the faulty assumption that it is impossible to manage the growing demand for water. Therefore, it is necessary to increase the supply of water and the ability to supply it through artificial methods requiring large amounts of energy, resources, infrastructure, chemicals, money and profits. The IUED claims that government ministries are not doing enough to prevent water pollution and treatment of polluted water. They also are not improving the quality of wastewater and do not encourage construction that saves water. The non-profit organization is also threatening to appeal to the courts to force the ministries to implement the cabinet decision from 2003 to encourage saving water. (19.03)

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5: ARAB STATE & PAKISTANI DEVELOPMENTS

5.1 Arab World has 17 Million Unemployed

A recent conference on unemployment in the Arab world held in Cairo showed that the problem is complex and unique in the world because of the upsurge in unemployment among young people, women and holders of university diplomas. This situation reflects a conflict between the output of education and the needs of the market. Dr. Laqman, director general of the Arab Labor Organization, suggests that the Arab region is the worst in the world in terms of unemployment averages. According to him, there are 17 million unemployed Arabs, or 14% of the labor force. He called on the Arab countries to create 3.9 million new jobs annually which, by themselves, will not eliminate unemployment but will contain it. He quoted the World Bank to the effect that the region will need to create 100 million new job opportunities by 2020 to meet the demands of the new entrants to the labor market. Laqman said that the structural adjustment program carried out by many Arab countries have caused the loss of millions of jobs. A major employment distortion in the region is the unwieldy government sector. In the case of Kuwait, for example, the public sector employs 93% of the Kuwaiti labor force while the private sector employs only 4%. The situation in the rest of the Gulf countries would not be much different than that prevailing in Kuwait, given their dependence on imported labor to do all the menial jobs that local citizens refuse to do. (al-Sharq 19.03)

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5.2 Hashemite Kingdom's Internet Prices Among Highest in the Region

Jordan's internet prices are amongst the highest in the region and the IT sector has become a significant contributor to the GDP, according to the Ministry of Information and Communications Technology. The Kingdom imposes a 16% sales tax on internet, while most other countries in the region the tax ranges from zero to 5%. Jordan ranks second in terms of sales tax on the internet only to Morocco, which applies a 20% sales tax on internet. The National ICT Strategy, launched in July 2007, seeks to increase the number of people who use the Internet up to 50% from the current 11%. Many feel to realize this objective, there is a need to reduce internet service prices and sales tax down to 5%. Information and communications technology revenues by the end of 2006 amounted to $1.2b, accounting for 12% of the gross domestic product (GDP). Some 18,000 employees currently work at the sector, while the sector makes available 60,000 indirect jobs. The National ICT Strategy, the outcome of joint efforts by the Information Technology Association of Jordan the Ministry of Information and Communications Technology and the Telecommunications Regulatory Commission also looks to increase employment in the sector to 35,000 jobs and double the sector's current revenues by the year 2011. (Petra31.03)

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5.3 Iraq's Military Requesting $1.39 Billion In Weapons, Vehicles & Equipment

As Iraq's military gets back to its feet, it has received armored vehicles, up-armored Hummers and assorted weapons, vehicles and aircraft. The initial priority on armed combat forces that could be supported by American combat logistics has started to give way to a buildup of Iraq's own logistics and maintenance capabilities. On 21 March, the US DSCA announced a formal request by Iraq's government for various vehicles, small arms and ammunition, communication equipment, medical equipment, and clothing and individual equipment as well as associated equipment and services. The total value, if all options are exercised, could be as high as $1.39b.

One trend was Iraq's move to switch some of its forces to the American 5.56mm M-16/M4, as replacements for its Kalashnikov-derivative assault rifles. The goal is reportedly to outfit the entire Iraqi army with at least 165,000 American rifles in a one-for-one replacement. The move to adopt the M-16 has been praised and panned. American M-16s and M4s have earned a reputation as guns that require consistent daily maintenance in order to perform reliably. That has made them a symbol of a professional army, but any failure to back that symbol with the reality of a disciplined, professional army is likely to lead to nasty surprises. On the other hand, the American weapons come with a program that uses databases and biometrics to track each weapon as it's assigned, and keep track of it thereafter so it doesn't go “missing” – something that has been a real problem in the past. (DID26.03)

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5.4 Gulf States Relax Border ID Rules

Saudi Arabia, Kuwait and Qatar are to allow citizens to travel between the three countries without passports by the end of this year, an official said on 19 March. GCC Secretary-General Abdul Rahman Al-Attiyah said authorities were expected to complete all the procedures prior to implementation of the decision before the end of 2008. These Gulf citizens will be able to cross borders using only ID cards, in a move which echoes a similar agreement between Saudi Arabia and the UAE last year. The step comes as part of an agreement reached by GCC leaders to allow free travel between member-states. (Various20.03)

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5.5 Kuwait Population 69% Expatriate

Expatriates now make up 69% of Kuwait's total population, which rose by 6.8% to 3.4 million in 2007, it was reported on 30 March. The number of foreigners increased by 8.5% to 2.3 million, while the native population rose 3.1% to 1.05 million, said the Public Authority of Civil Information. Expats account for 84.5% of the total labor force in the country, with the number of Kuwaitis in the workforce dropping by around 5%. Foreign workers account for 37% of the 35 million of people living in the six countries of the GCC. According to statistics compiled by Human Rights Watch, expatriates account for around 80% of the population of Qatar and the UAE, and about 40% in Bahrain. Saudi Arabia - which accounts for around 75% of the total GCC population - and Oman have the lowest number of foreign workers relative to the size of their populations, standing at around 33% and 25% respectively. (AB31.03)

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5.6 Qatar to Post Massive $2 Billion Surplus

Qatar, the world's biggest exporter of liquefied natural gas, said it expects to post a budget surplus of $2.03b next fiscal year generating more revenue from oil sales on higher prices. The expected surplus, which compares with a forecast 6.74 billion riyals for the fiscal year than ended on 31 March, will give Qatar more funds to invest overseas as it seeks to diversify its economy from energy. State-owned Qatar Investment Authority (QIA), which invests the country's surplus wealth, manages assets worth about $60b, according to Standard Chartered, including stakes in the London Stock Exchange (LSE) and Credit Suisse. Qatar also produces 800,000 barrels per day (bpd) of crude oil. Next year's budget, which starts on 1 April, bases its oil revenue on a price of $55 per barrel, compared with a forecast $40 per barrel last year. Qatar, the richest Arab country in per capita terms with a population of about 900,000, budgeted spending for this fiscal year at 65.7 billion riyals. Gulf Arab states usually adopt a conservative forecast for revenue from oil, their biggest source of income. It expects its economy to grow 15.5% at current prices this year, accelerating from 2007 as it expands its oil and gas sector, and spends more on infrastructure, the government announced. Qatar's nominal gross domestic product (GDP) grew 12.5% last year after surging more than 30% in each of 2004, 2005 and 2006 as the state that holds the world's third-biggest natural gas reserves boosted output. As its economy expands, Qatar, which pegs its riyal currency to the dollar, has also faced accelerating inflation. Price rises hit 13.7% in the fourth quarter, just off a record. (Various31.03)

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5.7 UAE is Persian Gulf's Top Projects Market

The UAE remains the biggest projects market in the Gulf, accounting for 37% of the total project value of $2 trillion. According to a study, the booming construction sector constituted more than 60% of the total projects value at $1,207b, followed by industrial projects valued at $70b, oil & gas at $430b, petrochemicals at $135b, power at $134b and water and waste at $40b. According to the study by Meed, the UAE has also registered the highest growth in 2007, with total project values in the country rising by 46% over the past 12 months. Kuwait has the highest proportion of un-awarded contracts, representing over 90% of all projects planned. Meed Projects, a subscriber-only service that provides comprehensive information across the Gulf, said value of major Gulf projects exceeded $2 trillion for first time. The Meed Projects index, which monitors investment within the construction, oil and gas, petrochemicals, power and water and waste sectors across the region, has risen in value by 40% over the past 12 months, despite fears that rising construction costs would lead to significant slowdown in the number of new projects being launched. Major new real estate projects include Sudair Industrial City in Saudi Arabia valued at $40b, Masdar City, Abu Dhabi - $22b, Dilmunia mixed use development in Bahrain worth $4.2b and Limitless' Al-Wasl development in Riyadh at $12b. (Business Times31.03)

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5.8 UAE Will Be First Gulf State to Develop Civilian Nuclear Power

The UAE on 23 March said it will develop a peaceful nuclear power capability in partnership with responsible nations. The move makes the UAE the first Gulf state to go ahead with announced ambitions to develop civilian nuclear power. Under the policy, the UAE plans to set up a $100m Nuclear Energy Implementation Organization as recommended by the International Atomic Energy Agency (IAEA) and is proceeding to evaluate the establishment of a peaceful nuclear program that would make the potential benefits of nuclear power available to the people of the UAE. The UAE, however, has made it clear that its project will not involve uranium enrichment, the most sensitive part of a program, and that it would instead import nuclear fuel from international sources. The UAE will also be ready to sign a so-called "additional protocol" with the IAEA, allowing for extra scrutiny of its activities. It will also ratify international nuclear safety instruments, including the IAEA Convention on Nuclear Safety and the IAEA Joint Convention on Safety of Spent Fuel management," according to the policy statement.

