Fortnightly - June 11, 2008

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1: ISRAEL GOVERNMENT ACTIONS & STATEMENTS

1.1 Knesset Moves to Wind Down 96 Octane Use

On 2 June, the Knesset Economic Affairs Committee approved the deregulation of 96 Octane fuel as part of the process of reducing its use to zero and taking it off the energy market. The move is designed to encourage motorists to switch to more environmentally friendly fuels such as 95 Octane and 98 Octane. At present, the cars that can run on 96 Octane gasoline only are models produced up to 1993, which were not fitted with converters and have outdated technology with no fuel consumption regulation. Between 2000 to 2007, use of 96 Octane fuel in Israel decreased from 39% to 7%. According to Ministry of Transport figures, there are just 7,000 cars left in Israel that run solely on 96 Octane fuel, 0.5% of all cars on Israel's roads. The Transport Ministry says that motorists using 96 Octane fuel do so, not because of manufacturing specifications, but because of the fuel additives, and the fact that it is almost the same price as 95 Octane fuel. (Globes 03.06)

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1.2 Jerusalem Budgets $600 Million for Water Shortage

Minister of National Infrastructures Ben-Eliezer says that Israel's water troubles are all but solved, now that the government has approved his two-billion shekel program. The government voted to pass the four-step program at its weekly meeting on 1 June. The four elements of the program are as follows:

1. $36.36m for water conservation activities, such as promoting water conservation awareness and a new water price schedule.

2. $277m over the next five years for water recycling

3. Increasing desalinated water to 600 million cubic meters by 2013, and to 750 million cubic meters by 2020. Currently, 138 million cubic meters are desalinated yearly in Ashkelon and environs, and a plant in Hadera is being built that can process another 100 million.

4. The establishment of a government task force staffed by members of the Finance, Infrastructures and Justice Ministries, as well as representatives of the Interior Ministry's planning administration and the Israel Lands Authority.

Following a particularly dry rainy season this past winter - rainfall was only 65% of the yearly average, and under 60% in some places - Israel's largest reservoir, the Kinneret (Sea of Galilee) is left at a dangerous low. It currently stands at 212.47 meters below sea level - 40 centimeters lower than eight weeks ago, and a full 1.3 meters lower than a year ago. If the Kinneret loses just 53 more centimeters of height, it will reach the dangerous red line, beyond which drawing water is not permitted. (INN02.06)

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1.3 Knesset Outlaws Unsolicited Spam, SMS, Auto-Callers

Israeli advertisers who send unwanted solicitations by telephone, text messages (SMS), e-mail (spam) or fax may be fined as much as $60,000, according to a bill the Knesset approved on 28 May. The new law takes effect in six months. In addition to being a nuisance for private e-mail users, spam has become a heavy burden on internet suppliers and other companies, whose bandwidth and storage capabilities need to be constantly expanded to deal with the ever-increasing bulk of spam being sent every day - estimated at more than 100b e-mails worldwide. The bill also refers to mass solicitation by fax. The law also deals with the burgeoning phenomenon of bulk SMS text messages and automatic telephone dialers, perpetrated by promotion companies that obtain large lists of telephone numbers and send out thousands of SMS messages, creating an unwanted distraction. Two basic models have been developed worldwide in attempts to contain these phenomena. One model, common in Europe, is called "opt-in," where telephone owners and e-mail owners cannot be contacted unless they have agreed specifically to receive mass solicitations. The US has adopted an "opt-out" system, where people can be called, provided they have not made a request not to be. According to figures presented in the Knesset deliberations, 74% to 87% of telephone users have opted out of automated calls. Israel's new legislation employs the stricter "opt-in" approach, with the exception that those who purchase an item and send their details to a company can be sent bulk mail if they have not specifically opted out. Another exception included in the bill allows for bulk mailing for political or charity purposes. The new law, once enacted, will allow private citizens to sue for up to $272 without proving any specific damages, or lodge a complaint with the police, who can follow up with a criminal charge leading to much stiffer penalties. (JP29.05)

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2: ISRAEL MARKET & BUSINESS NEWS

2.1 Tower Semiconductor Implements Cost Reduction Plan

Tower Semiconductor commenced the first steps of the recently announced $40m per annum cost reduction plan. Tower continues to place strong focus on cost efficiencies in order to better withstand the continuous decline in the US dollar/NIS exchange rate, foundry wafer price pressures and the overall worldwide economy. Tower additionally, has not yet received government grants relating to its cap-ex investments during 2006 through 2008, which were promised, committed and two years past due. To this end, Tower is filing a petition with the Israeli High Court of Justice targeting an approval certificate from the State of Israel for up to $80m of grants, approximately $40m of which are overdue. Migdal HaEmek, Israel's Tower Semiconductor (http://www.towersemi.com) is an independent specialty foundry that delivers customized solutions in a variety of advanced CMOS technologies, including digital CMOS, mixed-signal and RF (radio frequency) CMOS, CMOS image sensors, power management devices, and embedded non-volatile memory solutions. Tower's customer orientation is complemented by its uncompromising attention to quality and service. Its specialized processes and engineering expertise provides highly flexible, customized manufacturing solutions to fulfill the increasing variety of customer needs worldwide. (Tower Semiconductor28.05)

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3: REGIONAL PRIVATE SECTOR NEWS

3.1 MDI Announces $300,000 Product Order from Almana Networks

San Antonio, Texas' MDI announced that its MDI Security Systems Division (MDI) has received an additional $300,000 product order from international technology solutions integrator Almana Networks (Almana), based in Doha, Qatar. This product order is the seventh purchase announced this month that has been placed toward partial fulfillment of a $5m revenue commitment, made by Almana and announced by MDI on March 31st of this year. Approximately 10% of that commitment has now been fulfilled. Almana's order will be delivered to assist them in completing their network and security infrastructure project for the Barjeel Residential Tower, which is currently under construction and will be completed this year. This 64-floor skyscraper is the second largest structure in the country and is valued at $220m. The tower will house six two-story villas, two super luxury villas and the top two stories will include two world-class restaurants. MDI's Middle East office, located in the Regus Building in Doha, provides Almana Networks and its physical security and low voltage customers with sales support, sales engineering support, system design services, proposal writing, value engineering and security consulting to assist them in achieving this annual revenue commitment, which is expected to continue to generate business from new large construction opportunities in one of the world's richest and fastest growing cities (Doha, Qatar). (MDI 29.05)

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3.2 Emaar To Build One Of World's Largest Fountains

On 9 June, Emaar Properties announced plans to build one of the largest fountains in the world as the center piece of its Downtown Burj Dubai project. The developer said the fountains would be capable of shooting water over 150 meters into the air - the height of a 50-storey building - and stretch over 275 meters - the length of two football fields. The $218m project will be 25% larger than the iconic fountains at the Bellagio hotel in Las Vegas. Emaar said that like the Fountains of Bellagio its fountains would include an integral light and sound show and was expected to become one of Dubai's major tourist attractions, drawing over 10 million visitors per year. The fountains would shoot 22,000 gallons of water in the air at any given moment and feature over 6,600 lights and 50 color projectors. Being able to shoot water over 150 meters will make the fountain on the tallest in the world. However, the tallest water fountain in the world is thought to be the King Fahd's Fountain in Jeddah with a height of around 312 meters. The structure is scheduled to be operational by 2009. Downtown Burj Dubai is a $20b development that includes the Burj Dubai, Burj Dubai Lake, Dubai Mall, 30,000 homes, nine hotels, 6.2 acres of parkland and 19 residential towers. (GN09.06)

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3.3 E-Monee Commences Payroll Cards in Dubai, UAE

Boca Raton, Florida's E-Monee.com, Inc. announced the issuance of the first 11,000 payroll cards in part of the 50,000 payroll cards that are to be issued under a recently executed contract in the UAE. The payroll cards will be issued under a license obtained by E-Monee in the area and will be utilized to service the expatriate payroll program, which has been mandated by the government, which is underway in Dubai, UAE. E-Monee's program will facilitate basic financial instruments for expatriates that will secure payroll, reduce remittance costs and provide convenient access to the card holder's money. The payroll cards will be utilized at our satellite offices located in work force areas where expatriates currently reside while servicing the construction boom in Dubai. The satellite offices will also serve as the point of contact for disbursement, education, training and support of the program. The satellite offices also provide convenient access for card holders' to utilize their payroll cards and access our ATM and POS cash disbursement network.

E-Monee's core product is a hybrid that integrates technology and global telecommunications with banking. The result is a Global Electronic Treasury System which facilitates the instantaneous and affordable collections, movement, disbursement and deposit of funds for individuals and companies located worldwide. Within the dynamic electronic payments arena E-Monee is penetrating untapped niche markets which are in need of replacing cash, checks and antiquated systems. (E-Monee04.06)

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3.4 Saks Incorporated Announces Opening of Saks Fifth Avenue Men's Store in Dubai

Building upon its two other successful ventures in the Middle East, retailer Saks Incorporated announced the opening of a 15,000 square foot Saks Fifth Avenue men's store at The Walk at the Jumeirah Beach Residences in Dubai, United Arab Emirates. The new men's store will complement an existing 80,000 square foot full-line Saks Fifth Avenue store located in the prestigious Bur Juman Centre in the thriving port city of Dubai in the UAE which opened in 2004. Saks Fifth Avenue in Riyadh, Saudi Arabia opened in 2001. The Dubai men's store is congruent with the Saks Fifth Avenue men's departments and separate men's stores in the United States in both product and service, while catering to local tastes and preferences. The unique store includes distinctive offerings from established and emerging American and international designers and presents a sought-after collection of fine designer apparel, shoes and accessories catering to customers with an appetite for advanced fashion as well as those who prefer more classic lines. Saks Fifth Avenue is known for its extraordinary personalized customer service, and the Dubai men's store will offer the Fifth Avenue Club (its complementary trademark personal shopping service), luxurious fitting rooms and a lounge with wireless internet connectivity.

A group of well-established businesses in the Middle East, Al Mana Group, Chalhoub Group, Damas Jewellery and Kapico Group, formed Style Avenue Middle East in 2003. Style Avenue Middle East has exclusive rights to own and operate Saks Fifth Avenue stores in the United Arab Emirates, Qatar, Kuwait and Bahrain under the license agreement with Saks Fifth Avenue. Al Mana Retail W.W.L, a group of diversified companies with interests in automotive, retail, investments and real estate. The Chalhoub Group, which is synonymous with luxury brands throughout the Middle East. This group owns and operates free-standing boutiques including Louis Vuitton, Chanel, Christian Lacroix and Ralph Lauren. They are the largest distributor and retailer of cosmetics and fragrances in the Middle East. Kapico Group, a partnership of the Al Ghannam and Handa families of Kuwait, with interests in automotive, engineering and construction, healthcare, and retail. (Saks04.06)

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3.5 Maui Wowi Hawaiian Continues International Expansion via UAE Master Franchise Signing

Denver, Colorado's Maui Wowi Hawaiian, the premier destination for authentic Hawaiian products on the mainland, announced it has expanded its worldwide corporate “ohana” (family) to the United Arab Emirates (UAE) through the signing of a new master franchise agreement with Dubai Enterprises LLC. The agreement extends the Maui Wowi Hawaiian brand to an exciting new region of the globe and further strengthens the reach of one of the best-known smoothie, coffee and Hawaiian product franchises. Dubai Enterprises, led by Partner and General Manager Yahya Almazrouei, is a diversified real estate development firm ($20m portfolio) that also owns and operates franchises and distributorships in a number of industries. Maui Wowi exhibited at the U.S. Franchise Development Conference which took place in Cairo, Egypt on October 24-25, 2007. The objective of the conference, sponsored by the U.S. Commercial Service and Egypt's International Economic Forum, was to introduce new American franchise concepts to countries in the region. Dubai Enterprises intends to open its own chain of Maui Wowi retail outlets as well as to sell its own sub-franchises to entrepreneurs throughout the UAE. The first locations are anticipated to open on Sheikh Zayad Road in the heart of Dubai's business and hotel district, and in the Emirates Mall. Future locations under consideration include the Dubai Mall and Metro Dubai train stations. (Maui Wowi 05.06)