In January, the UAE signed a nuclear co-operation agreement with France during Pres Nicolas Sarkozy's tour of the Gulf region. French oil company Total has joined with other French firms in submitting a proposal to the Abu Dhabi authorities to develop two reactors. The UAE argues it needs nuclear energy to satisfy soaring demand for power and desalinated water. With electricity demand soaring by 10% a year, the UAE is expected to double its power capacity over the next decade to supply the rapidly-growing population and many industrial ventures. During their talks in Paris in July last year, UAE President Shaikh Khalifa Bin Zayed Al Nahyan and Pres. Sarkozy agreed to put into effect their 1980 agreement on the peaceful use of nuclear technology in order to enable the UAE to produce electricity from nuclear energy. A trio of French energy and engineering groups have linked up to build and operate two reactors in Abu Dhabi. French nuclear technology group Areva, oil company Total and utility group Suez recently sealed a deal to build and operate the reactors. (GN24.03)

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5.9 Abu Dhabi 2007 Inflation Soars to 10.7%

Inflation in Abu Dhabi jumped to 10.7% last year, driven by higher rent, transport and food costs. Rents accounted for 58% of inflation for the year, transport and shipping 15%, and food, beverage and tobacco 11%, citing a report released by the Department for Planning and Economy. Inflation in 2006 was 8.3%, it said. Inflation across the Gulf is surging to a record or near-record as economies grow on a five-fold increase in oil prices during the last six years, and governments invest windfall oil revenue in infrastructure and real estate. Gulf oil producers, except Kuwait, peg their currencies to the US dollar, which has tumbled to record lows against the euro and a basket of major currencies this month, driving up import costs. The dollar's decline and higher oil prices were contributing to inflation in Abu Dhabi by making imports more expensive. The UAE government, which has kept its dirham pegged to the dollar at the same rate for the last 11 years, aims to reduce inflation to 5% this year, its economy minister said earlier this month. For the UAE as a whole, inflation probably accelerated to 20-year peak of 10.9% last year, from 9.3% a year earlier, National Bank of Abu Dhabi said last month. (Various31.03)

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5.10 Abu Dhabi Signs Landmark US Wealth Fund Accord

The US has signed a landmark deal with Abu Dhabi and Singapore, holders of two of the largest sovereign wealth funds (SWFs) in the world, to free inward investment into the country. In very much a quid pro quo agreement, the US received assurances that foreign governments will not use their funds for political ends, while countries receiving investment from such funds should dismantle any protectionist barriers to foreign direct investment. There is also an acknowledgment that funds should disclose more information, particularly financial information, while recipient countries should also have predictable investment frameworks and should not discriminate among investors. The set of voluntary principles, signed on 20 March, comes as the US economy looks to attract new investment into its economy. Analysts see SWFs as a means to restore some of that liquidity back into the US market. The countries will now work with the International Monetary Fund (IMF), the Organization for Economic Cooperation and Development (OECD) and other governments to push for an international code to ensure the principles laid out will operate on a more global basis. (AB21.03)

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5.11 UAE Plans Largest Petrochemical Complex in World

Abu Dhabi plans to develop the world's largest petrochemical complex as the emirate looks to further diversify its economy, companies involved in the project said on 19 March. The "multi-billion dollar" Chemical Industrial City, as it will be known, will include cracking and reforming units to process petrochemical feedstock naphtha. Abu Dhabi's International Petroleum Investment Company (IPIC) has signed a memorandum of understanding with Austria-based plastics producer Borealis to develop the project's first phase, scheduled for completion in 2013. The Abu Dhabi

Investment Council (ADIC) has also signed the MoU. IPIC owns 65% of Borealis, while Austria's OMV owns the rest. Borealis is a joint partner with state-run Abu Dhabi National Oil Company (Adnoc) in UAE based petrochemical producer Borouge. (AB19.03)

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5.12 Dubai World's 40th Most Expensive City

Dubai has been ranked 40th in a list of the world's most expensive cities, sitting just ahead of Hong Kong in a table led by Oslo, Copenhagen and London. Swiss banking firm UBS carried out prices and earnings surveys in 71 cities to compile a comparison of purchasing power around the globe. The top three were closely followed by Dublin, which jumped up the table from 13th place in 2005, Zurich and Stockholm, with Helsinki, Geneva, Paris and Vienna completing the top ten. New York was listed 18th, with London in 26th position. Manama in Bahrain, the only other Gulf state listed, ranked 55th. The list was based on the cost of a weighted shopping basket geared to Western European consumer habits containing 122 goods and services. Dubai ranked 34th when rents were taken into consideration, with London top of the list. Dubai was also listed 34th for wage levels, based on wage figures, social security contributions and working hours across 14 ‘widespread' professions. Manama, Bahrain was ranked 44th. Dubai was marked 26th for purchasing power, listed above Seoul and Prague and below Taipei. Manama came in at 42nd, slightly below Singapore and above Buenos Aires. (AB20.03)

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5.13 Cement Imports by Dubai Soar 74% in 2007

Dubai's cement imports shot up 73.6%, or 1.26 million tons, to 2.96 million tons in 2007, in the wake of the construction boom. The imports are valued at $183m, according to the Dubai World Statistics Department (DWSD). Dubai imported 1.70 million tons of cement in 2006. The UAE also imported nine million tons of steel in 2007, a 36% increase year-on-year over 2006. The UAE was ranked ninth in the world's top ten importers of steel in 2007, according to the UK-based Iron and Steel Statistics Bureau. The UAE recently abolished cement and steel import duties to increase local supplies. UAE steel demand, projected to increase from five million tons in 2007 to 10 million tons in 2010, coupled with soaring cement prices. (Various24.03)

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5.14 Saudi Arabia's Inflation Hits 27-Year High

Dubai: Inflation in Saudi Arabia surged to a 27-year high of 8.7% in February as the world's largest oil exporter and its Gulf neighbors lowered interest rates to defend pegs to a tumbling US dollar. Saudi Arabia recently matched the latest

75 basis point cut by the US Federal Reserve along with the UAE and Bahrain. Qatar also tightened lending curbs on banks for a third time since December, in the latest sign of the growing dilemma for Gulf Arab governments, torn between averting currency appreciation and containing soaring prices. Inflation in Bahrain rose 0.2% in February from the previous month as food prices accelerated, the government's Central Informatics Organization (CIO) said. Bahrain's consumer price index was 104.82 points on February 29 compared with 104.64 points at the end of January. Food, beverage and tobacco costs climbed 0.46% in February from the month earlier while housing costs were steady, the data showed. Like most of its neighbors in the world's top oil-exporting region, Bahrain pegs its currency to the dollar, forcing it to track US interest rate cuts and constraining its fight against inflation. The kingdom plans to give low-income families a 50-dinar monthly allowance as part of a program to help citizens cope with rising prices. (Reuters 24.03)

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5.15 Saudi Slashes Import Duty As Inflation Soars

Saudi Arabia is cutting import tariffs on food and many other items from 1 April, after inflation almost doubled in the six months to February. The Saudi cabinet decided on 31 March to cut duties on food products such as frozen poultry, dairy goods and vegetable oils to 5% from about 20%. Levies on building materials such as paints, gypsum, electrical cables and plastic pipes will also be cut to 5%, while duties on wheat products will be eliminated entirely from 25%. Like its Gulf Arab neighbors, Saudi Arabia, which pegs its riyal currency to the weak US dollar, has been struggling to contain inflation, which surged to an at least 27-year high of 8.7% in February. The kingdom, which has reiterated commitment to its dollar peg even as the US currency tumbled to record lows against the euro last month, has introduced subsidies, cost of living allowances and welfare payments help its 25 million people cope with price rises. Inflation is accelerating across the world's biggest oil-exporting region as their economies surge on a five-fold rise in oil prices in the last six years, which is driving state investment in infrastructure and real estate. About 664 products are already exempt from duties, including medicines, some food items and animal feed. The United Arab Emirates, where inflation hit a 19-year peak of 9.3% in 2006, last month ordered a country-wide lifting of customs duties on cement and steel to stabilize real estate and construction prices. (Reuters 01.04)

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5.16 Qualitative Development in Egyptian-Russian Relations

Rashid Mohammad Rashid, the Egyptian minister of trade and industry, said relations between Egypt and Russia will go through qualitative development in various domains. Egypt, he said, was looking forward to restoring its special relations with Russia and to benefiting from Russia's technological base and its big scientific capacity for building Egyptian industry. He emphasized the commitment of the political leadership of both countries to restore their historic special relations and to expand them into trade, industrial and scientific domains. The minister said that Russia has become the largest source of tourists to Egypt and that their trade has reached a new record of more than $2b in 2007. He said there are good prospects to increase the volume of trade if Russia expedites the procedures of giving preferential treatment to Egyptian agricultural products. (al-Ahram20.03)

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6: TURKISH, CYPRIOT & GREEK DEVELOPMENTS:

6.1 Turkey's 2007 Growth Rate Reaches 4.5%

Turkey's growth rate was 4.5% in 2007 and 3.4% in the fourth quarter of 2007, Turkish Statistical Institute (TUIK) announced on 30 March. Growth rate target of the government was 5%. According to TUIK, gross domestic product (GDP) rose 12.9% to 856.387b YTL (or 25.1% to $658.786b) on basis of current prices. The GDP on basis of fixed prices rose 4.5% to 101.046b YTL. On the other hand, national income per capita in 2007 rose to $9,333 in 2007. (TUIK29.03)

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6.2 Growth of Turkey's Economy Gives Signs of Alarm

Turkey's economic growth for the past year stood at 4.5%, half a percentage point below the government's target and the worst performance of the past five years. Growth in Q4/07 was unchanged at a five-year low of 3.4%, the Turkish Statistics Institute (TUIK) announced. Gross domestic product (GDP) in 2007 stood at $659b, while per capita income increased to $9,333 at current prices. Economic growth has slowed due to declining consumer spending following the Central Bank's 2006 move to increase its benchmark rate by 4.25% to 17.5% to curb inflation. Gross domestic product (GDP) rose by 9.9% to YTL 221.23b at current prices in Q4/07, compared to the corresponding period in 2006. Last year, annual GDP was up by 12.9% to YTL 856.39b at current prices. The Turkish economy had contracted 5.7% in 2001, but the following years saw strong growth, starting with 6.7% in 2002. (TDN01.04)

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6.3 Turkish Talks to Continue With IMF

Minister of Economy Mehmet Simsek and IMF Managing Director Strauss-Kahn met in Washington, DC, agreeing to continue talks on the current IMF loan program. The parties agreed that the discussions between the authorities and IMF staff would continue in the coming weeks to bring the current standby agreement to a successful closure before its expiration on 10 May. The IMF is ready to be guided by the government on what is best for Turkey as the country considers its next step. The IMF talks with Turkey were focused on completing the remaining two performance reviews under the loan program and those reviews would likely be combined. The policy priorities are to consolidate the success of recent years by reestablishing fiscal discipline and continuing with prudent monetary policy to bring inflation down to the 4% target range and to revitalize structural reform to raise growth rates. (BC21.03)

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6.4 Turkey Begins Process For Building Nuclear Plants

Bylaws establishing the rules and conditions governing competitors in nuclear power plant construction, facility operation and the sale of energy generated are published in the Turkish Official Gazette on 19 March. Accordingly, a tender will be held in three months time to select a company for the construction of a nuclear power plant with a capacity of 4,000 MW by December 2020. According to the regulations, any company that seeks to participate in the tender to construct a nuclear power plant in Turkey will have to be experienced in the field or establish partnerships with domestic or foreign companies that already have experience in nuclear energy. The Ministry of Energy and Natural Resources is expected to begin the tender process next week, with a June deadline set for applications. Every company will be asked to submit a bid bond of at least $25m to be eligible to compete in the tender, with the successful bidder required to present a minimum $167m performance bond. TETAS will accept the bids, after which the Turkish Atomic Energy Agency will conduct the inspection. TETAS will select one company among the bidders and will submit the name of this company to the Cabinet for approval. (BGC20.03)

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6.5 Turkey Amends Consumer Rights Law

With the amendment in Consumer Protection Law, Turkey's Ministry of Trade & Industry aims to decrease the burden of mortgage loans on consumers. Accordingly, consumers will not be forced to take out life insurance or house insurance for the loans, while the penalty for early payment in fixed rate housing loan will be decreased to 5 bps from 2%. Under the current applications, the consumers are required to take out life insurance policies in addition to house insurance while using a mortgage loan. The consumers are also forced to use the related bank's insurance company. In floating rate housing loans, there is no early payment penalty. However, currently the share of floating is almost none. With the cancellation of annual fees in credit cards and decrease in early payment penalty, fee and commission income of banks will decrease in the coming periods. Majority of the decline will stem from credit cards, since early payment penalty fee is not applicable to loans that were borrowed before the mortgage law (June 2007). As a note, Central Bank has set the maximum conventional interest rate as 4.54% per month for YTL. (BGC20.03)

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6.6 Turkish Exports to Neighbors & Region Up By 35.5% in 2007

Turkish exports to neighboring regional countries rose by 35.5% in 2007 and reached $40.5b in 2007, according to figures released by the Undersecretariat for Foreign Trade. Exports to the seven neighboring countries grew 28.5% to reach $11.1b, with Iraq getting biggest share with $2.8b. Exports to 45 regional countries rose to $29.4b to mark an increase of 38.4% and Russia was the biggest buyer of Turkish goods in 2007. Meanwhile, exports also made a promising start in 2008, increasing by 39.9% in January over to the same period of the previous year. The total amount for January 2008 was $945.7m. (UFT23.03)

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6.7 Turkey Ranks 54th in Per Capita Income in IMF's Global GDP Ranking

After reaching $9,333 of per capita national income following a recent change in calculation, Turkey ranked 54th in IMF's global GDP ranking. Turkey was 64th in previous list which was based on 1987 calculation (series). IMF's economic outlook database for October 2007 revealed that Turkey climbed to 54th, according to new figures based on 1998 series, outpacing Uruguay, world's 10th biggest economy Brazil, Gabon, Botswana, EU-member Romania, Equatorial Guinea, oil-rich Venezuela, Mexico, oil and natural gas-rich Russia and Seychelles. On the other hand, Turkey's GDP reached $658.8b due to the new calculation (PPP) and it preserved its 17th place in the list. Turkey's GDP according to former series was $482b. (TNA01.04)

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6.8 Greek Prices Up by 4.4%

Greek consumer prices rose 4.4% on the year in February, compared with a 3.9% rise in January, the National Statistics Service said 12 March. On the month, consumer prices fell 0.8% in February, compared with a 0.3% month-on-month drop in January. The Greek harmonized index of consumer prices, used by the European Central Bank, rose 4.5% to reach its highest level since February 2002. The strongest drivers of inflation were housing prices, which rose 10.2% on the year in February, and the heavily weighted basket for food and nonalcoholic beverages, which rose 6.6% on the year. Combined, these two categories accounted for more than half of the overall annual inflation rate. (AP14.03)

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7: GENERAL NEWS AND INTEREST

*REGIONAL:

7.1 Kuwaiti Ruler Dissolves Parliament

On 19 March, Kuwait's ruler Sheikh Sabah Al-Ahmad Al-Sabah dissolved parliament and set an election for 17 May 17 after a political crisis that delayed economic reforms forced the oil exporting state's government to resign. Sheikh Sabah, who has the final say in the mainly Sunni Muslim country's politics, said repeated calls for cooperation between lawmakers and the government were not heeded. The crisis was caused by a standoff between the cabinet and parliament, which has a history of challenging the government - unusual for a region where countries like Saudi Arabia are dominated by ruling families. Kuwait, whose stock market rallied on investor hopes the reforms would be approved by a new assembly, wants to diversify its economy away from oil like Gulf Arab neighbors Dubai and Bahrain that have become regional financial centers. The dissolution followed the resignation of the cabinet on 18 March, less than a year after it was sworn in, complaining of a lack of cooperation from the assembly.

A bill to set up a financial regulator and open up the stock market to more foreign investment has been stalled in the house. Deputies have also forced the cabinet to set up a fund to buy back bad debts Kuwaiti nationals incurred from shopping sprees, in a blow to plans to reduce dependence on the state. Kuwait has yet to name an oil minister to replace Badr Al-Humaidhi, who resigned days after his appointment in November under pressure from hostile deputies. The previous cabinet had resigned to avert a parliamentary no-confidence vote in the then health minister, a member of the ruling family. Parliament members have to approve the state budget and all laws and exercise their right to question ministers. It passed a law in 2005 giving women the right to vote and run in elections. (AB19.03)

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7.2 New UAE Coat of Arms Approved

The UAE Cabinet endorsed on 22 March the new official coat of arms of the UAE, approved by President Shaikh Khalifa Bin Zayed Al Nahyan. Federal and local authorities should start using the new emblem from May 1 with a final deadline of December 31. It must be used on documents such as passports and driving licenses when they get renewed. Instead of the Arabic dhow, which is in the middle of the old one, the new coat of arms displays the UAE flag surrounded by seven stars, representing the seven emirates. There is also a difference in the color of the frame and the Arabic font of the name the United Arab Emirates at the bottom. (GN23.03)

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7.3 Turkey's Supreme Court Decides To Go Ahead With Closure Case of Ruling Party

On 1 April, the Constitutional Court judges of Turkey decided unanimously to go ahead with a trial for the closure of the ruling Justice and Development (AK) Party on charges of anti-secular Islamic activities. Meanwhile, four judges out of 11 opposed the trial to cover President Abdullah Gul who according to the chief prosecutor issued pro-Islamic memorandums to the diplomatic missions abroad when he was the foreign minister of the AK party government between 2002 and 2007. However, they were overruled by the votes of seven judges who said the trial should also cover Gul. Observers said the fact that seven judges have displayed a hard-line attitude means the same may well be set to vote to eventually closedown the party. According to law at least seven judges of the supreme court have to vote for the closure of a party. The ruling AK Party will now prepare its preliminary defense and will submit it to the Supreme Court of Appeals Chief Prosecutor's Office. After the Chief Prosecutor states his views on the merits of the case, the AK Party will make a verbal defense in a month's time. This will be followed by verbal statements of the Chief Prosecutor. Later the rapporteur assigned by the Constitutional Court will prepare his/her report on the merits of the case. In this phase, the Chief Prosecutor can submit further evidence and AK Party can submit additional defense material to the rapporteur. After completion, the rapporteur's report will be distributed to court members.

According to the Constitution, at least 7 of the 11 members of the court have to vote for dissolution in order for the court to shut down a political party. In line with Article 69 of the Constitution, the court may instead decide to reduce or cut the financial aid given to AK Party from the Treasury. If the party is closed 71 members of the AK Party including some deputies and Prime Minister Erdogan who is also the chairman of the AK Party risk a five-year political ban. (TNA01.04)

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8: ISRAEL LIFE SCIENCE NEWS

8.1 Teva to Acquire Bentley Pharmaceuticals

Teva Pharmaceutical Industries and Bentley Pharmaceuticals have entered into a definitive agreement under which Teva will acquire Exeter, New Hampshire's Bentley. The acquisition will take place following the spin-off of Bentley's drug delivery business to its shareholders. Teva will acquire Bentley, which at closing will consist solely of the generic pharmaceutical operations, for an aggregate cash purchase price of approximately $360 million. Shareholders of Bentley will receive approximately $15.02 per share in cash in the acquisition (which price is subject to potential adjustment, as described below), and also will receive shares of CPEX Pharmaceuticals, Inc. pursuant to the spin-off, which will occur before the acquisition.

Bentley manufactures and markets a portfolio of approximately 130 pharmaceutical products in various dosages and strengths, as both branded generic and generic products, to physicians, pharmacists and hospitals. 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 pharmaceuticals and active pharmaceutical ingredients. Over 80% of Teva's sales are in North America and Western Europe. (Teva31.03)

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8.2 Silk'n Personal Light-Based Hair Removal Device Cleared by FDA

Home Skinovations announced that the Silk'n device was cleared by the United States FDA for home-based removal of unwanted hair under the direction of a physician. Silk'n, powered by the innovative and proprietary Home Pulsed Light technology (HPL), is clinically tested and physician approved for safe, quick, and effective removal of hair by patients in the convenience of their home. Silk'n will be available exclusively through physicians. An average reduction of 50% in the hair count was monitored three months post three bi-weekly treatment sessions. No adverse effects were noted in the course of the study, and the users of Silk'n recorded an extremely high level of satisfaction with the device and their results.

Home Skinovations (http://www.silkn.com) is a private company founded in Yokneam, Israel in June, 2006, with a mission to develop, manufacture and sell the safest and most effective home-use aesthetic devices. The company was founded by a skilled team of scientists, engineers and industry executives with a successful track record for introducing innovative light-based and laser products to the global aesthetic devices market. The company's patent pending core Home Pulsed Light technology (HPL) brings nearly two decades of advancements in light and laser technology together in a pulsed-light system designed exclusively for safe and effective aesthetic treatments by doctors' patients at home. (Home Skinovations24.03)

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8.3 First Patient for Acute Myocardial Infarction Developed by BioLineRx

BioLineRx announced that the first patient treated with BL-1040 was released from the Department of Cardiology at the University of Heidelberg in Germany following treatment with no apparent adverse effects. This was the first patient in a Phase 1/2 clinical trial study that is designed to assess the safety and feasibility of BL-1040 in up to 30 patients at several sites in Germany, Belgium, and Israel. The Company expects to complete the first part of the trial towards the end of this year. BL-1040 is being developed as a Class III medical device utilizing U.S. Food and Drug Administration's pre-marketing approval regulatory pathway approach.

BL-1040 represents a breakthrough approach to supporting cardiac tissue damaged as a result of acute myocardial infarction (MI), improving cardiac function and survival. BL-1040 is a resorbable liquid polymer that is administered via the coronary artery during standard catheterization and flows into the damaged heart muscle. The liquid polymerizes within the infarcted cardiac tissue and forms a protective “scaffold” that enhances the mechanical strength of the heart muscle during recovery and repair, thereby preventing pathological enlargement of the left ventricle after the MI. BL-1040 is excreted naturally from the body within six weeks after injection, leaving behind a stronger, more stable heart muscle.

Jerusalem, Israel's BioLineRx (http://www.biolinerx.com), a clinical stage drug development company traded on the Tel Aviv Stock Exchange, is dedicated to building a robust pipeline of promising therapeutics for unmet medical needs. The Company's leading programs are BL-1020 for the treatment of schizophrenia, which recently completed Phase 2a trials and will commence Phase 2b trials shortly, and BL-1040 for the treatment of damaged heart tissue post-acute myocardial infarction, which is currently undergoing a Phase 1/2 study. Additional products under development include compounds for the treatment of cancer and CNS, cardiovascular, metabolic, infectious and autoimmune diseases. (BioLineRx24.03)

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8.4 World Debut for BSP's HyperQ Stress System

BSP (Biological Signal Processing) is launching its HyperQ Stress System in the US. Ischemic heart disease (IHD) is the most common life-threatening illness in the world. Exercise stress testing using electrocardiography (ECG) is widely used as the initial diagnostic test for symptomatic patients. However, its poor accuracy may result in missed cases and leads to additional costly, radioactive and sometimes invasive diagnostic procedures. The HyperQ is cutting-edge technology implemented in an innovative stress-test system, offering highly reliable, cost effective and risk free cardiac monitoring for broad populations and allows, for the first time, effective and accurate testing for IHD patients. To date, more than 3500 patients in Israel, Europe and the US have been examined by HyperQ Stress Systems in controlled clinical studies, pilot programs and routine testing in the setting of private offices and hospital clinics. The results have demonstrated the system's high efficiency and unmatched accuracy in the diagnosis of IHD.