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3.6 RIT to Set Up Campus in Dubai

Rochester Institute of Technology (RIT – US), one of the world's leading universities, will establish a campus at the Dubai Silicon Oasis under a deal signed on 9 June. Dr Destler, president of RIT, signed the agreement on behalf of the US-based private university of higher education while Sheikh Ahmed bin Saeed Al Maktoum, chairman of Dubai Silicon Oasis Authority, represented DSO. The agreement establishes RIT Dubai as a world-class university with an unwavering commitment to academic excellence. The university will open in August 2008. Dubai Silicon Oasis has allocated around 3 million sq ft of land for the development of a fully fledged Academic Complex comprising the university campus, an academic centre, dormitory, and recreational facilities for students and the faculty. Furthermore, RIT will provide academic content, oversee the management of the university and provide its internationally recognized and certified degrees. The development of RIT Dubai will be undertaken in two phases; the first will offer Masters Degrees at the DSOA Headquarters, while the second will offer Bachelors degrees within the university campus in the Silicon Oasis. (TradeArabia 09.06)

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3.7 Dunkin' Donuts Opens Biggest Kitchen Complex In Sharjah

Dunkin' Donuts has opened the company's largest commercial kitchen and warehouse complex in the Middle East region in Sharjah. The complex, built on an area of 30,000 sq ft, is the company's biggest facility of its kind outside the US. Sharjah's new $5.17m Dunkin Donuts kitchen and warehouse complex will produce the full range of donuts in 50 different varieties and currently has the capacity to produce 50 million donuts per year. Citing a recent customer survey, Dunkin' Donuts stated that nearly half (47%) of its clientele in the UAE comprised UAE nationals and Arab expatriates while Asians accounted for around 23% of its customer base. Today, Dunkin' Donuts is the world's largest coffee and baked goods chain, serving more than three million customers per day. (TradeArabia 05.06)

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3.8 Pratt & Whitney Selected to Power Royal Moroccan Air Force F-16s

East Hartford, Connecticut's Pratt & Whitney F100-PW-229 engine has been selected by the Royal Moroccan Air Force to power their new fleet of F-16 Block 52 aircraft. The engine program, sold through the U.S. Government's Foreign Military Sales program, is valued at approximately $170m and is scheduled for delivery in 2010 and 2011. Pratt & Whitney is a United Technologies Corp. company. The F100-PW-229 engine offers the Royal Moroccan Air Force a lower total cost of ownership and an outstanding record of safety. Incorporating the latest technologies, this propulsion system provides advanced, dependable power for F-16 fighter aircraft around the world. To date, the F100-PW-229 powered aircraft fleet has logged more than 963,000 flight hours in more than 16 years of operational service. The Royal Moroccan Air Force becomes the 22nd international customer to select the F100 engine family. Pratt & Whitney is a world leader in the design, manufacture and service of aircraft engines, space propulsion systems and industrial gas turbines. United Technologies, based in Hartford, Conn., is a diversified company providing high technology products and services to the global aerospace and building industries. (UT09.06)

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4: ISRAEL MACRO-DEVELOPMENTS

4.1 Israel, Jordan and PA to Jointly Monitor Disease

A new system to share medical information and follow infectious disease outbreaks will be used in Israel, Jordan and the Palestinian Authority. The system was developed by IBM Haifa labs. IBM, in collaboration with the Middle East Consortium on Infectious Disease Surveillance (MECIDS), created a unique technology that standardizes the method of sharing health information and automates the analysis of infectious disease outbreaks, in order to help contain diseases and minimize their impact. MECIDS is made up of private health leaders, as well as public and academic institutions, all located in Israel, Jordan and the Palestinian Authority. The secure on-line system, the Public Health Information Affinity Domain (PHIAD), is being deployed in the Middle East first, and the partners are pushing for wider deployment. MECIDS was a partner in the development of PHIAD and will be an early adopter of the technology. PHIAD uses near-real time information to facilitate fast response and enables the secure exchange of data on both national and international levels with appropriate protection of privacy at all levels. This can facilitate an effective response to infectious disease outbreaks even across geographic and political boundaries. (Globes 03.06)

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4.2 Private Homes Will Manufacture Solar Power and Sell Surplus

Starting on 1 July, every Israeli will be able not only to manufacture his own electricity, but to sell what he doesn't need to the Electric Company. The Israel Electric Company (IEC) is hoping to encourage consumers to install solar panels, and is willing to pay them NIS 2.01 per kilowatt of "clean" electricity. This is approximately four times the amount that consumers pay the company for their electricity. Installing the solar panels is expensive, however, and begins at $18,000. Adequate roof space is also required. Experts say that those who are willing to make the investment will be able to make back their money in ten years. Unlike Germany and Spain, Israel's government does not yet subsidize consumer solar panels.

Meanwhile, the IEC is preparing for record demand this summer. Together with the Ministry of National Infrastructures, the company held a country-wide drill last week to prepare for such eventualities and to practice the regulation of kilowatt shortages. When demand exceeds available supply, the general practice is to cut back electricity in random neighborhoods until the situation stabilizes. The exercise left officials confident that the IEC is prepared to deal with the summer demands. Attention is now being turned to educating consumers regarding the need to cut back, and informing them that they might find themselves blacked-out for short periods. The IEC is currently able to produce 11,400 MW, with available capacity at 10,877 MW. Demand is expected to reach 10,300MW, 100MW more than the record set during the cold wave this past January - leaving a reserve of only 5%. (IsraelNN05.06)

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4.3 Hi-Speed Jerusalem-Tel Aviv Line Imperiled

The high-speed Jerusalem-Tel Aviv light rail project is in danger after the construction inside Jerusalem continues to surpass budget and time benchmarks. The Knesset Finance Committee approved the budgeting of an additional $45.5m toward the Jerusalem light rail recently, due to delays in the project. An additional $10m were approved for ongoing work costs. The additional allotment brings the cost of the project to $1b so far. The winner of the tender to construct the light rail, CityPass, will absorb the rest of the $1m cost of the delays. The Jerusalem light rail project is currently running 18 months behind schedule. Government delays in expropriating land, assigning staff from the Antiquities Authority to perform the requisite inspections of earth excavated and general foot-dragging by Jerusalem city engineers have been blamed. (IsraelNN29.05)

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5: ARAB STATE & PAKISTANI DEVELOPMENTS

5.1 Jordan Is Willing To Boost Cooperation with Iraq

On 29 May, Jordanian Foreign Minister Salah Bashir participated in an International Conference on Iraq held in Stockholm to follow up the decisions of the international convention stemming from the Sharm El-Sheikh conference held last year in Egypt. Jordan, Bashir said in his speech in the conference, is keen to strengthen its cooperation with Iraq in balanced relations to achieve common interests for both countries. He added that Jordan also is keen to work with Iraqi government to develop economic, trade and investment ties and cooperate with it to establish joint ventures. The annual audit report, the Minister said, shows that there are many accomplishments had achieved in various fields, valuing the Iraqi government's efforts in this regard. The Minister had met with Iraqi Deputy Prime Minister Saleh and Arab League Secretary General Musa and a number of foreign inserters taking part in the conference and discussed with them an array of issues of common interest. (Petra29.05)

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5.2 Iraqi PM Maliki Asks For Debt Cancellation

On 29 May, Iraq renewed a call to foreign creditors to cancel about $60b in debts and asked that compensation payments imposed after Saddam Hussein's invasion of Kuwait be scrapped. Iraqi Prime Minister Nuri al-Maliki made the call at an international conference convened in Stockholm to assess progress in a five-year plan to rebuild Iraq. About $66.5b of Iraq's $120.2b foreign debt has been forgiven, according to US State Department estimates. More than half of the outstanding debt is owed to Gulf Arab states, mainly Saudi Arabia and Kuwait. Iraq is pushing for an end to the billions of dollars it pays in compensation for Saddam's 1990 invasion of Kuwait. At present it is required to set aside 5% of its oil revenues, which Iraq says will amount to $3.5b this year. Maliki made a similar debt relief call at a conference of Iraq's neighbors in Kuwait in April, with Iraqi officials noting at the time that while many of Iraq's major creditors had cancelled its debts, its Arab neighbors had not followed suit. The Stockholm conference is the first annual review of the International Compact with Iraq agreed in the Egyptian resort of Sharm el-Sheikh last year, which committed Iraq to implement reforms in exchange for greater international support. (Various29.05)

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5.3 Iraq Oil Revenue To Reach $70 Billion

Iraq has raised oil exports to a post-war high, earning billions of dollars to fund reconstruction after Baghdad cracked down on sabotage of its strategic pipelines, oil minister Hussein Al-Shahristani said. The minister expects oil revenue to reach $70 billion this year if crude prices stay high and output flows remain stable. Iraqi oilfields are pumping more than 2.5 million bpd, he said, the highest since the 2003 US-led liberation. Iraq will produce up to 2.9 million bpd by the end of 2008, he said. Shahristani declined to comment on export levels for June, but Iraqi oil officials said last month shipments would run slightly higher because of extra Kirkuk sales from the north. He was optimistic Iraqi forces would keep security tight at oil facilities and raise the confidence of foreign investors discouraged by sectarian violence, al Qaeda and Shiite militants who had a grip on Basra, home to Iraq's biggest oilfields. Iraq, whose primary source of revenue comes from oil, needs huge amounts of investment to rebuild after years of sanctions and war battered the OPEC member's economy. Sky-high oil prices have raised the prospects of a quicker recovery. Strong prices could also improve Iraq's chances of meeting goals set out in a 10-year plan to raise production and exports.