Tel Aviv's BSP (http://www.bsp.co.il) is dedicated to providing novel, risk free and highly reliable solutions for the diagnosis and monitoring of Ischemic Heart Disease. An interdisciplinary approach and deep knowledge in the fields of signal-processing, bio-medical engineering and cardiology allowed BSP to develop proprietary technology and systems of unmatched quality for the non-invasive diagnosis of Heart Disease. BSP's HyperQ technology is implemented in cardiac systems that offer highly reliable, low-cost and risk free cardiac monitoring and allows, for the first time, an effective diagnosis of Ischemic Heart Diseases in broad populations. (BSP24.03)

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8.5 Compugen Discloses Novel Troponin Variant for Identification of Cardiac Muscle Injury

Compugen disclosed the discovery and experimental verification of CGEN-144, a novel variant of Troponin I biomarker, and the signing of a research and license option agreement with Biosite. Compugen also announced that a patent for this biomarker has been granted by the US Patent and Trademark Office. The novel Troponin I variant was one of a group of putative cancer and cardiovascular biomarkers previously predicted by Compugen's immunoassay biomarker computational discovery platform. The molecule has subsequently been experimentally verified to be differentially expressed - as serum protein - in myocardial infarction patients compared to healthy individuals. Under the recently signed agreement with Biosite, Compugen will provide Biosite with all existing proprietary data related to the molecule and Biosite will develop and select antibodies that bind to CGEN-144 to determine assay sensitivity and specificity in various disease states and as an addition to the current commercial Troponin I test. The agreement also provides Biosite with an option to obtain worldwide royalty bearing commercialization rights for possible immunoassay diagnostic products based on this biomarker. Tel Aviv, Israel's Compugen (http://www.cgen.com) seeks to be the world leader in the discovery and licensing of product candidates to the drug and diagnostic industries under milestone and revenue sharing agreements. The Company's increasing inventory of powerful and proprietary discovery platforms is enabling the predictive discovery – field after field – of numerous therapeutic and diagnostic product candidates. These discovery platforms are based on the Company's decade-long focus on the predictive understanding of important biological phenomena at the molecular level. (Compugen 01.04)

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9: ISRAEL PRODUCT & TECHNOLOGY NEWS

9.1 Elbit Systems to Supply Skylark I UAV to France's Special Forces

Elbit Systems will supply Skylark I UAV systems to France's Special Forces, as it won a tender involving 10 of the leading UAV manufacturers worldwide. This contract marks Elbit Systems' first UAV contract with France. The selection of the Skylark mini-UAV system attests to Elbit Systems' leadership in the UAV global market, where the Company's UAV family performs a central role in the global war of terror and is being used by militaries and homeland security forces worldwide. The Skylark, advanced mini-UAV, is a unique man-pack configuration designed for day and night observation and data collection "beyond the hill" up to distances of 10 km. The mini-UAV system is equipped with an exceptionally quiet electric motor, totally autonomous flight and outstanding observation capabilities allowing for easy operation and orientation. The system can be launched by soldiers after a brief training period. The Skylark system enhances ground forces' tactical performance in various mission scenarios. During the recent Hezbollah initiated war in Lebanon, the Skylark mini-UAVs were used by IDF to fly many combat sorties proving their efficiency by supplying valuable intelligence data to the ground forces. Moreover, the systems are currently deployed by several countries as part of the coalition forces in Afghanistan and Iraq.

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 Company, which includes Elbit Systems 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 24.03)

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9.2 Connect One Provides Fully Programmable Secure Internet Solution for M2M Applications

Connect One, the Device Networking Authority, announced a reference design and a corresponding evaluation board that bring together the 16-bit microcontroller (MCU) for application control and the CO2128 iChip for secure, reliable TCP/IP connectivity to LAN and GPRS networks. The marriage of Chandler, Arizona's Microchip's PIC24 and Connect One's secure iChip offers an attractive option to system architects needing to develop and manage an open and flexible Internet-enabled application. Using the evaluation board, developers can quickly and easily develop an IP-enabled embedded system where the application resides on the PIC24 MCU and the networking and security are provided by the CO2128 iChip. Working together, the Microchip Technology and Connect One chips offer a significant value proposition for developers: Dual-core Internet secure architecture where all connectivity features are isolated from the application, providing a natural firewall. In this system, the iChip connects to the PIC24 serial port and its intuitive, ASCII-based AT+i commands enable programmers to connect to IP networks and leverage iChip's Internet Protocol features including HTTP (client and server), HTTPS, FTP, FTPS, SMTP, POP3, SSL, and routing capabilities. A detailed reference design for the combined solution facilitates the integration of specific M2M systems. Kfar Saba, Israel's Connect One (http://www.connectone.com) is widely regarded as the device networking authority, with many innovative firsts to its credit. The company manufactures semiconductors and device servers that facilitate secure, reliable and robust Internet Protocol-based communication for everyday devices. (Connect One 25.03)

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9.3 MTI New Dual Slant Base Station Antennas for Mobile WiMAX MIMO Solutions

MTI Wireless Edge announced the introduction their new 65 degrees Dual Slant base station antennas for Multiple-Input Multiple-Output (MIMO) communications antennas for Mobile WiMAX systems in 2.5 and 3.5GHz bands. This new range of BTS antennas for 2.3-2.7GHz and 3.3-3.8GHz applications includes relatively small size 17dBi dual slant 65 degree antennas. These antennas are ideally suited for use in WiMAX MIMO systems and because of their small size they are much more "Real Estate Friendly" and environmental friendly. In the near future MTI plans to announce the introduction of similar antennas with 90 degrees too that will provide complete MIMO system solutions for fixed and mobile WiMAX. Currently MTI Wireless Edge provides MIMO solutions for Fixed and Mobile WiMAX to various key players in the WiMAX market.

Tel Aviv, Israel's MTI Wireless Edge (http://www.mtiwe.com) is a world leader in the development and production of high quality, low cost, flat panel antennas for WiMAX, Fixed Wireless and RFID applications. MTI has more than 35 years experience in supplying antennas for both military and commercial applications from 100 KHz to 40 GHz. MTI flat panel antenna range includes base station, subscriber and Omni directional antennas for all broad and narrow band WiMAX and fixed wireless applications in both licensed and unlicensed bands. MTI Military products include a wide range of broadband, tactical and specialized communications antennas, antenna systems and DF arrays installed on numerous airborne, ground and naval, including submarine, platforms worldwide. (MTI25.03)

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9.4 Australia's Blue Reef Adds Commtouch RPD to its Traditional Anti-Spam & Anti-Virus Technologies

Melbourne, Australia's Blue Reef and Commtouch announced that Blue Reef has licensed Commtouch's Anti-Spam and Zero-Hour Virus Outbreak Protection services for integration into its Sonar Total Control Gateway Appliance. Blue Reef's Sonar Total Control Gateway is an access-control and network enforcement appliance which is sold to small and medium sized businesses and educational establishments. Traditional email defense technologies are dependent on analyzing the content of email messages, or forcing senders or recipients to interact with the system. Commtouch's Recurrent Pattern Detection technology has a completely different approach, identifying and blocking new spam and malware outbreaks based on their mass distribution across the internet.

Commtouch Software (http://www.commtouch.com) is dedicated to protecting and preserving the integrity of the world's most important communications tool - e-mail. Commtouch has over 17 years of experience developing messaging software and is a global developer and provider of proprietary anti-spam, Zero-Hour virus protection and GlobalView Reputation Service solutions. Using core technologies including RPD (Recurrent Pattern Detection), the Commtouch Detection Center analyzes billions of email messages per week to identify new spam and malware outbreaks within minutes of their introduction into the internet. (Commtouch 25.03)

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9.5 It's Official: modu is the World's Lightest Mobile Phone

The Guinness World Record for the world's lightest mobile phone has been awarded to modu for its tiny and sophisticated mobile phone. modu was awarded this prestigious honor after careful consideration by the Guinness World Records judges, who declared that: “The lightest mobile phone is the modu, which weighs 40.1 g (1.41 oz).” Guinness World Records™ added: “modu's dimensions are 72.1 mm (2.8 inches) x 37.6 mm (1.4 inches) x 7.8 mm (0.3 inches).” modu launched its innovative mobile phone at the Mobile World Congress (MWC) event, held in Barcelona, Spain in February 2008. modu is the world's first modular mobile phone, supported by a variety of ecosystem partners. At the heart of the ecosystem is modu - a tiny, sleek mobile phone that is fully functional and easy to use. modu can be slipped into a wide variety of modu jackets - stylishly designed phone enclosures and modu mates – modu-enabled consumer electronic products. modu's ecosystem offers boundless possibilities in a simple and affordable way. Throughout the design process of modu, the emphasis has been on keeping the phone small, light and compact in order that modu's innovative approach could be realized. The result is a phone that is not only miniature, but also superbly designed and minimalist, whilst offering all the functions and capabilities of a normal-sized handset.

Kfar Saba, Israel's modu (http://www.modumobile.com) has a vision to bring a fundamental change to the dynamics of the mobile phone industry. The company is dedicated to developing products, technologies, a wide ecosystem and business relationships that will help realize that ambition. modu gives users the freedom to choose a new phone as often as they like, meeting their changing needs, preferences and style- easily and affordably. (modu25.03)

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9.6 BrainStorm Cell Therapeutics Opens New Onsite Animal House

BrainStorm Cell Therapeutics announced the opening of a new animal house located at BrainStorm's research headquarters in Petah Tikva, Israel. The animal house will serve as an onsite location for the Company's animal testing for developing their patented technologies to treat Parkinson's and ALS. The new construction will allow the Company to conduct trials more quickly and efficiently. The animal house was built and will be operated in accordance with the guidelines of The National Institute of Health to ensure the animal's welfare and the validity of the research data. A representative from the Israeli council on animal experimentation assessed the animal house, and determined that all Israeli regulations were adhered to.

BrainStorm Cell Therapeutics (http://www.brainstorm-cell.com) is an emerging company developing adult stem cell therapeutic products, derived from autologous (self) bone marrow cells, for the treatment of neurodegenerative diseases. The NurOwn patent pending technology allows for the differentiation of bone marrow-derived stem cells into functional neurons and astrocytes, as demonstrated in animal models. The Company holds rights to develop and commercialize the technology through an exclusive, worldwide licensing agreement with Ramot at Tel Aviv University Ltd., the technology transfer company of Tel-Aviv University. The Company's initial focus is on Parkinson ALS and Spinal Cord Injury, although its technology has promise for treating several others diseases including MS, Huntington's disease and stroke. (BrainStorm 31.03)

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9.7 Mellanox Announces ConnectX EN 10GigE NIC In-the-Box Support with Citrix XenServer 4.1

Mellanox Technologies announced that drivers for its ConnectX EN 10GigE NIC adapters are now included with Citrix XenServer 4.1, enabling plug-and-play integration of NIC adapters that boost I/O performance for virtual machines (VMs) while enabling I/O consolidation. ConnectX EN 10GigE NIC adapters offer leading-edge I/O virtualization features such as support for hardware-assisted direct guest access, VM-to-VM switching, advanced memory management, filtering, QoS and receive side scaling. These features improve overall server utilization, especially in multi-core CPU environments. Mellanox's advanced virtualization features are compatible with and complement PCI Single Root I/O Virtualization and AMD-V and Intel-VT features to deliver advanced, secure and granular levels of I/O services to applications running in VMs. LAN and iSCSI SAN (storage area network) traffic can both be consolidated over the same 10GigE NIC, and in the future, FC SAN connectivity will be enabled using the emerging FCoE (Fiber Channel over Ethernet) standard.

Yokneam, Israel's Mellanox Technologies (http://www.mellanox.com) is a leading supplier of semiconductor-based, high-performance, InfiniBand and Ethernet connectivity products that facilitate data transmission between servers, communications infrastructure equipment and storage systems. The company's products are an integral part of a total solution focused on computing, storage and communication applications used in enterprise data centers, high-performance computing and embedded systems. (Mellanox 31.03)

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9.8 emoze Enhances User Experience

Users of mobile push-email can now enjoy a clearer, more sophisticated user experience with the latest enhancement offered by free push email service emoze. By using the new HTML interface, emoze users will see a more familiar, web-like view of their emails, including pictures, logos, layout designs, signatures and other visuals that most push email systems leave behind. This innovation from emoze, one of the only services providing this option, will offer ultra-friendly, PC-like messages by providing the facility to receive and view HTML coding. Building on its recently released ISP solution, emoze's HTML upgrade is taking mobile email one step closer to supporting online social communities such as Facebook in the near future. Emoze's range of business and personal solutions are available for download online at http://www.emoze.com or through the mobile device at https://emoze.com. Emoze is available for mobile users with Yahoo!, Gmail, Microsoft Outlook, Microsoft Exchange or Lotus Notes email accounts and can be accessed from a wide range of applicable mobile devices, smartphones and PDAs.

Ra'anana, Israel's emoze turns mobile phones and mobile devices in to fully functional personal communication devices with a single, simple and free download for the individual user. It delivers real-time, secure synchronization of emails, calendars, contacts and tasks - pushing data and updates to you anytime, anywhere using any mobile service provider network or WiFi and all leading brands of mobile device. Download, registration and use of emoze are all free for the individual user. (emoze 01.04)

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10: ISRAEL ECONOMIC STATISTICS

10.1 Official Figures Show Israel's Growth Continues

The Israeli economy continues to grow, albeit at a slower pace than in 2007, according to figures published on 31 March by the Central Bureau of Statistics. Export of goods increased by an annualized rate of 8% in the period of December 2007 to February 2008, compared with 22% in the three months before that. Imports of raw materials rose by an annualized 7.7%, compared with 14% in the previous three months; and industrial output rose by an annualized 5.6%, down from 6.7%. However, imports of investment products rose by an annualized 27.8%. The slowdown has been especially pronounced in leading high-tech sectors, which were affected by the low-shekel dollar exchange rate. Output in leading high-tech sectors rose by an annualized 2.2% only, while exports in leading high-tech sectors rose by just 2.8%. The annualized inflation rate now stands at 3.2%, higher than the government's 3% ceiling. Net of the housing component, the annual inflation rate is actually 6%. (CBS31.03)

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10.2 Economy Keeps Growing Despite Shekel Appreciation

The Central Bureau of Statistics released data on 19 March which indicates that economic growth in Israel has continued into 2008, although at a slower pace than last year. Foreign trade, especially in the high-tech industry, is showing signs of vulnerability to the fall in the shekel-dollar exchange rate. Industrial output rose by an annualized 6.1% in November 2007- January 2008, after rising by an annualized 6.9% in August-October. However, activity in leading high-tech sectors rose by an annualized 1.8% only during the same period. Output in mixed high-tech industries rose by an annualized 8.5%, while production in mixed low-technology industries rose by an annualized 6.3%. The number of employees in industry rose by an annualized 2.6% in January-November, while the number of employees in leading high-tech sectors rose by an annualized 4.4%. Exports to the US rose by an annualized 11% in December-February, compared with 19% in the previous three months. Exports to Europe rose by an annualized 4% only, compared with an annualized 15% in the previous three months. Exports to Asia rose by an annualized 21%, despite the declining dollar, while exports to the rest of the world rose by an annualized 14%. On the other hand, the low dollar encouraged further imports from the dollar block, albeit at a slower pace than in previous months. Imports from the US, rose by an annualized 20% in December 2007-February 2008, after rising 41% in the previous three months. Imports from Asia rose by an annualized 15%, while imports from the rest of the world rose by an annualized 22%. (CBS19.03)

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11: In Depth

11.1 ISRAEL: IVC's 2007 Exit Report - Summary

The following summarizes the initial public offering and merger and acquisition activity of Israeli and Israel-related high-tech companies in 2007. The information is derived from the IVC Online Database, developed and maintained by the IVC Research Center, which for more than 12 years has been at the forefront of venture capital and private equity research in Israel. Complete data will be available in the IVC 2008 Yearbook, scheduled for publication in April 2008.

In 2007, 27 Israeli high-tech companies raised $701 million through initial public offerings on US, European and Israeli stock exchanges. IPO dollar volumes have been relatively stable in the past three years: $692 million was raised through IPOs in 2006 and $694 million in 2005.

Noteworthy offerings in 2007 include BigBand, Mellanox and Veraz, which raised $160 million, $117 million and $72 million, respectively. All three companies were listed on NASDAQ. VC-backed companies raised $538 million in 13 IPOs, including the three companies mentioned above.

M&A activity involving Israeli companies that were either acquired or merged totaled $3.2 billion in 2007 in 75 deals – the second highest number of M&A deals in any one year to date. Dollar figures for 2007 show a 67% decline from 2006's unusually high $10 billion, still the third highest dollar amount of M&A activity since 2000.

The most noteworthy M&A deals of 2007 were AOL's $363 million acquisition of Quigo; IBM's acquisition of XIV, estimated at $300 million; and NICE Systems' $280 million acquisition of Actimize. Mergers and acquisitions of VC-backed Israeli companies in 2007 totaled $1.9 billion and consisted of 32 deals. Included were the acquisitions of Quigo and Actimize.

According to IVC General Manager Guy Holtzman, “In times of uncertainty in capital markets, exits generally take place through M&A transactions rather than IPOs. Global technology firms with operations in Israel may well take advantage of the current economic situation and expand their local activities through acquisitions.”

Israeli companies were also on the acquiring side in some 60 deals in 2007, including about 20 where one Israeli company acquired another Israeli company, and nearly 40 acquisitions of foreign companies. Israeli companies spent $2.15 billion on mergers and acquisitions in 2007, of which $1.96 billion was for acquisitions of foreign companies.

IVC Research Center (http://www.ivc-online.com) is Israel's leading research center providing business leaders with an unmatched wealth of data on Israeli venture capital, private equity and high-tech industries. IVC products and services are used regularly by venture capital funds, private investors, high-tech companies, financial investors and institutions, as well as public entities such as the Office of the Prime Minister, the Central Bureau of Statistics, the Bank of Israel and the Office of the Chief Scientist. Among IVC products and publications are the Quarterly Survey, which examines capital raising trends by Israeli high-tech companies; the quarterly Israel Venture Capital Journal (IVCJ), which reviews developments in the venture capital, private equity and high-tech industries; and a comprehensive online database containing over 5,500 Israeli high-tech companies, venture capital funds, investment companies and technology incubators, as well as news updates and lots more. (IVC25.03)

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11.2 LEBANON: Banking on Stability

Though having enjoyed an excellent year in 2007, Lebanon's banks should look to the future with some degree of trepidation, according to a series of reports issued recently. While praising the Lebanese banking sector for the high level of resilience it has shown over the years, particularly in the face of ongoing political instability, a Standard & Poor's report released on March 17 warned that an unwinding of state finances would hit the sector badly. "The Lebanese government's high indebtedness, fiscal deficit, and fragile political stability pose a serious threat to any bank in the system," commented Paul-Henri Pruvost, a credit analyst with Standard & Poor's.

The high level of sovereign risk exposure by three of Lebanon's leading banks - Audi Saradar Group, Bankmed, and Blom Bank - leaves them particularly open to difficulties in the event of a meltdown of state finances, while directly affecting their credit ratings, the report said. Pruvost said Lebanon's banks could see their ratings lowered should civil unrest break out or should the political impasse cause protracted policy inertia. Conversely, there could be an upwards movement if pressure on both the political and economic fronts eased.

However, all signs suggest that the political impasse cited by Standard & Poor's isn't going to go away any time soon.

In a televised interview on March 23, parliamentary speaker Nabih Berri made it clear he had no intention of convening the parliament to elect a new head of state provided there was a major shift in the political spectrum, something he acknowledged would not happen in the short term. Parliament had been scheduled to meet on Mach 25, following 16 previous attempts to bring deputies together to vote for a new president. Two days earlier, Berri's office issued a statement saying that he would not recall parliament while Prime Minister Fouad Siniora's government remained in office, on the grounds that it lacked any legitimate executive authority.

Lebanon has been without a head of state since Emile Lahoud stepped down from his post on November 24. Though both the government and the opposition have signaled agreement on General Michel Suleiman, the Lebanese chief of staff, as Lahoud's successor, opposition demands for a government of national unity including some of its parliamentary deputies, a move rejected by Siniora and his supporters, have resulted in a political deadlock.

Quite apart from the complexities of the political situation, the Lebanese banking sector faces other challenges, including a relatively high ratio of non-performing loans at 8.5% of total loans outstanding, and a high level of dollarization, estimated to be around 70% of total holdings, leaving it exposed to currency market fluctuations.

However, despite all the strikes against it, the sector is holding up well. In 2007, the sector's consolidated assets rose by 10.7%, reaching $82.3bn, almost three times the country's gross domestic product (GDP), with customer deposits hitting 65.9bn just before year's end and earnings up by 22%, according to the Central Bank. The Central Bank's own foreign currency reserves rose to $13bn at the beginning of 2008, with a further $8bn in gold holdings, a healthy cushion to soften any blows to the financial system, given the rise in international gold prices.