The US military says violence in Iraq is at a four-year low following crackdowns by US and Iraqi forces on Shiite militias in southern Basra and Baghdad and on al Qaeda in the northern city of Mosul, its last major urban stronghold. Starved of access to oil and gas prospects by governments who increasingly favor development by their state oil companies, Western oil companies are eager to invest in Iraq, home to the world's third biggest oil reserves. However, the security situation and an uncertain legal framework have deterred the majors from making significant investment. But Baghdad expects to see activity this summer. Iraq is negotiating six short-term service contracts with international oil companies, each aimed at boosting production by 100,000 bpd. Five of the deals under discussion are with oil majors Royal Dutch Shell, Shell in partnership with BHP Billiton, BP, Exxon Mobil and Chevron in partnership with Total. Iraq is also in talks with a consortium of Anadarko Vitol and Dome for a sixth contract on the Luhais field. (Various03.06)

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5.4 GCC to Miss 2010 Single Currency Deadline

Gulf Arab central bankers agreed to create the nucleus of a joint central bank next year in a major step forward for monetary union but signaled that a new common currency would not be in circulation by an agreed 2010 target. Confronting record-high inflation that threatens to derail the project, central bank governors from the GCC on 9 June laid out a roadmap leading toward common monetary institutions before 2010. The timetable calls for the central bank draft proposal to be approved by finance ministers at a meeting in September and for Gulf rulers to sign a final deal in November. Each Gulf state would have to ratify the deal before the monetary council begins operations. The council would not have monetary policy decision-making power but would eventually be converted into the Gulf central bank. Inflation threatens to ravage the Gulf countries, whose loose monetary policies and windfall profits from record-high oil prices have driven price increases to unprecedented levels and threaten to destabilize their booming economies. Ahead of the meeting, one leading central bank governor warned that skyrocketing prices had led to disagreements about the launch. The currency plan has already been thrown into disarray twice after Oman decided in 2006 not to join and Kuwait severed its dollar peg in May 2007. Inflation has been hitting record or near-record peaks across the world's biggest oil-exporting region, where most states peg their currencies to the ailing US dollar, driving up import costs. (Various10.06)

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5.5 GCC Consumers Face Whopping 100% Tax

Consumers already reeling under record inflation and nervously looking ahead at the introduction of value added tax (VAT) were dealt a further blow 2 June with the news that the GCC plans to introduce a 100% tax on luxury goods. The move would see the cost of items such as private planes, luxury cars, yachts and "harmful items" such as cigarettes go through the roof. The introduction of yet another tax in the GCC is sure to unnerve expatriates in the region, who flock to work in places such as Dubai to take advantage of the tax-free salaries on offer and high living standards. The GCC's head of studies and integration said it had commissioned a team to list items that could be liable to the new tax, which could come into force from 2012. Although a 100% tax on items such as private planes, luxury cars and yachts would only hit the very rich, tens of millions would be impacted if the price of cigarettes were to double. UAE smokers could face a double whammy of taxes as just last week a Health Ministry official said the price of cigarettes could double every two years, part of efforts to slash smoking rates in the Gulf state. If it goes ahead the 100% tax would come on top of VAT, which is being introduced in the UAE early next year and across the rest of the Gulf within the next five years. The GCC has already set 2012 as the deadline for the Gulf-wide implementation of VAT. VAT will be imposed at a single rate of between 3% and 5% on consumer goods and services and will replace customs duties, which are being phased out as the UAE looks to finalize free trade agreements (FTAs) with economic powers including the US and EU. (AB03.06)

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5.6 GCC Utility Sector Entering a Critical Phase

Research and Markets released a comprehensive overview of recent developments in the power and water generation sector and assesses the outlook for the sector up to 2015. The GCC utility sector is entering a critical phase. Four years of strong economic growth has fueled demand growth of about 10% a year for electricity and 8% a year for desalination. A lack of investment in the first half of the decade has meant that reserve power capacity has fallen significantly in all bar Abu Dhabi, raising the prospect of power shortages especially in Kuwait, Dubai and parts of Saudi Arabia. With little prospect of a regional economic slowdown, as a result of oil prices and investment levels remaining high, the GCC is facing an unprecedented capacity building program. An estimated 60,000MW of new capacity, representing 80% of current installed capacity, will be required by 2015, while desalination capacity will have to double to over 5,000 million gallons a day (g/d) to meet the projected demand. The actual capacity requirements will be even greater if planned decommissioning of existing capacity takes place on account of its age. In relative terms, Dubai faces the biggest new-build program, with both power and desalination capacity forecast to triple in size to 16,000MW and 800 million g/d by 2015. In absolute terms, the highest new investment requirements will be in Saudi Arabia, where 15,000MW and about 1,000 million g/d of new capacity will be required. Based on 2007 unit costs, the GCC power sector will require about $50bn of investment in new power generating capacity and $20bn in desalination. However, a tightening engineering, procurement and construction (EPC) market, on account of the high volume of work and the limited pool of major contractors, is likely to see unit costs continuing to rise over the short term. The role of developers will expand further, with 2008 set to be the first year that new capacity contracted from the private sector exceeds that awarded on an EPC basis. (R&M09.06)

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5.7 Kuwait Inflation Soars into Double Figures

Inflation in Kuwait, the only Gulf Arab state without a US dollar peg, rose for a third month in February to a fresh record, hitting an annual 10.14% driven by higher food costs and rents. Inflation is rising across the world's biggest oil-exporting region, reaching 10.5% in April in Saudi Arabia - the biggest Arab economy - the highest since the oil boom of the 1970s. In Kuwait, the All Items Consumer Price Index advanced to 127.1 points in the year to the end of February from 115.4 points. Inflation was 9.5% in January and 7.54% in December. Housing costs - which account for 27% of the index's weighting - rose 16.1%, the same as the month before, the data showed. Food costs gained 9.22% and beverages and tobacco 14.9%. Though it tracks a basket of currencies, Kuwait has barely kept up with the dollar's tumble on global markets because the US currency comprises the largest weighting in its basket. The dinar has risen about 9% against the dollar since Kuwait severed its peg on May 20, 2007, part of a strategy to lower the cost of some imports. Kuwait pays for about a third of its imports in euros. The central bank has been trying to restrain inflation by tightening restrictions on consumer lending, measures which took effect at the end of March. In addition to supply constraints in the property market, Kuwait's money supply, an indicator of future inflation, has been expanding rapidly - growing at an annual rate of 21% in April as more money was saved and private lending rose despite the central bank measures. (Various01.06)

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5.8 Bahrain to Stockpile Food & Building Materials

Bahrain plans to set up an import company to stockpile foods in a bid to ease shortages and dampen rising prices. Bahrain's cabinet also agreed to review fees on the handling of goods, and ordered the construction of a port specializing in importing and storing large stocks of construction materials. Bahrain and other Gulf states blame a global rise in food prices - among other factors - for stoking regional inflation. Building materials are also increasingly in short supply as a boom in construction. Inflation in Bahrain accelerated to 6.2% in April, compared with 5.24% in March, on the rising cost of food, drink and tobacco. (Various02.06)

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5.9 Qatar Inflation Charges Toward 15%

Annual inflation in Gulf oil producer Qatar rose for a third quarter running in March to a near record of 14.75%, the country's state Planning Council said on 2 June, amid a surge in food & commodity prices and rents. The Consumer Price Index reached 166.87 points at March 31, the council said on its website, without giving year-earlier data. The index was at 145.42 points on March 31 last year. Inflation at the end of December was 13.74%. The last time it was higher was on March 31 last year when it was 14.81%. As in other Gulf Arab oil producers, Qatar's economy is booming due to a near seven-fold surge in oil prices in the last six years, while it has to lower interest rates because of its currency peg to the dollar. This is fuelling speculation that the country might drop the link in favor of a basket of currencies. On a quarterly basis, food, beverage and tobacco prices surged the most in Qatar, up 7.81% over December 31. Rents and energy prices rose 4.76 %, and transport and communications 4.33%, spurred mainly by more expensive airline tickets, the council said. (Various03.06)

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5.10 Weather Defeats Doha Olympic Bid

On 5 June, while Chicago, Tokyo, Madrid and Rio de Janeiro were named as candidate cities to host the 2016 Olympic Games, Doha, Qatar was eliminated from the shortlist. Doha, which was rated by the IOC's working group as the third best overall bid, Azerbaijan's Baku and the Czech capital Prague fell at the first hurdle. It was said that weather was the main reason for their loss. Doha planned to stage the Games in October instead of the usual summer months, due to the soaring desert heat. The IOC Executive Board unanimously decided not to grant this exception as it conflicts with the international sporting calendar and would therefore be bad for the athletes and for sports fans. Some members argued the city of about 500,000 was too small to deal with an event of such magnitude despite staging successful Asian Games in 2006. Tokyo, hosts of the 1964 Games, topped the IOC working group's overall technical evaluation with Madrid second. Chicago and Doha tied for third with Rio in fourth place. (Reuters05.06)

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5.11 UAE's 2007 Inflation Surges To Record 14%

Inflation in the United Arab Emirates surged to a record 14% last year, spurred by rent, food and fuel prices, according to statistics from the Abu Dhabi Chamber of Commerce. Higher fuel prices boosted construction costs and helped encourage landlords to raise rents. Inflation in 2006 was 9.5% and less than 4% the year before. Gulf states, most of which peg their currencies to the dollar, are struggling to control inflation, fuelled by a more than six-fold increase in oil prices during the last six years and lower interest rates that have spurred economic growth. – (ADCC29.05)

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5.12 Strict Green Building Laws Announced In Abu Dhabi

Abu Dhabi's Urban Planning Council on 28 May said that all buildings in the emirate will have to adhere to a green standard that will eventually make it "a world leader". The new measures are set to transform the way all buildings in Abu Dhabi, Al Ain and Al Gharbia are designed, the planning council said. Sanctions could be enforced upon developers who fail to comply with the new regulations, which are still in development, and the council would refuse to give planning to permission to any new building plans which do not comply with the green standard. Owners of existing buildings will also have to eventually apply the regulations in order to make them more environmentally-friendly. Abu Dhabi Urban Planning Council general manager Falah Ahabi said laws would be set in place within five years, although work on changing the existing buildings with continue past this year. The Estidama program - named after the Arabic word for sustainability - would make Abu Dhabi into “an ecological emirate”, Ahabi said. The Abu Dhabi Municipality will issue green licenses to developers and inspect all buildings to ensure they reach the required standards. The guidelines are the first significant step towards implementing Plan Abu Dhabi 2030, the long-term vision for the capital. The Abu Dhabi Urban Planning Council is responsible for implementing The 2030 plan which calls for Abu Dhabi to become a sustainable and environmentally-friendly city. The project is seen as a way of replicating the vision provided by Masdar - the world's first environmentally-friendly city outside Abu Dhabi - in the capital. (AB28.05)

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5.13 Dubai Among Top 10 Most Expensive Office Rents

Dubai was ranked number 10 on a list of the world's most expensive office markets in the year to March 31. London's West End has easily retained its position as the most expensive, but Vietnam's Ho Chi Minh City saw the sharpest hike in rental costs, according to research compiled by CB Richard Ellis, the world's largest property services firm. Dubai's annual occupancy cost was $128.49 per sq ft, while Vietnam's Ho Chi Minh City office rents rocketed by 94% to $85.84 per sq ft. That rise is just ahead of Moscow -- the world's second most expensive office market -- where rents soared 93% to $232.37 per sq ft over the period, reflecting increased tenant demand. But at $299.54 per sq ft, rents in London's West End once again eclipsed those in Moscow and other international business hubs. Overall, EMEA (Europe, Middle East and Africa) dominated the list of markets with the fastest growing occupancy costs, accounting for five of the top 10 and 19 of the top 50 markets. Singapore and Dubai were newcomers to the top 10. Singapore ranked ninth, with an occupancy cost of $139.31 per square foot. (Reuters 29.05)

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5.14 Saudi Arabia's Average Inflation Rate Hits 5.4%

The average inflation rate in Saudi Arabia during the 12 months ending March 2008 rose by 5.4% while the average inflation rate during the preceding five years (April 2002 – March 2007) was 1%. Between April 2007- March 2008, inflation rates of goods and services exceeded their levels recorded in the preceding five years, a recent report by the Saudi Arabian Monetary Agency has indicated. Costs for renovation, rent, fuel and water (housing & accessories) rose by (10.7%), food & beverages (8.0%), goods & other services (6.8%), medical care (5.6%), education & entertainment (0.7%) and transport & telecommunications (0.3%). However, fabric, apparel and shoes costs fell by 2.3%. Meanwhile, the general wholesale price index recorded an increase of 9.0% during Q1/08 compared to Q1/07, basically due to a rise in the groups of other commodities by 36.2%, chemicals by 21.5%, animal and vegetable oils and fats by 10.1%, food and live animals by 9.3%, and manufactured goods by 9.1%. (Mena Report 28.05)

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5.15 Yemen to Djibouti Bridge Part of $200 Billion Project