That said, Lebanon's banks have cause to be concerned by a study released mid March by investment bank Credit Suisse, which projects at least two years of sluggish growth for the country's economy. According to the report, GDP will rise by just 3% this year and 4% in 2009, well below the 5.6% and 5.7% predicted respectively for the rest of the Middle East and Africa region. Credit Suisse's estimates assessed Lebanon's growth rate as being the second lowest for the region ranked 21st out of 25 emerging markets.

Critically, the report predicted little recovery in state debt for 2008 and 2009, saying it would hover between 157% and160% of GDP for the next two years. As Lebanon's banks are heavily exposed to government papers, this too will be a matter for lingering concern. At least one Lebanese bank is looking to shore up its position, with Bank Audi in preliminary talks with Egypt's EFG-Hermes over a possible merger. Bank Audi issued a statement on March 18 confirming rumors that it was discussing a merger, which it said could "generate significant commercial and financial synergies" if carried out.

EFG-Hermes already has a 20% stake in Bank Audi, which currently operates in 10 countries as part of its strategy to limit its exposure to fluctuations in its home market. Moves such as that by Bank Audi to broaden its base could strengthen the sector, according to Standard & Poor's. "If the drive for geographic expansion proves successful in dramatically reducing Lebanese banks' dependency on government debt, the ratings on the banks may improve in the long term," said Pruvost. (OBG24.03)

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11.3 IRAQ: Progress on Economic Front

The IMF reported on Iraqi economic progress in its annual report. Inflation, which spiked at 65% at end-2006, was sharply reduced with a policy package that included exchange rate appreciation, monetary tightening, and fiscal discipline. These policies, together with measures to reduce fuel shortages that resulted in declining black market fuel prices, limited the increase in consumer prices to less than 5% during 2007. Core inflation, which excludes fuel and transportation prices, fell to about 12% from 32% in 2006. Because of security conditions, however, the implementation of the public investment program fell short of budget plans, and oil output and economic activity in general did not expand as much as was hoped. Before oil exports through the northern pipeline to Turkey resumed in the last quarter of 2007, oil production hovered around 2 million barrels per day (mbpd). The shortfall in oil production was offset by higher world market prices. Iraq's international reserves position has continued to strengthen, allowing the country to repay in advance the full amount outstanding from a 2004 loan under the IMF's Emergency Post-Conflict Assistance, which preceded the first Stand- By Arrangement.

Aside from improving macroeconomic stability, Iraq also made progress on structural reforms. The authorities significantly increased the initially very low domestic official fuel prices to levels that are in line with those in the region's other oil-exporting countries. Direct subsidies on fuel products, which amounted to almost 13% of GDP in 2004, were eliminated in 2007, except for a small subsidy on kerosene. This has released much-needed resources for reconstruction and reduced the incentives for smuggling fuel products out of the country.

Other achievements include amending the new pension law to make the pension system fiscally sustainable and modernizing the payments system.

Aiming For Stability

Maintaining macroeconomic stability remains a key objective of the authorities' program for 2008. The Central Bank of Iraq will gear its monetary and exchange rate policies toward achieving this objective. Fiscal policy will help contain inflation by keeping current spending, notably the wage and pension bill, in check to limit pressure on Iraq's small non-oil economy. The envisaged increase in government investment, in view of its high import content, should have only a limited impact on inflation. In light of Iraq's large reconstruction needs, the government has prepared an ambitious investment program for 2008. It is taking steps to speed up projects that could not be undertaken in previous years, in particular to rebuild infrastructure and improve the provision of electricity, water and sanitation, education, and health care. Provided that further security improvements allow execution of the public investment program and a return to a more normal functioning of the economy, economic activity outside the oil sector should pick up.

Raising oil production will be crucial to provide the resources needed for reconstruction over the medium term. The authorities' program will also focus on the oil sector and the need for higher investment to raise output and for greater transparency. Raising oil production will be crucial to provide the resources needed for reconstruction over the medium term. Projects to increase production and export capacity in the south and better protect the northern export pipeline are either under way or planned. With continued exports through the north, oil production is projected to increase to 2.2 mbpd in 2008, helping to boost economic growth overall to about 7%.

Following the installation of a metering system in the Basra export terminal, metering systems in other ports and oil installations are also being put in place... Under the new program, restructuring Iraq's banking sector will be a major challenge. The sector is dominated by state-owned commercial banks, which account for 90% of the banking sector's total assets (70% for Rafidain and Rasheed banks alone). The banks lack expertise in commercial banking and market finance. There is very little extension of credit to the private sector, and the banks' asset composition is heavily tilted toward government securities.

Outlook Hinges On Security

Iraq's medium-term outlook is favorable, provided security continues to improve. Significant progress was made in stabilizing the macroeconomic environment and in advancing the structural reform agenda. Continued progress, however, will depend on the success of efforts to stabilize the security situation and strengthen political consensus. (IMF 21.03)

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11.4 UAE: Northern Emirates - Addressing Energy Demand

Shortages in supplies of energy feedstock are causing problems for the Northern Emirates, forcing the authorities to address water and energy demand. As reported by the Oxford Business Group, the UAE as a whole is among the highest consumers of energy and water per head in the world. Water consumption in the UAE is currently running at 130 gallons per person per day, while energy consumption is around 20,000 KW per person per year. According to the World Wildlife Fund, the UAE has the highest per capita ecological footprint in the world, at 29.4 acres per person.

The impact of consumption falls unevenly however, with the Northern Emirates most exposed to increases in demand. Electricity in the Northern Emirates is sold at a subsidized price of around 15 fils per kilowatt-hour (kWh), well below the average annual cost of 70 fils, Khaled Al Awadi, gas operations manager at the Emirates General Petroleum Corporation (Emarat), told local press. By comparison, consumer rates in Dubai and Abu Dhabi are marked down by only around 10% during the summer, he said.

The difference relates to the ease of acquiring feedstock in varying regions. Al Awadi estimates the UAE's total natural gas supply to be around 4.5bn cubic feet per day, a figure some analysts say is around 1bn cubic feet below demand. Whereas Abu Dhabi and Dubai are able to meet some need from their own resources, the Northern Emirates are not so fortunate. They have been forced to meet shortages by burning liquids (diesel, liquefied petroleum gas, crude, medium fuel oil or kerosene) or even resorting to coal.

This is a far from ideal solution, as liquids are both more polluting and less energy efficient. The cost per MW for liquid generated power is also much higher, hence the Northern Emirates' large subsidies. Problems in securing supply from Qatar via the Dolphin Energy project (currently supplying 2bn cubic feet per day to the UAE) mean the situation is likely to deteriorate further.

Umm Al Qaiwain in particular is beginning to feel the pinch. In a region as water-scarce as the Gulf, feedstock scarcity affects not only energy supply, but also water availability. A planned $54.5bn desalination plant in Umm Al Quwain, for example, is currently stalled due to a chronic shortage of energy feedstock.

The plant, to be built by Imdad, a joint venture between the Umm Al Quwain government and Saudi Arabia's Al Rajhi Investment Group, has exclusive rights to supply a number of new developments planned across the emirate: Al Salam City, developed by Sharjah-based Tameer; Dubai-based Emaar's 2000-acre Marina project; and White Bay, developed by Al Murjan Real Estate, a joint venture between Sheikh Abdullah bin Rashid Al Mualla, deputy ruler of Umm Al Quwain, and Sheikh Tariq bin Faisal Al Qassimi, chairman of the Emirates Investment Group. The combined value of these projects is an anticipated $14bn, bringing in a total of $12.7bn in foreign direct investment (FDI) in 2007 alone, making them vital to Umm Al Quwain's development.

The plant was originally scheduled to come on stream in 2009, but is on indefinite hold due to ongoing difficulties in securing electricity supplies.

The Federal Electricity and Water Authority has, until recently, been in charge of securing all energy and water for the Northern Emirates. Responsibility for securing electricity is now shared with the Abu Dhabi Water and Electricity Authority (ADWEA). There have been widespread calls for greater privatization throughout the UAE's energy and water sector and private developers are reportedly being told that they must source and supply feedstock for new plants themselves.

However, the Federal National Council (FNC), meeting earlier in the month, rejected a draft law to privatize the electricity and water sector in the Northern Emirates. Yousuf Al Nuaimi, an FNC member for Ras Al Khaimah, said privatization in the Northern Emirates would send rates as high as 90 fils per kwh, compared to 7.5 for Abu Dhabi. "Privatization of electricity would be a fatal blow to Emiratis, it would mean higher bills for consumers, hitting the ordinary people the hardest, and as such I reject this law," he said.

As an alternative step to curb demand, the Sharjah Electricity and Water Authority (SEWA) launched a year-long power and water conservation campaign this month. The campaign will focus on spreading awareness through media advertising, public events and even Friday sermons. It remains to be seen though how much impact such a campaign can have: much of the Northern Emirates' high demand for water and electricity comes not so much from individual usage, as from the raft of resource-hungry new construction projects currently underway. (OBG19.03)

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11.5 PERSIAN GULF: Exchange Rate Policies - A New Challenge to American Preeminence?

INSS Insight noted that like hundreds of other decisions taken by the Organization of Petroleum Exporting Countries since it was formed 47 years ago, the decision taken lately ago not to respond to American urgings to boost oil production came in for heavy criticism by the U.S. administration. In many previous cases, OPEC refrained from open confrontation with the U.S. This time, however, the cartel chose to rebuff American claims with unprecedented forcefulness. The President of OPEC, Chakib Khalil, argued that nervousness in the oil market stemmed from the “mismanagement” of the American economy and that the jump in oil prices reflects, not inadequate supply, but rather the weakness of the dollar and the prevailing uncertainty in the financial markets.

That response and Khalil's focus on the sad state of the dollar are not coincidental. They reflect the deep frustration of the oil producers – especially those in the Gulf – with the damaged caused to their economies by the erosion of the dollar. True, the Gulf states are experiencing extraordinary economic growth due the rise in oil prices (which is partly due to the falling dollar), but that growth is accompanied by inflation which is expected to accelerate as long as the dollar keeps falling and the U.S. Federal Reserve Bank maintains low interest rates. Official inflation statistics for February show that the annual rate of inflation in Saudi Arabia is 8%. In the United Arab Emirates, the figure reached 11% in 2007, and in Qatar it was over 14%. Bahrain and Oman, oil producers which do not belong to OPEC, also suffer from high inflation rates.

The tight linkage between the value of the dollar and the inflation afflicting the Gulf oil producers stems, among other things, from the exchange rate policies of the Gulf states. Local currencies in those states are pegged to the dollar, so a weakening dollar leads to real erosion in the local currencies and causes the prices of imported goods to rise. By the same token, pegging local currencies to the dollar forces the Gulf states to adopt the monetary policy of the U.S. Federal Reserve, which has been trying recently to extract the American economy from a crisis by aggressing lowering of interest rates. As a result, the Gulf states, rather than raising interest rates in order to cool economic growth and combat inflation, are forced to follow the Fed and lower interest rates. Lacking effective monetary instruments of their own, local governments have to respond to the blow to real wages of their citizens by raising wages in the public sector and expanding subsidies on a variety of goods. In other words, Gulf states pursue a cyclical (rather than counter-cyclical) policy, which many economists argue is prescription for further inflation.