A property firm owned by a Saudi businessman from the bin Laden family plans to spearhead a $200 billion project next year to connect Africa to the Arabian Peninsula with a bridge across the Red Sea, the region's largest infrastructure project by far. Dubai-based Middle East Development, in which Osama bin Laden's half brother Tarek owns a majority stake, will begin work in 2009 on the project to build two cities in Djibouti and Yemen and a 28.5-kilometre bridge. The group will invest at least $10b in the project and seek to raise the remainder from other investors and financial institutions. The bridge, to be the development's centre piece, will carry vehicles, trains, natural gas and water. The bridge aims to provide a safe route between the Arabian Peninsula and the Horn of Africa region as the waterway between them is highly dangerous due to Somali pirates. Somalia has been without an effective central government since the 1991 toppling of a military dictator, allowing anarchy and violence to flourish. Denmark's Cowi, the consultant on the world's longest, planned causeway linking Qatar with Bahrain, is advising on the bridge. The bridge will cost $14b, with construction of the entire scheme completed in phases over seven to 15 years. The project has attracted interest from companies including US firms Bechtel and Hewlett-Packard, Sweden's Ericsson and Veolia Environnement of France. The company aims to house as many as five million people in Yemen and 1.5 million in Djibouti under the project. Yemen, one of the world's poorest countries, has faced unrest over unemployment and rising prices in the south and renewed fighting between government forces and Shiite Muslim rebels in the north. (Various02.06)

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5.16 Egypt Inflation Hits 19-Year High

Consumer prices in urban parts of Egypt rose 19.7% in the year to May, a 19-year high for inflation The inflation rate compared with 16.4% in the year to April, itself a three-year high. Sharp rises in the prices of fuel, transport and certain foodstuffs were among the main factors behind the new figure. The government raised fuel prices by between 35 and 57% in the first week of May. The fuel price hikes were to raise the revenues needed to give public-sector employees a 30% salary increase, itself a response to earlier inflation. High prices, especially of food, have been the government's biggest headache throughout the year. It has responded by making more cheap food available on a ration-card system. Food prices were a factor in riots in April in the Nile Delta town of Mahalla, a centre for the textile industry. Prices in the country as a whole rose 21.1% in the year to May, compared to 15.8% in the year to March. In the countryside prices rose 22.9%, compared to 17.6 in the year to March. The rural and whole-country indexes are updated only every other month, so economists focus on the monthly urban index. The statistics agency said that urban food prices rose 2.7% in the month to May and transport costs across the country rose 13% in the two months to May. In the one year to May, the prices of bread and grains rose 50.8%, edible oils by 51.2%, fruit by 24.9% and vegetables by 27.6%. Food inflation has hit the poor especially hard because many of them spend more than half of their income on food. (TA10.06)

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6: TURKISH, CYPRIOT, GREEK & BULGARIAN DEVELOPMENTS:

6.1 Turkey's Government Has Decided To Sign The Kyoto Protocol

Turkey's ruling AKP government has adopted in principle the ratification of the Kyoto Protocol and will send a bill to parliament for approval. The government feels that if Turkey does not ratify the protocol, it will not be able to negotiate effectively in the post-Kyoto era, when the Kyoto Protocol expires in 2012. As a reminder, Turkish President Gul gave hints about signing Kyoto protocol at World Wildlife Fund (WWF) conference in Bodrum held on May 24, stating that climate change affects all of us and Turkey is now preparing to undertake its responsibilities. Turkey had previously rejected signing the U.N. protocol, saying it needed to complete its industrial development first. But the country is under EU pressure to improve environmental standards. The Kyoto Protocol binds 37 developed nations to cut greenhouse gas emissions by an average of 5% below 1990 levels by 2012. (BGC03.06)

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6.2 Turkey To Privatize Bosporus Bridges

Turkey's Finance Minister Unakitan said that the "Bogazici" and "Fatih Sultan Mehmet" bridges of Istanbul would be privatized. Lawmakers were discussing the draft law envisaging the privatization of highways and bridges in Turkey. Speaking at the meeting Unakitan said such privatizations were of great importance taking into consideration the economic structuring and transformation process Turkey was going through currently. The Finance Minister defended the privatization efforts saying that privatization of highways and bridges would have numerous positive effects such as the transfer of high-technology, increase in productivity, decrease in traffic accidents, time and fuel saving and prevention of environmental pollution. (TNA29.05)

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6.3 Turkey Targets Informal Economy

Turkey's Labor & Social Security Ministry has set up a telephone help-line to help cut the unregistered economy to below 10% in the next three years and clamp down on welfare fraud. Labor & Social Security Minister Celik said 9.92m Turks, including 5.023m in the non-farm sector, are estimated to work in the black economy. Turkish Statistics Institute data show that the number of registered workers in Turkey in February was 20.162m. As an example of welfare fraud, Celik said health benefits had been claimed for 10 births by the same woman in a single year. The help-line is part of a broader government plan to cut the size of the unregistered economy after it passed a long-awaited social security reform package, which raised the retirement age, and an employment package which cut the social security premiums of employers earlier this year. (Various29.05)

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6.4 Broadband Penetration in Greece is the Lowest in the European Union

Research and Markets announced that broadband penetration in Greece is the lowest in the European Union. The delayed introduction of regulation has been cited as a major cause for Greece's position, as well as the incumbent's past delay in promoting services. However, the incumbent has since supported broadband rollouts, leading to very strong growth although much more needs to be done if the country wishes to catch up with the rising EU average. Convergence services are growing in prevalence due to the increasing broadband user base and IPTV services have been launched. Unlike other European countries, the lack of cable operators presents significant opportunities in the country's underdeveloped pay TV market. Triple play initiatives are being spearheaded by ISPs in the absence of cable TV operators. (R&M31.05)

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6.5 Cyprus Set For Double Euro Zone Growth

The Cypriot economy is projected to grow by more than double the euro zone average over the next two years, the European Commission's spring forecast revealed on 29 May. While the euro zone expects average growth to fall to 1.7%, the Cypriot economy is forecast to grow by 3.7%, a slight deceleration compared to 2007, when growth reached 4.5%. In 2008 and 2009, economic growth is projected to decelerate from the exceptionally high rate of 2007, yet to grow solidly at 3.7% against an adverse external environment. The report said economic activity would be exclusively driven by domestic demand, while the external sector would continue to weigh negatively on GDP growth. Disposable income, supported not only by sustained wage and employment growth but also by the second phase of the enacted personal income tax reform, will keep private consumption growing robustly, although at a slower pace than in 2007 on account of tighter credit conditions. The report, however, said that due to the hike in commodity prices, especially oil and food, inflation would continue to accelerate in 2008 and reach an average of 3.75%. Eurozone inflation in 2008 is projected to be 3.6%. But Cypriot inflation is set to decline to 2.5% in 2009 against a background of moderating oil prices and domestic demand. The EU has also forecast that construction would slow in 2008 and 2009 and said levels had been “exceptionally high” in recent years. (Cyprus Mail 30/04/08)

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6.6 Cypriot Energy Chief Calls for Nuclear Debate

Cyprus' Energy Service is to prepare a study looking into the possible construction of a nuclear power station on the island. Director Kassinis said that using nuclear energy is a lot more acceptable now, following years of technological progress following the Chernobyl disaster in the former Soviet Union in 1986. He added that the risk of a nuclear accident was very low. The issue of disposal methods for nuclear waste was one of the most pressing problems the international nuclear industry faced when trying to establish a long-term energy production plan, yet there was hope it could be safely solved. According to Kassinis, even in areas susceptible to earthquakes, including Cyprus, construction can be such as to minimize danger, “as seen using the examples of Turkey and Japan”. Companies interested in building a small nuclear reactor have already approached the Energy Service, which is part of the Commerce Ministry, and preliminary talks revealed that they are willing to build, operate and own a station at no cost to the government. Kassinis said a nuclear power station in Cyprus would have as its main role the production of electricity, which it would sell to the government. This would result in a consumer paying less than one cent per kilowatt as opposed to the current price of 15 cents. (Cyprus Mail 16.05)

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6.7 Cyprus - Inflation

The Statistical Service announced that Cyprus' inflation rose to 4.9% for May 2008 compared to 4.6% in April 2008 and 2,2% in May 2007, according to the figures released today by Cyprus Statistical Service. The Consumer Price Index for May 2008 increased by 0.89 units or 0,81% to 110.19 units compared to 109,30 in April 2008. This was mainly due to increases in the prices of certain fresh fruit, petroleum products and certain clothing and footwear items. Decreases were recorded in the prices of certain fresh vegetables and potatoes. For the period January-May 2008, the CPI recorded an increase of 4.7% compared to the corresponding period of 2007. (SS04.06)

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6.8 OECD Says Greece's Inflation To Slow But Stay High

Greece's inflation rate is expected to decelerate next year due to a drop in oil prices but will remain well above eurozone levels, weighing on the country's competitiveness, the Organization for Economic Cooperation and Development (OECD) said on 4 June. The Paris-based group said in its biannual economic outlook that Greek EU-harmonized inflation is expected to fall back to 3.2% year-on-year in 2009 from an estimated 4.2% this year. Inflation is expected to pick up to more than 4.6% in May, the highest levels seen in about six years, on the back of soaring oil and food prices. The spike in consumer prices is a trend seen across the eurozone, where inflation is seen at 3.4% this year, having jumped from 2.1% in 2007. Despite currency appreciation, upward price pressures are strong and it is only toward the end of 2009 that inflation is expected to revert to 2%, the OECD pointed out. It also repeated its call for reforms in the economy, saying that strict implementation of the recent pension reform is vital, along with other changes. Greece earlier this year passed a series of reforms through Parliament involving the merger of tens of pensions funds into just a handful, in a move aimed at helping to make the system more viable. The reforms were met with strong opposition by workers who launched weeks of strike action. On the upside, the Greek economy is seen as continuing to grow strongly, but at a slower pace, as private consumption drops. The OECD said it expects gross domestic product (GDP) to expand by an annual 3.4% next year from a targeted 3.5% rate this year. (Kathimerini05.06)

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6.9 Greek Inflation Soars To 10-Year High

Greece's consumer price index jumped in May by a higher-than-expected 4.9% year-on-year, the highest in 10 years, with a considerable slowdown not expected until late in the year. The National Statistics Service (NSS), Greece's statistics office, said consumer prices accelerated to 4.9% from 4.4% in the previous month on the back of rising oil and food prices. Apart from rising oil prices pulling transport costs sharply higher, food prices continued to rise steeply in May. NSS data showed that flour and butter prices soared by 20% and 30%, respectively. Seed oil leapt 37%. Greek inflation is one of the highest in the eurozone and has been harming the country's competitiveness for a number of years. Eurozone inflation surged to a historic peak of 3.6% on an annual basis in May. Development Minister Folias has been in talks with supermarkets recently in a bid to contain price hikes but retailers are laying the blame on producers. Economists expect the figure to average out to about 4.2% for the year with a dip not expected until the last few months of 2008. Greece's EU-harmonized inflation figure hit 4.9% on an annual basis from 4.4% in the previous month. (Kathimerini10.06)

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6.10 S&P Confirms Bulgaria Credit Rating

The credit rating agency of Standard & Poor (S&P) confirmed on 5 June the long-term rating of Bulgaria as 'BBB+' and the short-term as 'A-2'. The prospective is stable according to the evaluation of the Bulgarian Finance Ministry. According to Standard & Poor's credit analysts, the rating acknowledges the government's serious attempt to coordinate the fiscal policy, the management policy and the policy for reduction of public debt along with the stable perspective for mid-term growth, relatively good trade balance and the country's membership in the EU. Those strong sides are however compensated to a certain level by the great current deficit and the inflation pressure due in some regard to the salaries' increase. The prognosis for budget surplus of 3% of the Gross Domestic Product (GDP) and its realization would additionally contribute to the reduction of the gross debt to around 14% of the GDP by the end of the year. Standard & Poor's Ratings Services also expect that the deficit would slightly decrease in 2008 while the net deficit coverage from direct foreign investments would remain at over 75%. When taking into account the Monetary Council and the already significant budget surplus it would be very important to accelerate structural reforms so that the country could increase its growth potential, further stabilize its economy and remain attractive for foreign investors, according to S&P. The agency warns that continuing economic imbalance combined with a long period of high inflation and loss of external competitiveness could affect the country's credit rating in the future. (Sofia05.06)