The publication of recent inflation figures, along with growing signs of recession in the United States, strengthened those voices in the Gulf calling for central banks to emulate the example of Kuwait, which decided in 2007 to decouple the dinar from the dollar and link to instead to a basket of currencies. The central banks of Qatar and the UAE have denied rumors to the effect that they intend to end the dollar peg in their countries. But they have also admitted that recent developments oblige them to reassess exchange rate policies.

Any announcement of a change in exchange rate policies by a Gulf oil producer would be the last thing the United States needs right now. Such a step would indicate a permanent decline in demand for the dollar by any state that decided to delink. Worse, it would signal an additional loss of confidence in the American currency. Consequently, the prospect of a change in exchange rate policies would not only pose economic challenges; it would also imply political dilemmas.

Of the six Gulf Cooperation Council members (Saudi Arabia, Kuwait, UAE, Oman, Qatar and Bahrain), Saudi Arabia has been the most outspoken advocate of the current exchange rate policy. In November, Saudi spokesmen poured cold water on Iranian President Mahmoud Ahmadinejad's claim that oil should no longer be priced in dollars because the dollar had become “worthless piece of paper.” More recently, official Saudi representatives have tried to play up the advantages of pegging local currencies to the dollar. For one thing, they claim that dollar-linkage has served the caused of economic stability in the Gulf states for many years and that it is necessary to attract foreign direct investment. Moreover, Saudi Arabia holds billions in dollar-denominated assets and it therefore has no interest in any measure that could further damage the American dollar.

However, notwithstanding Saudi declarations to the effect that any change in exchange rate policies would be decided unanimously by the five GCC members still linked to the dollar, it is entirely possible that one of the other members will find it increasingly difficult to withstand the economic and political pressures resulting from inflation and will choose to delink. Inflation in the smaller Gulf states is more sensitive to changes in the value of the dollar than it is in Saudi Arabia because more of their food is imported. Consequently, regimes there cannot remain indifferent to double-digit rises in the prices of basic foods.

A further fall in the value of the dollar would intensify the domestic political pressure by many groups demanding a change in exchange rate policies, though it is also likely the pace of high-level American visits to the Gulf states would also pick up. The way in which the Gulf states deal with the contradictory political pressures will have a short-term impact on the value of the dollar and on the performance of the global economy. Beyond that, any change in exchange rate policies would also have longer-term economic and political implications, because it could mark a significant first stage in the reassessment of the dollar-pricing system for oil. ((INSS Insight 27.03)

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11.6 BAHRAIN: Indexing Success

Dubai may still be seen as the leading financial centre in the Gulf region, but Bahrain is closing the gap, despite the far greater resources its United Arab Emirates (UAE) rival can channel into attracting big business to its shores. Although the kingdom has invested heavily in technology to boost output from its existing oil fields and opened up new offshore blocks for exploration, Bahrain is a net importer of fossil fuels. Bahrain has long foreseen the dwindling of its energy resources, and has committed to developing new industries and working to bolster existing strengths, such as its financial sector.

According to the Central Bank of Bahrain, the financial sector now contributes more than 25% of the kingdom's gross domestic product, which stood at $15.7bn last year. Projects such as the $1.5bn Bahrain Financial Harbour (BFH), a development covering nearly 400,000 meters of waterfront land in Manama, marketed as a self contained financial and business city, as well as investments to boost communications and technology infrastructure, have helped to enhance Bahrain's appeal to local, regional and international business.

These ventures appear to be paying off. In the City of London Corporation's latest Global Financial Centers Index (GFCI), released at the end of February, Bahrain was shown to be the biggest mover, not only in the Gulf but globally. The study assessed the 50 top-rated financial centers around the world using the competitiveness criteria of people, business environment, market access, infrastructure and general competitiveness. Bahrain ranked at 39th this year, a jump of three places since the previous GFCI report in September.

While Dubai held on to the highest rung on the Gulf ladder, at 24th place, the emirate slipped two spots on the GFCI rankings, while Bahrain's other regional rival, Qatar, dropped three places to 47th. Internationally, Bahrain leapfrogged Asian powerhouses Mumbai and Beijing, along with Johannesburg, in terms of competitiveness. The improved ranking for Bahrain represents a major achievement, given that it failed to even make the top 50 in the first GFCI report, issued in March 2007, as did Qatar. However, Bahrain has little room for complacency, with the GFCI study identifying Dubai as a key and growing regional hub, which was tipped to become significantly more important over the next few years.

Qatar too has been gaining international prominence of late, with Qatar Holding, an arm of the Qatar Investment Authority, gaining a major stake in the London Stock Exchange and dabbling with exchange operator OMX before Dubai and NASDAQ teamed up to take a controlling interest in the Nordic bourse.

One area, however, where Bahrain appears to have a decided edge is in Islamic financing, a form of business pioneered by the kingdom that has now gained international acceptance. Its credentials as both an Islamic and international financial hub were given a boost in early March when the Islamic Bank of Asia (IB Asia), Singapore's first Islamic bank, announced it would be basing its Middle Eastern operations at the BFH. Ala Abu Mughli, the bank's senior vice president for corporate banking and its chief representative in the Middle East, said IB Asia had chosen Bahrain as its regional base due to its strategic location and BFH's strong focus on the financial sector. "With all the benefits that the BFH address offers, we feel confident that we will get off to a good start," he said.

Bahrain may not have the energy dollars of Qatar or the overall revenues of Dubai to spend on building business complexes at home or buying them abroad, but its rapid move up the GFCI, in addition to the steady influx of firms and banks to the kingdom, suggest its influence as a business and financial centre is set only to grow. (OBG28.03)

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11.7 OMAN: Back to the Mines

Oman's mining sector, one of the sultanate's oldest industries, is in the midst of a revival. The Oxford Business Group reports that high global mineral prices have been driving profits and attracting new investments.

On March 17, SAG Sohar began production of aluminum bars at its new plant at the port city of Sohar. A joint venture between Takamul Investment Company, the investment arm of the Oman Oil Company, and Salzburger Aluminum of Austria, the plant will have the capacity to handle 30,000 tons of aluminum per year and will receive material from the nearby Sohar aluminum smelter. One day later, Brazilian mining company Vale announced negotiations with the Omani government to establish an iron ore pellet plant at Sohar were in the final stages. However, this project relies on raw materials being imported to Oman for processing, rather than minerals extracted locally.

Mining in Oman dates back some 4,000 years, with archaeological evidence showing copper was both extracted and smelted in the region in ancient times. Though much of its known copper reserves have been played out, new mineral finds are being made, along with increased reserves of gold and silver.

However, since the discovery of oil and gas in Oman, mining has taken something of a back seat to energy in the economy. In recent years, Oman has been working to broaden its industrial base to include many downstream facilities in the minerals sector. While the domestic mining industry is unlikely to eclipse the energy industry, or to rival the billions of dollars worth of downstream developments already built or on the drawing board, it is again starting to make news.

In mid-March, the Oman Chromite Company released its 2007 annual report, which showed the group had enjoyed a bumper year, with total production of chromite ore topping 20,000 tons and export earnings increasing by 36%. Ahmed bin Mohammed Al Mohammed, Oman Chromite's chairman, said the higher returns had been driven by the growing demand for metallurgical ore throughout the past year. Just as significantly, Al Mohammed announced the firm was seeking licenses from the government to exploit newly identified reserves in previously untouched regions.

While Oman Chromite is seeking to build on past success, a new joint venture is looking to create a success story of its own. In mid-January, Indian metals giant Tata Steel signed on with Oman's Al Bahja Group to establish a joint venture to explore and develop the Uyun limestone deposits in Salalah, in the south of the sultanate.

Under the agreement, Tata will take a 70% stake in Al Rimal Minerals, with the remainder held by Al Bahja. Initial estimates suggest it could extract 10m tons of limestone annually from the Uyun mine within four years, with investment in the project rising to $150m. The joint venture will create more than 1000 jobs, most of which, with the exception of a few expert personnel, will go to Omani nationals.

Tata, the world's sixth-largest steel manufacturer, will use the limestone extracted in its production facilities in India. According to B Muthuraman, the managing director of Tata Steel, the company was attracted to Oman by the high quality of its limestone. "We currently use limestone from India but the deposits here seem to be of higher quality and whatever comes here can be used by us," he said. Muthuraman also said he felt the new joint venture would "play a significant role in the mineral development of the sultanate of Oman".

In addition to limestone, Oman possesses another key natural asset - coal. In January, the government announced it was considering building a coal-fired power station to help meet the country's growing demand for electricity.

While other countries in the region are pondering similar projects, Oman has one advantage over the rest of the Gulf. Though its neighbors would have to import the fuel for any such power stations, Oman has identified reserves of 122m tons of coal, mostly in the Wadi Muswa and Wadi Fisaw areas near the city of Sur, according to the ministry of information. Though these deposits have not yet been exploited, Oman has them it its back pocket, another asset for a mining industry that is on the rise. (OBG24.03)

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11.8 SAUDI ARABIA: Sovereign Fund Plans

In a bid to diversify its income, Saudi Arabia is in the early stages of creating a small sovereign wealth fund (SWF). However, as reported by the Oxford Business group, given recent calls from the EU for more transparency from state-run funds, the kingdom may have to tread carefully to avoid creating international economic tensions.

Plans for the Saudi fund first emerged in January from Muhammad Al Jasser, vice governor of the Saudi Arabian Monetary Agency (SAMA). "The ministry of finance is looking into a new fund," Al Jasser told the press at the World Economic Forum (WEF) in Davos. He explained that the process of setting up a fund will be deliberately slow to prevent negative repercussion from places like the US and parts of Europe. "There's too much populist bias now against emerging market sovereign wealth funds," he said.

Hamad Al Sayari, governor of SAMA, told OBG, "At this stage it is on the drawing board and it's not going to be sizeable. It will be around $6bn only and run by the Public Investment Fund (PIF)." The PIF was set up in 1971 to provide financing for domestic productive projects to develop the national economy and has a "wealth of experience in investing domestically."

As SWFs are entities that manage state savings for the purposes of investment, a healthy national current account surplus is a prerequisite. Saudi Arabia is enjoying unprecedented wealth, with a current account surplus of more than $95.5bn and foreign asset reserves above $250bn. Historically Saudi has "used surpluses and reserves as a counter to cyclical changes in government spending", according to Al Sayari. Until recently, the kingdom was not in a position to worry about what to do with surplus cash. Government debt had weighed heavily on the country's ability to invest, but this trend has been turned around and high oil prices have led to mounting reserves.