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7: GENERAL NEWS AND INTEREST

*ISRAEL:

7.1 Hoopoe Wins Israel's National Bird Contest

The Jewish state's national bird is the hoopoe (duchifat in Hebrew), after being chosen in a six month long national election process initiated by the Society for Protection of Nature. The hoopoe, a crested bird with a unique appearance that is mentioned in Jewish legends about King Solomon and the Queen of Sheba, is common throughout Israel. According to legend, the hoopoe is capable of cutting through stone and is referred to as " mountain chiseler” in the Talmud. Legend also has it that when its beak breaks, the hoopoe can continue chiseling through rocks with its folded crest - hence its name duchifat, which means "two beaks" in Aramaic. Ethiopian Jews called it the "Moses Bird" and believed it would carry them to Jerusalem one day. The hoopoe is unafraid of human beings, but when in danger, it makes a hissing sound and secretes a foul-smelling liquid. The final contestants who made it through the bird primaries in December 2007 also included the night owl (tinshemet), red falcon (baz adom), spur-winged plover (siksak), griffon vulture (nesher), finch (chochit), kingfisher (shaldag), bulbul, warbler (pashosh) and the honey-sucker (tzufit). The candidates were chosen out of about 540 species of birds which populate Israel's skies regularly. (IsraelNN29.05)

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*REGIONAL:

7.2 Turkey's High Court Overturns Headscarf Rule

Turkey's highest court dealt a stinging slap to the governing party of Prime Minister Erdogan on 6 June, ruling that a legal change allowing women attending universities to wear head scarves was unconstitutional. The Constitutional Court said that the change, proposed by Mr. Erdogan's party and passed by Parliament in February, violated principles of secularism set in Turkey's Constitution. The ruling sets the stage for a showdown between Turkey's secular elite - its military, judiciary and secular political party - and Mr. Erdogan, an observant Muslim with an Islamist past. The court is one of Turkey's most important secular institutions, and liberals see the ruling as largely political. It bodes ominously for Mr. Erdogan: The same court is considering a case that would ban him and 70 members of his party from politics. A decision is expected in the summer.

Turkey's political system has been controlled for generations by a powerful secular elite that has stepped in with coups and judicial decisions against elected governments. Mr. Erdogan and his party, Justice and Development, or AKP, have come the closest of any political party in Turkey's history to breaking its hold on power. In the head-scarf case, the elite establishment contended that allowing veiled women onto campuses threatened Turkish secularism, one of the founding principles of Mustafa Kemal Ataturk's secular revolution in the 1920s. Head scarves were banned from campuses in the 1990s.

Mr. Erdogan calls the case a matter of individual rights, contending that all Turks should be able to attend universities no matter what they wear or believe. But the way his party proposed it - abruptly, with little public discussion - angered the secular old guard and disappointed liberals, who support the changes, but want them to be accompanied by changes that strengthen other rights, like free speech. Some said AKP seemed to be pursuing only those changes that would please its constituency, and not the broader range that was needed to join the European Union. The head-scarf amendment is considered to be the single most important irritant that set off the case to ban Mr. Erdogan and 70 other AKP members, and it is central to the prosecution's argument that he and his allies are trying to dismantle secularism in Turkey, an accusation they strongly dispute. (Various06.06)

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8: ISRAEL LIFE SCIENCE NEWS

8.1 BrainStorm NTF Cells Shows Advantage in Pre-Clinical Study for Parkinson's Disease

BrainStorm Cell Therapeutics announced that in a pre-clinical study that was conducted with Tel Aviv University between February and May 2008, signs of impaired motor behavior in a rat model of Parkinson's improved following transplantation of BrainStorm's unique Neurotrophic Factor Cells (NTF). In this study, Tel Aviv University scientists lesion the brains of lab rats by using the 6OHDA toxin, in order to mimic the motor dysfunction of parkinsonian patients. The rats were divided into three groups: one group was transplanted with BrainStorm NTF cells, another with undifferentiated mesenchymal stem cells and the third group was used as control. The motor functions of the rats were repeatedly measured for 45 days, followed by histology. The results showed statistically significant improvement in NTF rats' motor functions, in compared to the mesenchymal cell group and the controls. Moreover, the NTF cells increased the level of the neurotransmitter Dopamine (a low amount of which causes Parkinson). The researchers also detected, 45 days post-transplantation, viable transplanted cells which migrated toward the impaired portion of the affected brain.

The Company believes that this is evidence of the integration ability of BrainStorm's cells in the damaged brain. This is the second study completed using BrainStorm's cells that produced similar results.

Petah Tikva, Israel's BrainStorm Cell Therapeutics (http://www.brainstorm-cell.com) is a leading developer of stem cell technologies to provide treatments for currently incurable neurodegenerative diseases. The Company is focused on developing NTF cells from the patient's own bone marrow in order to treat, Parkinson, ALS and Spinal Cord Injury. (BrainStorm29.05)

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8.2 Pluristem Demonstrates the Potential of Its PLX Cells to Treat Crohn's Disease & Ulcerative Colitis

Pluristem Therapeutics' PLacental eXpanded (PLX) cells have demonstrated in vivo efficacy in the treatment of Crohn's Disease and Ulcerative Colitis, collectively termed Inflammatory Bowel Disease (IBD). PLX cells are Pluristem's placental-derived mesenchymal stromal cells (MSCs) that have been expanded in the Company's proprietary PluriX 3-D bioreactor. Mice and rats each received intrarectal administration of trinitrobenzene sulphonic acid (TNBS), a standard method for inducing IBD in animal models. The macroscopic and microscopic anti-inflammatory effects of the intravenous administration of PLX-IBD cells were then evaluated and compared to control animals that received only saline. PLX-IBD cell therapy significantly reduced the TNBS-induced colon lesions both in the macroscopic and microscopic evaluations compared to the control animals and to animals given therapy that is currently the standard of care in IBD. Haifa, Israel's Pluristem Therapeutics (http://www.pluristem.com) is a bio-therapeutics company dedicated to the commercialization of non-personalized (allogeneic) cell therapy products for the treatment of several severe degenerative, ischemic and autoimmune disorders. The Company is developing a pipeline of products, stored ready-to-use, that are derived from human placenta, a non-controversial, non-embryonic, adult stem cell source. (Pluristem28.05)

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8.3 Teva Announces Launch of Generic Wellbutrin XL Tablets, 150 mg

Teva Pharmaceutical Industries announced that it has begun commercially shipping Bupropion Hydrochloride Extended-Release Tablets, 150 mg, the generic version of Biovail Corporation's antidepressant Wellbutrin XL Tablets, pursuant to its March 2007 agreement with Anchen Pharmaceuticals. Wellbutrin XL Tablets, 150 mg, marketed by GlaxoSmithKline, had U.S. sales of approximately $930 million for the 12 months ended March 2008, according to IMS data. Teva Pharmaceutical Industries (http://www.tevapharm.com), headquartered in Israel, is among the top 20 pharmaceutical companies in the world and is the world's leading generic pharmaceutical company. The Company develops, manufactures and markets generic and innovative human pharmaceuticals and active pharmaceutical ingredients, as well as animal health pharmaceutical products. Over 80% of Teva's sales are in North America and Europe. (Teva30.05)

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8.4 Ferndale & Foamix Execute License Agreement for Atopic Dermatitis Foam

Ferndale, Michigan's Ferndale Laboratories and Foamix executed a license agreement for Ferndale to develop and commercialize non-steroidal foam for the treatment of atopic dermatitis and eczema. The agreement was signed following Foamix' successful development of non-steroidal foam which is designed to help skin barrier properties. Under the terms of the agreement, Foamix will be entitled to receive milestone payments upon achievement of various developments and commercial events and double-digit royalties. Atopic Dermatitis (AD) is a common chronic inflammatory skin condition, affecting 15-20% of schoolchildren and 2-10% of adults. Headquartered in Ness Ziona, Israel, Foamix (http://www.foamix.co.il) is a specialty pharmaceutical company focused on the development of topical foam products for prescription, OTC and cosmetic applications. Foamix's state-of-the-art foams provide controlled delivery of a variety of active ingredients. Foamix is a privately held company, whose business model is based on partnering with leading pharma companies to develop products utilizing its proprietary foam technologies. (Foamix02.06)

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8.5 Angioslide Closes $8.6 Million Series C Financing

Angioslide announced the closing of an $8.6 million Series C financing round. Angioslide is the developer of the unique Angioslide eXtra angioplasty balloon catheter that provides dual functionality in a single device offering balloon angioplasty with embolic protection. The device has received European CE Mark approval for lower limb use and FDA clearance is expected by end of 2008. The financing will be used to support sales and marketing efforts in the U.S. and Europe as well as for continuous development of expanded market applications. Itochu Corporation, Japan, led this second round of financing with support from Ofer Hi-Tech, Israel and Viola Partners, Israel, who both participated in the previous financing round. The Angioslide eXtra balloon angioplasty catheter offers balloon angioplasty with embolic particle capture creating a first of its kind device. When performing Angioplasty physicians typically take a two-step approach using both an embolic protection device and a balloon angioplasty catheter. The Angioslide eXtra takes this two-step, two-device process and reduces it to one single instrument, used for one single procedure, with a minimized procedure time and significantly reduced costs. Herzliya, Israel's Angioslide (http://www.angioslide.com) has developed a unique angioplasty balloon catheter that has dual functionality in a single device: balloon angioplasty with embolic protection. The Angioslide eXtra addresses an unmet need for an easy-to-use, efficient and cost-effective embolic protection solution for the peripheral vascular disease market. It is the first device of its kind to seek FDA clearance for use in lower limbs. (Angioslide02.06)

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8.6 Endogun Receives CE Mark Approval for Marketing Next-Generation Prolapse

Endogun Medical Systems has received a European CE approval to market its next-generation, single-incision, trans-vaginal EndoFast Reliant device for repair of Pelvic Organ Prolapse and Stress Urinary Incontinence (SUI). The CE Mark was received in close proximity to the U.S. FDA approval received earlier this quarter for the single-use, disposable EndoFast Reliant product. These regulatory approvals welcome Endogun into the elite community of innovative urogynecology products, aimed to reduce the invasiveness of key women's health procedures, and offering quality of life solutions in a safe and effective manner. Along with very positive clinical validation from key opinion leaders, these approvals indicate a product with a unique value proposition, which may have significant advantages over what is available today, for patients, physicians, payers and providers. Pelvic Organ Prolapse occurs in women, often following multiple births or excess weight, and develops as a result of weakening of the pelvic muscles which support internal organs (womb, bladder, rectum and vagina). Side effects of this condition include discomfort, a feeling of heaviness, and pain, and the disorder carries the risks of inflammation and infection. Endogun's product is aimed at offering a single-incision, simpler and safer procedure, which is performed entirely trans-vaginally.

HaOgen, Israel's Endogun Medical Systems (http://www.endogun.com) was founded in March 2004 to offer improved soft tissue attachment technology and products to the world of Minimally Invasive Surgery (MIS). It offers procedures that are easier for surgeons to use and safer for patients than today's options. Endogun aims to significantly improve the quality and outcome of many minimally invasive procedures in the world of urogynecology and urology. (Endogun04.06)

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8.7 Kamada Announces Successful Interim Results of Phase II Deposition Study with Aerosolized AAT

Kamada announced successful interim results in a Phase II deposition study with its Aerosolized AAT product delivered by PARI's optimized eFlow electronic nebulizer to treat Alpha-1 Deficiency and other respiratory diseases. This significant milestone demonstrates the high potential of the company's Aerosolized AAT product currently undergoing advanced clinical trials for several indications. This next generation product, Aerosolized AAT, holds numerous advantages over the currently used AAT for intravenous administration. Among these advantages are greater patient convenience, reduced treatment costs, larger treatment population and additional potential indications, all pending successful completion of the company's clinical development plan. Kamada's aerosolized AAT drug was designated by both the US-FDA and the European Agency for the Evaluation of Medicinal Products (EMEA) as an Orphan Drug for Congenital Emphysema and CF as well as for Bronchiectasis by the US-FDA. This important attribute will allow the company research funds benefits, waiver of user fees and free scientific advice by the regulatory authorities. Furthermore, if Kamada is the first company to successfully complete clinical trials and receive marketing approval in the US or the EU, the company shall gain exclusive marketing rights for the duration of seven years in the US, and for 10 or 12 years in Europe. Ness Ziona, Israel's Kamada (http://www.kamada.com) is a public biopharmaceutical company developing, producing and marketing a line of specialty life-saving therapeutics using its proprietary chromatographic purification technologies. Licensed and marketed in more than 15 countries, several of these specialty therapeutics hold registered and pending patents and are currently in advanced clinical trials. (Kamada 09.06)

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9: ISRAEL PRODUCT & TECHNOLOGY NEWS

9.1 Alvarion Receives Prestigious International Award

Alvarion announced that the WBI (Wireless Broadband Innovation) Awards panel of judges named the company Winner of Best WiMAX Product or Service for its WiMAX network deployed in the province of Castilla y Leon in Spain. Presented during the official ceremony in London, this is Alvarion's third award received from the organization. The vast and mountainous autonomous community Castilla y Leon is the largest region in Spain and Europe. Alvarion's WiMAX network was deployed by Iberbanda and has made broadband widely available, ensuring the future and economic vitality of the region. Today the network provides broadband voice and data services to 500,000 inhabitants and businesses in 3,500 populated areas and is a model for all European communities who want to bridge the gap between rural and urban areas. Tel Aviv, Israel's Alvarion (http://www.alvarion.com) is the largest WiMAX pure player, ensuring customer long-term success with fixed and mobile solutions for the full range of frequency bands. Based on its OPEN WiMAX strategy, the company offers superior wireless broadband infrastructure and an all-IP best-of-breed ecosystem in cooperation with its strategic partners. Alvarion boasts over 200 commercial WiMAX deployments worldwide. (Alvarion29.05)

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9.2 ImageID Among Finalists in 2008 European Supply Chain Distinction Awards

ImageID has been selected as finalist in two categories – “Excellence in Technology” and “Best Value Chain Provider/Best Supply Chain Solution Provider” – in the 2008 European Supply Chain Distinction Awards. The European Supply Chain Distinction Awards publicly acknowledge organizations that demonstrated best practices and excellence. ImageID's flagship Visidot offering, based on patent-protected technology, provides comprehensive multiple asset traceability. Visidot comprises a front-end capable of accurately capturing and decoding hundreds of product tags in a matter of seconds, and applying business rules on the acquired information, complemented by seamless integration with enterprise back-end systems enabling real-time operation, Web-based management and reporting. Visidot is a reliable and uniquely cost-effective global supply chain traceability solution, successfully implemented in companies of various industries, from food to automotive. Hod HaSharon, Israel's ImageID (http://www.imageid.com) is a leading provider of large field of view, imaging-based, global SCT (Supply Chain Traceability) solutions. Visidot, the company's proven traceability solution, consistently enhances logistics and manufacturing process efficiency and reliability. It enables tracking and tracing of hundreds of thousands of assets a day with 100% accuracy, providing complete supply-chain control. ImageID's customers vary from fresh food manufacturers and RTI pullers to automotive companies and other industries. (ImageID29.05)

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9.3 Wavion Introduces Self-Backhaul Wi-Fi – Optimal Service With No Alignments

Wavion announced the release of a new SW version supporting self-backhaul based on its digital beamforming technology. The powerful digital beamforming technology of Wavion's spatially adaptive base stations has now been extended to provide self-backhaul to and from neighboring base stations. Wavion's self backhaul provides optimal service without requiring alignments of any kind, making the installation quick and simple. Wavion's beamforming technology leverages six radios and antennas to provide a high quality and robust base-station to base-station self-backhaul with unmatched characteristics. The self-backhaul feature has been successfully tested by Wavion's beta customers.

Yokneam, Israel's Wavion (http://www.wavionnetworks.com) is transforming the metro Wi-Fi and rural markets with a new category of spatially adaptive base stations. The company's digital beamforming and SDMA technologies are the first and only to resolve the significant performance, penetration and profitability challenges facing large scale metro and rural deployments. Wavion is privately held and backed by world-class investors including Tel Aviv-based Elron Electronic Industries and BRM Capital. (Wavion 02.06)

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9.4 ECI Telecom Expands Hi-FOCuS MSAN Voice Capabilities with SIP Signaling

ECI Telecom announced that its Hi-FOCuS multi-service access node (MSAN), with integrated support for xDSL, fiber access and voice solutions, now supports SIP signaling for voice-over-IP. The added protocol support gives service providers the flexibility to choose any common industry IMS voice core as they migrate from PSTN to a next generation network (NGN). This enhanced capability further extends the flexibility of ECI's recently announced 1Net framework, which focuses on the optimal transition to NGN, delivering solutions that are agnostic of specific technology or network architecture. With ECI's 1Net best-of-breed approach and the Hi-FOCuS MSAN, service providers are able to align with a true IMS multi-vendor strategy and not be locked into any one vendor's end-to-end voice solution. ECI's Hi-FOCuS MSAN next-generation voice solution provides seamless replacement for legacy Class 5 PSTN lines and has evolved to include support for the SIP protocol. As service providers migrate to NGN, they have the flexibility with ECI's voice solution to deploy IMS SIP-based or H.248-based voice services. The enhanced Hi-FOCuS MSAN voice solution, which incorporates best-of-breed access gateway functionality, can flexibly and openly interoperate with third party Call Session Control (also known as 'softswitch') IMS solutions for delivery of voice PSTN-replacement services.

Petah Tikva, Israel's ECI Telecom (http://www.ecitele.com) delivers innovative communications platforms to carriers and service providers worldwide. ECI provides efficient platforms and solutions that enable customers to rapidly deploy cost-effective, revenue-generating services. Founded in 1961, Israel-based ECI has consistently delivered customer-focused networking solutions to the world's largest carriers. The Company is also a market leader in many emerging markets. ECI provides scalable broadband access, transport and data networking infrastructure that provides the foundation for the communications of tomorrow, including next-generation voice, IPTV, mobility and other business solutions. (ECI02.06)

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9.5 ECtel & Amdocs Join Forces to Provide Best-in-Class Fraud Detection and Prevention Solution

ECtel has joined forces with Amdocs, the leading provider of customer experience systems, for the delivery of a state of the art fraud detection and prevention solution, based on ECtel's leading fraud prevention product - FraudView, and Amdocs system integration services. Communication service providers continue to be challenged by growing fraud, resulting in revenue loss. In addition, fraudulent activities can lead to increased churn as customers seek providers that can deliver a flawless service experience. Designed to meet the needs of wireline, wireless, convergent and next generation service providers, FraudView is the market's leading and most comprehensive fraud management solution. FraudView goes beyond traffic and usage monitoring, allowing advanced detection of fraudulent activity as part of customer acquisition, credit risk management and new subscriber evaluation processes. The Amdocs-ECtel offering incorporates ECtel's FraudView and I-Probe technology. FraudView provides comprehensive fraud detection capabilities such as a sophisticated real-time fraud rules engine, advanced score cards, velocity and collision engine, subscriber profiling and evaluating capabilities, advanced neural models and credit limit monitoring. When integrated with I-Probe, FraudView allows operators to enjoy unbiased and independent probe-based CDR coverage and real-time collection, with optional call blocking and in-band analysis. This provides customers with superior capabilities for real time monitoring and preventing fraud.

ECtel (http://www.ectel.com) is a leading global provider of Integrated Revenue Management solutions for communications service providers. A pioneering market leader for nearly 20 years, ECtel offers carrier-grade solutions that enable wireline, wireless, converged and next generation operators to fully manage their revenue and cost processes. ECtel serves prominent Tier One operators, and has more than 100 implementations in over 50 countries worldwide. (ECtel 02.06)

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9.6 AudioCodes Introduces the Mediant 1000 Multi-Service Business Gateway

AudioCodes introduced its Mediant 1000 Multi-Service Business Gateway (MSBG) - a modular, all-in-one, networking device that combines a Media Gateway, enterprise class Session Border Controller, Data Router & Firewall, LAN Switch, WAN access, Stand Alone Survivability (SAS) and an on-board general purpose server. The Mediant 1000 MSBG is designed to address the needs of Service Providers and Cable Operators when offering IP-Centrex and SIP Trunking services, as well as the needs of distributed Enterprises. The Mediant 1000 MSBG simplifies installations and improves manageability for Operators, by delivering a cost-effective network device at customer premises, eliminating the "finger pointing" that occurs with multiple stacked elements from different vendors where the point of demarcation is unclear. For large distributed Enterprises, the benefit of the Mediant 1000 MSBG lies in the ease of implementing secure and reliable inter-branch communication with an integrated product. For both service providers and Enterprises, the Mediant 1000 MSBG's Stand Alone Survivability (SAS) features further guarantees continuous service offering and business continuity.

Lod, Israel's AudioCodes (http://www.audiocodes.com) provides innovative, reliable and cost-effective Voice over IP (VoIP) technology, Voice Network Products, and Value Added Applications to Service Providers, Enterprises, OEMs, Network Equipment Providers and System Integrators worldwide. AudioCodes provides a diverse range of flexible, comprehensive media gateway, and media processing enabling technologies based on VoIPerfect - AudioCodes' underlying, best-of-breed, core media architecture. The company is a market leader in VoIP equipment, focused on VoIP Media Gateway, Media Server, Session Border Controllers (SBC), Security Gateways and Value Added Application network products. (AudioCodes02.06)

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9.7 Check Point VPN Secures Remote Access for Apple iPhone

Check Point Software Technologies announced Check Point VPN-1 support for the Apple iPhone, allowing secure remote access to corporate network systems. Check Point VPN-1 enables an encrypted connection between the iPhone and VPN-1 gateway, protecting in-transit data. When deploying any device for corporate use, IT faces the challenge of safeguarding the traffic in and out of the private network. Check Point VPN-1 supports the L2TP client embedded in all current and future iPhone versions, giving customers immediate IPsec virtual private network (VPN) access to corporate servers. Customers can send and receive email and utilize company resources, including internal Web portals, file servers and IP-based corporate applications, without the need for additional software on the iPhone. With VPN-1 administrators can take advantage of a shared secret password and certificates for all iPhones on the network with specific login credentials for each end user. The feature eliminates the need for IT to create separate gateway authentication keys for each device, easing the deployment of iPhones on the network. Check Point VPN-1 support for the iPhone provides customers with the ability to utilize IP-based encryption for transmitting sensitive and private corporate data. Tel Aviv, Israel's Check Point Software Technologies (http://www.checkpoint.com) is the leader in securing the internet. Check Point offers total security solutions featuring a unified gateway, single endpoint agent and single management architecture, customized to fit customers' dynamic business needs. This combination is unique and is a result of our leadership and innovation in the enterprise firewall, personal firewall/endpoint, data security and VPN markets. (Check Point02.03)