According to John Sfakianakis, chief economist at SAAB bank, debt, which peaked in 1999 at 119% of Gross Domestic Product (GDP), has been steadily reduced over the years. Thanks to record petrodollar prosperity, debt at the end of

2007 stood at 19% of GDP, down 9% compared to 2006.

Naturally, reduction in debt and continued economic growth means more funds will be available for investment. This led some industry experts to believe the nation could create a mammoth sovereign wealth fund. But Al Sayari told OBG that the kingdom's primary concern "is to focus on domestic development, economic diversification and job creation". The country's idea to invest abroad is, at this early stage, going to be kept aside. Given the country's potential for creating a large fund, this will be welcome news to some foreign countries that are weary of sovereign funds.

European officials, along with concerned US-based politicians, are saying that they welcome the influx of capital, especially with the current erosion in credit confidence. But they would prefer to see this investment process in transparent terms. The reason for this is that countries like Germany and France worry that funds from the Middle East, Russia and China may be investing in Europe to flex political muscle over strategic companies such as utilities, instead of purely maximizing government wealth.

SWFs have grabbed the limelight lately, mainly due to the size of some acquisitions. The Abu Dhabi Investment Authority (ADIA), which is allegedly the world's largest fund, controls around $875bn in assets. Investments such as its $7.5bn share in troubled Citigroup received plenty of attention. Now comes word of another development with UBS of Switzerland facing a $14bn write down on its portfolio of mortgage debt. Speculation is that Saudi Arabia is ploughing $1.7bn into UBS to restore its balance sheet. Some view this as proof that funds in the region have become too influential.

In September 2007, Morgan Stanley estimated the total assets of SWFs at nearly $3trn, surpassing the $1.5trn managed by hedge funds worldwide. Figures like these are viewed as a double edge sword in the West. On the one hand, it is a great opportunity to avail of capital in times of a tight credit market. But on the other hand, there may be a risk that some funds could be used for "non-commercial reasons," as Al Sayari pointed out.

One strategy that could be undertaken by any Saudi fund to prevent a contentious situation with its allies in the West would be to concentrate on non-dollar assets. However, whatever the strategy, it is the kingdom's ability to stay in the black that will determine how large any fund could become.

Speaking on the nation's fiscal future, Al Sayari said, "I expect to see budget surpluses in the coming years." This coupled with SAAB's conservative forecast of budget revenues of $120bn in 2008 means the financial backbone is there, should Saudi's SWF strategy develop more aggressively in the future. A state-run wealth fund, developing slowly over time, could play a significant role in diversifying the country's wealth away from oil, while providing a soft landing when hydrocarbon income subsides. (OBG20.03)

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11.9 EGYPT: Strengthening the Russian Connection

Egypt and Russia are determined to strengthen their relationship. The Oxford Business Group observed that Russian Minister of Industry and Energy Viktor Kristenko's recent visit to Cairo highlighted Russia's interest in Egypt as an investment destination, an engagement to which President Hosni Mubarak responded positively, as he flew to Moscow soon after to sign an agreement laying the foundation for nuclear energy cooperation.

Total trade volume between Egypt and Russia increased by 50% in 2007, reaching $2.1bn. The north African country imported around $1.9bn worth of Russian goods last year, compared to $1.1bn in 2006, according to the ministry of industry and trade. Chief imports were wood and wooden products, iron and steel, wheat, paper, cars and car components. Russia is also an important tourism market for Egypt, with 1.5m Russian visitors traveling to the land of the Pyramids last year. In comparison, Egyptian exports to Russia are considerably lower, having reached a mere $183.5m in 2007 against $100m in 2006. Russia buys fresh fruit and vegetables, rice, oil seeds, carpets, steel products and raw flax from Egypt.

Trade between the two countries is set to further increase. Rachid Mohamed Rachid, the minister of trade and industry, was reported as saying that the objective is for bilateral trade with Russia to reach $2.5bn by 2011. Negotiations are currently underway to establish a Free Trade Agreement (FTA). However, despite positive intentions, accomplishing this big step depends, in large part, on Russia becoming a member of the World Trade Organization (WTO).

Still, Egypt is keen on attracting further Russian investment, as testified by the planned 1m square meter Russian industrial zone, to be located on the Mediterranean coast. The government aims to attract up to 80 Russian companies and $1bn in investment, according to international media. However, a timeframe for when the project will be operational has yet to be announced.

But the most ambitious project to date is an energy deal. On March 24, Egyptian president Hosni Mubarak flew to Moscow to conclude an agreement that will give Russia the opportunity to participate in the development/revamping of the North African country's first civil nuclear program. Egypt abandoned atomic energy in the aftermath of the 1986 Chernobyl disaster, but decided in 2006 that the country needed three to four nuclear power plants to diversify its energy sources. Quelling Western fears about a nuclear build-up in the Middle East, Mubarak underlined that Egypt would pursue nuclear energy for peaceful means only. The US ambassador to Cairo Ricciardone supports Egypt's decision.

However this does not mean that Russia will be the chosen partner. The agreement will allow the country to take part in the bidding for the construction of nuclear plants and the supply of nuclear fuel. But Russia will be competing with other countries such as Kazakhstan and China. The government expects the tender for the first nuclear plant, estimated at over $1.5bn, to be completed in 2009 and has said that the plant, to be built near Al-Dabaa on the Mediterranean coast 150 km from Alexandria, could be operational in 2015-16.

This might open an important door for Moscow. Russia is looking at establishing contracts to build nuclear power plants abroad as a way to reduce its dependence on oil and gas exports. The country is already building nuclear reactors worth $1.5bn to $2bn in Iran, China and India, and recently signed a contract for a $5.9bn nuclear power plant in Bulgaria.

Russia is also interested in other energy deals, namely in the oil and gas sectors. Russian Companies Novatek and Lukoil are already operating on the Egyptian market and Rachid admitted that during the meeting with his Russian counterpart, there were talks of allowing Russian gas giant Gazprom to participate in some of the new Egyptian gas projects, but did not give any details. This comes at a time when the government has announced its intention to sell new gas and oil exploration licenses. Mohamed Ezat Sakr, vice chairman for exploration and production of state-owned Ganoub el-Wadi Petroleum Company (Ganope), said that bids for the 12 areas in the Red Sea, the Gulf of Suez and the Eastern and Western deserts should be submitted by mid-July. While the Egyptian government is keen on increasing production, Russian oil and gas companies are looking to play a bigger role in the country's industry.

Other Russian companies are increasing their presence in the Egyptian economy. Russia's largest carmaker AvtoVaz announced plans to start production of Lada off-road vehicles in Egypt this summer. The company already produces cars at its Lada Egypt assembly plant. The Russian auto manufacturer said it would produce 900 off-roaders at the Egyptian plant in 2008.

Russia's interest in increasing economic ties with Egypt is understandable on two grounds. First, the country is an attractive place for Russia to diversify its energy business - it sees the industry in other countries as the type of high-technology sector it must develop to reduce its dependence on oil and gas exports. Additionally, Russia is keen to reestablish a commercial and diplomatic presence in the Middle East, and manufacturing companies wishing to export might choose to take advantage of Egypt's preferential trade agreements with Middle Eastern and European Union countries. (OBG28.03)

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11.10 TURKEY: A Tale of Two Unions

The proposed 'Union for the Mediterranean', which aims to strengthen ties between the EU and Mediterranean countries in a number of key areas such as energy and security, was approved by EU delegates on 14 March after a two-day summit in Brussels. The suspicion remains, as noted by the Oxford Business Group, that the union may represent an attempt to create an alternative scheme by opponents of Turkey's accession to the EU. The exact details of the plan, which will endeavor to improve energy supply and strengthen civil security cooperation, will be officially announced on 13 July, after France assumes the EU presidency on 1 July.

President Nicolas Sarkozy, the leading figurehead behind the concept of the 'Mediterranean Union', made it one of his key foreign policy planks in his 2007 election campaign. However, fears that the plan would be seen as a rival scheme to the EU and that it would supplant the long-standing Barcelona Process, established in 1995 with similar policy goals, led to some resistance, with opponents to the policy accusing Sarkozy of trying to defend French economic and political interests in North Africa. In the face of stiff opposition from other EU members, primarily Germany, Sarkozy was thus forced to make compromises.

The very name of the adopted plan 'The Barcelona Process: Union for the Mediterranean' highlights it as an extension of existing agreements rather than the bold new scheme Sarkozy had fervently promoted. Slovenian Prime Minister Janez Jansa, whose country currently holds the EU presidency, said, "It is not a question of burying [the Barcelona Process], to start from scratch. It's just about bringing it up to date...times have changed, we have to adapt."

Instead of featuring EU countries on the Mediterranean shore only, as initially intended, the new scheme will include all 27 EU member states and 12 countries in North Africa and Asia Minor. The project will not receive any additional EU funds to those allocated under the Barcelona Process, although Sarkozy said he intended to raise an extra €14bn in private sector funding for the project. "We have no problem with the Mediterranean Union. After all, Turkey is the country with the longest Mediterranean coastline. So we will of course look warmly on new projects, cooperation and solidarity in the region," one Turkish diplomat said.

Given the limited scale of the new scheme and as Turkey has had a trade union with the EU since 1996, the potential benefits of joining the union are comparatively modest for Ankara. Still, in the days leading up to the announcement, Turkish representatives were eager to learn whether or not the union did constitute an alternative to their country's accession to the EU. "They (the French) have given us a guarantee that the Mediterranean Union is not an alternative to Turkey's EU project, they say that idea has now been abandoned. They are sincere in this," the diplomat was reported as saying.

Their concerns are unlikely to be completely relieved until Sarkozy makes an official statement that the Union of the Mediterranean poses no barrier to future accession.

As an outspoken opponent to Turkey's membership of the EU, Sarkozy has reiterated his proposition for a 'privileged partnership', as a means of deflecting Turkish demands to continue to seek full membership of the EU. His policy is having some effect as the EU's lukewarm attitude towards its eastern neighbor has led to a marked decrease in public support for EU accession in Turkey itself. A poll by the German Marshall Fund in September 2007 found that only 40% of Turks believe EU membership would be a 'good thing' for their country, down from 73% in 2004.

In the meantime, negotiations surrounding Turkey's EU accession are continuing. On March 15, Olli Rehn, the EU Commissioner for Enlargement, confirmed that talks in at least two policy areas would begin by the end of June. The most likely topics of these talks will be the diversification of EU oil and gas routes through Turkish territory, and the upgrading of Turkey's corporate law to meet EU standards. "The EU accession process of Turkey is alive and moving forward," Rehn was reported as saying. But fears remain that an alternative EU track could derail Turkey's ambitions of becoming a full member of the coveted economic union. (OBG21.03)

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- Israeli Shekel conversions done at a rate of NIS 3.50 = $1.00

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

- Euro conversions done at a rate of € 1.00 = $1.50

- 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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