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9.8 Connect One Offers Lowest Price Small Form Factor Wireless Module for M2M Applications

Connect One released Mini Socket iWiFi, a new embedded serial-to-WiFi module that quickly and easily connects embedded devices running machine-to-machine (M2M) applications to 802.11b/g wireless LANs with minimal programming. Mini Socket iWiFi's extremely compact size, battery save modes, and advanced roaming features make it an ideal solution for mobile M2M devices. Based on Connect One's iChipSec CO2128 Internet Protocol (IP) communication controller chip, Mini Socket iWiFi includes a full suite of internet protocols and applications, enabling immediate and full-featured connectivity for embedded solutions. Mini Socket iWiFi includes the latest wireless and SSL encryption algorithms and serves as a firewall, protecting the embedded application from the internet. The Mini Socket iWiFi's compact size (only 31x41 mm, antenna connector integrated onto the module) and advanced features makes it an ideal solution for mobile, battery-operated embedded devices. To facilitate mobility, Mini Socket iWiFi supports seamless roaming between access points. With several sleep modes and the ability for the host application to turn off WLAN, power requirements are kept to a minimum. In deep sleep mode, the Mini Socket WiFi's power consumption is only 30 micro-amperes, allowing battery operated devices to use the module for extremely long periods of time. 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 One03.06)

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9.9 IAI & Gulfstream Aerospace Celebrate Roll-Out of 200th Gulfstream G200 Business Jet

The 200th Gulfstream G200 was rolled out at the Israel Aerospace Industries (IAI) manufacturing Division at Ben Gurion International Airport, Israel. The “green” business jet now moves to the Gulfstream Center of Excellence completion facility for mid-cabin business aircraft in Dallas, Texas, where it will be outfitted and painted. The G200 was introduced in 1997 and was the first true super mid-size business jet to enter the marketplace. The aircraft received its Federal Aviation Administration (FAA) Type Certificate in December 1998 and entered service in January 2000. The G200 joined the Gulfstream fleet in June 2001. Since then, Gulfstream has made significant improvements to the aircraft. Within the first year, the company redesigned the business jet's interior, reducing the aircraft's weight by some 450 pounds. It installed a sound-proofing package that sliced cabin sound levels three to five decibels. Gulfstream revamped the aircraft's scheduled maintenance program, decreasing the number of required scheduled tasks while retaining the highest level of safety standards as defined by Federal Aviation Regulations (FARs). The G200 has proven performance and the lowest operating costs in its class. Its 12-month dispatch reliability rate of 99.77 percent matches those of larger aircraft in the Gulfstream fleet. The aircraft continued to demonstrate its performance earlier this year when it set seven city-pair records in just 10 days. Those records join 11 others the G200 has set since 2001. To date, some 180 G200s are in service around the world. (IAI04.06)

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9.10 Rheinmetall Defence & IAI Cooperate In Wide-Area Reconnaissance

Dusseldorf, Germany's Rheinmetall Defence and Israel Aerospace Industries (IAI) announced their new cooperation agreement on the marketing of the Heron TP UAV reconnaissance system for long-range operations in the Bundeswehr program SAATEG (“imaging surveillance system for the depth of the deployment theatre”) during the Berlin Air Show ILA 2008. This program has the task of contributing towards a comprehensive situational awareness within the scope of networked command & control, both over land and on the high seas or at the coasts. At present, the German armed forces do not yet have a MALE (Medium Altitude Long Endurance) drone system that can be deployed for missions abroad in all the corresponding environmental conditions worldwide and on a 24/7 basis. The key requirements for the new system are capabilities for wide-area realtime surveillance and situation reconnaissance, target acquisition and battle damage assessment – including object and target tracking – as well as competence for precise identification. The German need must be met in the near-term, i.e. the initial operating capability (IOC) is already planned for 2010. For this program, Rheinmetall Defence and IAI are offering the long-range UAV system “Heron TP” – an advancement of the proven Heron system. Heritage of more than 400,000 UAV flight hours and 30 years of operational experience by 35 customers were implemented in the design and the development of the Heron TP.

IAI (http://www.iai.co.il) is a major aerospace company and Israel's largest industrial corporation, with more than 16,000 employees. As Architects of integrated UAV system solutions, MALAT is the leader of IAI's UAV endeavor and is one of the world's most experienced unmanned air vehicle system manufacturers. MALAT, through extensive international teaming, manages comprehensive system development, integration and manufacturing of UAV systems that fulfill the interoperability, commonality, and connectivity requirements that users anticipate. (Rheinmetall02.06)

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9.11 ECI Telecom Expands Hi-FOCuS MSAN Voice Capabilities with SIP Signaling

ECI Telecom announced that its Hi-FOCuS multi-service access node (MSAN), with integrated support for xDSL, fiber access and voice solutions, now supports SIP signaling for voice-over-IP. The added protocol support gives service providers the flexibility to choose any common industry IMS voice core as they migrate from PSTN to a next generation network (NGN). This enhanced capability further extends the flexibility of ECI's recently announced 1Net framework, which focuses on the optimal transition to NGN, delivering solutions that are agnostic of specific technology or network architecture. With ECI's 1Net best-of-breed approach and the Hi-FOCuS MSAN, service providers are able to align with a true IMS multi-vendor strategy and not be locked into any one vendor's end-to-end voice solution. ECI's Hi-FOCuS MSAN next-generation voice solution provides seamless replacement for legacy Class 5 PSTN lines and has evolved to include support for the SIP protocol. As service providers migrate to NGN, they have the flexibility with ECI's voice solution to deploy IMS SIP-based or H.248-based voice services. The enhanced Hi-FOCuS MSAN voice solution, which incorporates best-of-breed access gateway functionality, can flexibly and openly interoperate with third party Call Session Control (also known as 'softswitch') IMS solutions for delivery of voice PSTN-replacement services.

Petah Tikva, Israel's ECI Telecom (http://www.ecitele.com) delivers innovative communications platforms to carriers and service providers worldwide. ECI provides efficient platforms and solutions that enable customers to rapidly deploy cost-effective, revenue-generating services. Founded in 1961, Israel-based ECI has consistently delivered customer-focused networking solutions to the world's largest carriers. The Company is also a market leader in many emerging markets. ECI provides scalable broadband access, transport and data networking infrastructure that provides the foundation for the communications of tomorrow, including next-generation voice, IPTV, mobility and other business solutions. (ECI03.06)

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9.12 Voltaire Announces Availability of Voltaire Messaging Accelerator Software

Voltaire announced Voltaire Messaging Accelerator, a new software solution that dramatically improves performance of multicast applications running on InfiniBand fabrics. Voltaire Messaging Accelerator boosts performance of financial market data applications, including Wombat and Reuters RMDS, cutting latency by as much as 50% and increasing application throughput per server, as compared to applications running on standard Ethernet interconnect networks. Previously, Voltaire delivered discrete elements of this software as part of its InfiniBand solution for financial services customers to help them improve performance and lower latency for market data and transaction-based applications. With the release of Voltaire Messaging Accelerator, Voltaire has packaged the software into a solution that lowers latency and increases transactions per second for data acquisition applications for a wide array of uses including video applications, medical imaging systems, radar and other defense systems, as well as for market data applications in the financial services industry. Voltaire Messaging Accelerator can improve performance of any application that makes heavy use of multicast and requires high packets-per-second rates, low data-distribution latency, low CPU utilization or increased application scalability. Voltaire Messaging Accelerator increases maximum packet rates, provides consistently lower messaging latency and gives CPU cycles back to the application without the need to modify application code.

Herzliya, Israel's Voltaire (http://www.voltaire.com) designs and develops server and storage switching and software solutions that enable high-performance grid computing within the data center. Voltaire refers to its server and storage switching and software solutions as the Voltaire Grid Backbone. Voltaire's products leverage InfiniBand technology and include director-class switches, multi-service switches, fixed-port configuration switches, Ethernet and Fiber Channel routers and standards-based driver and management software. (Voltaire03.06)

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9.13 Elbit Systems Supplies IAF F-16I Simulator System to the Israeli Ministry of Defense

Elbit Systems and Lockheed Martin inaugurated the avionics simulation system delivered to the Israeli Ministry of Defense (IMOD) for the Israel Air Force (IAF) F-16I Sufa aircrew flight and system trainer. The simulator is fully compatible with the aircraft avionics and cockpit. Elbit Systems additionally supplied an advanced simulating system to enable the IAF pilots Out-of-Cockpit world view for full training in different air conditions in both day and nighttime. The systems were delivered to the full satisfaction of the IAF and the Israeli Ministry of Defense, within the planned timeframe. In 2005, Elbit Systems supplied an advanced simulation system for the F-16A Netz and has already received a follow-on order for the development of a simulation system for the F-16B Barak. In addition, Elbit Systems supplies the core avionic systems for the IAF's F-16I aircraft. These systems include the Display and Sight Helmet (DASH), mission computer systems, head-up display systems, display processors, digital maps as well as stores management systems. Haifa, Israel's Elbit Systems (http://www.elbitsystems.com) is an international defense electronics company engaged in a wide range of defense-related programs throughout the world. The 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. (Elbit04.06)

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9.14 ECI Telecom & Ceragon Partner to Deliver Integrated Solution for Wireless Backhaul

ECI Telecom and Ceragon Networks announced a partnership to provide a joint multi-service transport radio solution for carriers. The partnership, which strengthens the long-term cooperation between the two market-leading companies, addresses the demand for an end-to-end integrated wireline and wireless backhaul solution, and offers reduced time-to-market, improved manageability and lower integration costs. By expanding its offering with microwave radio, ECI meets customer requirements for high-capacity and cost-effective backhaul solutions and simplifies the deployment of future backhaul networks. To offer carriers an efficient solution with simplified administration, maintenance and provisioning for wireless transport networks, and therefore lower operating expenses, the joint offering is managed by ECI's LightSoft management system. The joint multi-service transport radio combines ECI's XDM and Broad-Gate Multi-Service Provisioning Platforms (MSPP) with Ceragon's FibeAir IP & SDH microwave technology.

Petah Tikva, Israel's ECI Telecom (http://www.ecitele.com) delivers innovative communications platforms to carriers and service providers worldwide. ECI provides efficient platforms and solutions that enable customers to rapidly deploy cost-effective, revenue-generating services. Tel Aviv, Israel's Ceragon Networks (http://www.ceragon.com) is a leading provider of high capacity wireless backhaul solutions that enable wireless service providers to deliver voice and premium data services, such as Internet browsing, music and video applications. Ceragon's wireless backhaul solutions use microwave technology to transfer large amounts of network traffic between base stations and the infrastructure at the core of the mobile network. Ceragon designs solutions to provide fiber-like connectivity for circuit-switched, or SONET/SDH, networks, next generation Ethernet/Internet Protocol, or IP-based, networks, and hybrid networks that combine circuit-switched and IP-based networks. (ECI04.06)

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9.15 InkSure Wins Large Tax Stamp Order

InkSure Technologies was notified by their sales partner that a European government had approved a new tax stamp which includes the InkSure covert protection against counterfeiting. InkSure has received initial orders for $275,000 to be delivered by October 2008. These orders are the first shipment of a master agreement with a minimum contract value of $1.921m. This agreement includes authentication field readers, quality control readers, and customized SmartInk. The new tax stamp will include a hologram incorporated with InkSure covert technology to provide multi-layer protection for alcohol and cigarettes. The government body will read the covert marks by utilizing InkSure's proprietary PocketSure and SignaSure readers. Both readers contain specialized optics that are configurable to match the specific requirements of the customer's unique custom code. InkSure Technologies (http://www.inksure.com), with its corporate headquarters in Ft. Lauderdale, Florida and its research and development center in Science Park, Rehovot, Israel, specializes in comprehensive, covert security solutions designed to protect high profile brands and documents of value from counterfeiting, fraud and diversion. (InkSure05.06)

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9.16 PineApp's Mail-SeCure Selected by Geotest to Secure Email and Aggressively Block Spam

PineApp announced that Geotest, a Marvin Group Company based in Irvine, California, has selected PineApp's Mail-SeCure perimeter security appliance to protect the company and its networks from malicious Spam attacks. The Mail-SeCure appliance was chosen to replace Geotest's previous software Spam solution which proved to be ineffective in maintaining optimal email protection. Geotest selected PineApp after reviewing multiple alternatives, finding Mail-SeCure to provide the highest level of security, ease of use and deployment and most cost effective compared to other appliances and software solutions. Mail-SeCure is an advanced Anti-Spam and email security appliance that combats evolving email-based threats. Mail-SeCure provides unrivaled email security with the integration of five Anti-Virus engines along with 11 Anti-Spam engines. This protects against targeted threats such as Mail-bombing, DoES and Backscatter, as well as non-targeted threats including Viruses, Spam, Worms and Trojan-horses. Geotest specializes in the design and manufacture of PXI and PC-based test equipment including test instrumentation, instrumentation controllers and chassis, test development software and turn-key test systems. Geotest's off-the-shelf products include state-of-the-art software and hardware for the test and measurement market such as ATEasy, the leading software development environment for A.T.E. applications, a broad range of PXI products, and DIO, the world's fastest PC-based digital I/O. Nesher, Israel's PineApp (http://www.pineapp.com) is a leader in securing networks and email systems and offers comprehensive appliance solutions for small, medium and large organizations. In the past five years PineApp has specialized in email and content security systems and already has significant presence in more than 50 countries. (PineApp 09.06)

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9.17 DesignArt Networks Unveils 4G Silicon Platform and Delivers Fully Integrated WiMAX SoC

DesignArt Networks unveiled a groundbreaking solution to the most pressing issue of broadband wireless deployments - the staggering cost and operational complexity of backhaul. DesignArt's highly integrated system-on-chip (SoC) platform architecture integrates high-capacity backhaul capability with standards-compliant WiMAX and LTE base station functionality, delivering zero-cost backhaul solutions. The company also announced its first product, the DAN2400 open SoC platform for WiMAX base station and relay designs. The DAN2400 is an open WiMAX SoC platform, based on a software-centric, purpose-built multi-core architecture, designed for high-performance, carrier-grade networks. The DAN2400 provides a complete single-chip PHY and MAC solution for mobile WiMAX base station designs. It integrates a powerful DSP controlling a 6-channel smart antenna module, an embedded high-capacity network processor and several control plane CPUs to enable the most compact design architecture for any type of WiMAX base or relay station on the market.

Ra'anana, Israel's DesignArt Networks (http://www.designartnetworks.com) is the leading supplier of system-on-chip (SoC) solutions driving the evolution of the 4G radio network infrastructure, towards high-capacity, high-density deployments with ubiquitous outdoor and indoor coverage. Current DesignArt products are based on the mobile WiMAX standard, IEEE 802.16e-2005, offering single-chip solutions for any type and form factor of base and relay station. DesignArt is the first and only WiMAX silicon vendor to fully integrate all base station processing systems, enhanced with high-capacity backhaul, relay and cluster capabilities, on a single-chip SoC product. (DesignArt 09.06)

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10: ISRAEL ECONOMIC STATISTICS

10.1 Unemployment Rate in Israel Falls To 11-Year Low

Israel's seasonally adjusted unemployment rate fell to 6.3% in Q1/08 as the economy entered its sixth consecutive year of growth. This is a 24-year low, since the unemployment rate of 5.9% in 1984. The seasonally adjusted jobless rate declined from a revised 6.7% in Q4/07 and 7.8% in Q1/07, according to the Central Bureau of Statistics. The economy expanded an annualized 5.4% in Q1/08. Growth will probably moderate later this year, with the Bank of Israel forecasting expansion of 3.2% in the 12 months, the slowest pace in five years. Unemployment fell in the first three months of the year even as more people joined the workforce. The percentage of the working age population in the labor force climbed to 56.6% from 56.1% in Q4/07. The workforce grew 4.3% to 2.76m people, in this period. Unemployment rates in the large cities varied widely, from 4.8% in Tel Aviv to 6.4% in Haifa and 7.5% in Jerusalem. The unemployment rate in the Galilee was 8.3%. (CBS28.05)

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10.2 Israeli Car Sales Soar

Between January-May 2008, 96,739 new vehicles were delivered in Israel, 34% more than during the corresponding period of 2007, according to a report by the Israel Motor Vehicles Importers Association. Of the vehicles, 78,521 new cars were delivered, 30% more than in the corresponding period last year. Deliveries of off road vehicles jumped 64% to 7,742 units, despite the increase in fuel prices. Some 17,909 vehicles were delivered in May, 21% less than in May 2007, as result of a change in the method of assigning the model year. The new year for models began in May last year, and deliveries in that month included a substantial backlog of orders from the previous two to three months, when demand was low and supplies were short. Sales in May this year have been at the regular level. Mazda had the most deliveries once more, with 17,057 deliveries in January-May, a 58% increase over the corresponding period last year. Deliveries in May alone totaled 3,390. Toyota was in second place with 10,333 deliveries in January-May, an increase of 15%, and 2,100 deliveries in May. Hyundai came third with 10,206 deliveries in January-May, an increase of 11%, followed in fourth place by Chevrolet, with 7,128 deliveries, a 79% increase, and Honda in fifth place, with 6,765 deliveries, 74% more than in the corresponding period last year. Automobile sector sources say that there has been some slowdown in demand from private customers, although orders from leasing companies remain stable, and the increase fuel prices has not had any effect. (Globes 04.06)

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11: In Depth

11.1 MIDDLE EAST: Moody's Reports Middle East Inflation Surge Sharpens Fiscal & Political Risks High and accelerating inflation could potentially hit some Middle East sovereign ratings as it sharpens political and economic risks, Moody's Investors Service (http://www.moodys.com) says in a new Special Comment. The ratings of poorer, non-oil-exporting countries are more likely to be affected in the shorter term by high inflation because of their enhanced social and fiscal vulnerabilities. However, even the ratings of affluent, oil-exporting sovereigns could be affected over the longer term if high price growth persists.

"The Middle East is currently experiencing a strong resurgence of inflation. While accelerating price growth is a global phenomenon, the Middle East region has been particularly affected because of a preponderance of fixed or heavily managed exchange rates, an oil-fuelled liquidity expansion, widespread infrastructure bottlenecks and a reliance in most countries on food imports," explains Tristan Cooper, a Moody's Vice-President / Senior Analyst and author of the report. According to the IMF, the Middle East experienced the highest average inflation rate of all global regions in 2007, at 10.4%, and this is expected to accelerate in 2008.

Although inflation is seldom a direct driver of Moody's sovereign credit ratings, it can affect them indirectly through three main channels -- fiscal, political and economic -- and Moody's is beginning to observe such trends among Middle Eastern sovereigns.

"Given enhanced sensitivities to the risk of social unrest, some governments in the Middle East are finding it difficult to maintain fiscal discipline. Inflation's tendency to aggravate political risk is clearly less acute among oil-exporting countries, which currently have the capacity to expand fiscal expenditure and offset the erosion of citizens' purchasing power. However, poorer countries have less room for maneuver, and therefore the political and fiscal consequences of inflation are of greater short-term concern," Mr Cooper observes. The analyst adds that, although accelerating inflation has yet to impact real economic growth in the region, which remains strong, there is a risk that it could undermine activity if sustained.

Moody's report -- entitled "Middle East: Resurgent inflation sharpens fiscal and political risks" -- explains that the rating agency has constructed a simple and non-linear rank ordering of the countries it rates in the Middle East with a view to demonstrating the relative sensitivity of their ratings to the effects of inflation, based on three primary considerations -- social vulnerability, fiscal flexibility and inflationary pressure.

"As would be expected, the ratings of non-oil exporting countries that are poorer, fiscally constrained and already experiencing high rates of inflation are more likely to be affected in the shorter term than those of the more affluent Gulf oil-exporters. High rates of inflation are of particular concern in Egypt (whose Baa3 local currency rating is on negative outlook) and Jordan given their social and fiscal vulnerabilities. Lebanon's very low B3 rating already encapsulates a high degree of political and economic risk," Mr Cooper explains. Moody's report explains in more detail how inflation can affect sovereign ratings indirectly as well as discussing the implications and drivers of the current surge in inflation in the Middle East. (Moody's05.06)

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11.2 MIDDLE EAST: LNG Burden

Thanks largely to Qatar, the Economist Intelligence Unit reports, there will be plenty of liquefied natural gas (LNG) capacity coming on stream in the next two years, but after that a slowdown looms. In 2007 Qatar firmly established itself as the largest supplier of LNG in the world, exporting 29.3m tonnes, equivalent to a 17% market share, according to figures collated by the Paris-based International Group of Liquefied Natural Gas Importers. Malaysia was a distant second, with 22.6m tonnes, followed by Indonesia, Algeria, Nigeria and Australia. Japan remained the largest importer, with a market share of almost 40%, while China, India and the USA were among the fastest-growing markets.

By the end of 2010, Qatar is scheduled to bring on stream a further 46.8m tonnes/year of LNG capacity, serving customers in the US, Europe and Asia, as well as in its own backyard, with some cargoes being dropped off in Jebel Ali to help tackle the UAE's chronic gas shortage.

Qatar's Hiatus

However, Qatar has declared a moratorium on new gas export projects to allow for an assessment of the state of the North Field reservoir, meaning that after the new trains come on stream there is unlikely to be any additional supply of LNG from Qatar until the second half of the next decade. This would not be a cause for concern if enough other suppliers were gearing up to fill the gap, but with only three new projects approved in 2007 - in Angola, Australia and Algeria (the latter involving the rebuilding of a plant that exploded in 2004) - the outlook is not encouraging.

The main constraints on new LNG investments are rising costs, for both upstream development and liquefaction plant construction, and the competing claims of domestic consumers in some of the leading LNG exporting countries. Egypt, for example, has quickly established itself as a significant player in the LNG market, with three export trains in operation. However, Egypt's LNG exports declined by 4.6% in 2007, compared with the previous year, and plans for two more trains, one at Idku and the other at Damietta, have been on hold for some time owing to a stand-off between the government and foreign companies over commercial terms for upstream development and concerns about meeting domestic demand. There have recently been signs of progress in the Egyptian upstream segment, following revisions to the price structure, but the fate of the proposed new LNG trains remains unclear.

In Algeria, prolonged negotiations over costs resulted in a two-year delay in the award of the contract to repair the Skikda LNG plant, and the government last year pulled the plug on a contract with Repsol and Gas Natural of Spain for the development of the Gassi Touil integrated gasfield and LNG project, again owing to wrangles over costs. Another major LNG supplier, Nigeria, is also looking to claw back some of the gas allocated to export projects to serve the domestic market, which could affect the schedules for the upcoming OKLNG and Brass LNG projects.

Within Middle East and North Africa, Iran has the greatest potential to add significantly to global LNG supplies, but has been stuck in the starting block for several years. Last month the government and Royal Dutch/Shell agreed in effect to postpone their planned LNG joint venture. Iran will take over the development of the upstream field designated for this project and use the gas for its domestic needs, while Shell has been assured that an alternative field will be allocated for the LNG project in the future.

The new Qatari projects and other supplies coming on stream from new producers such as Yemen, Russia and Peru will ensure a sufficiency of LNG supply over the next few years. However, predictions from the International Energy Agency, among others, that the LNG market would more than double from its current level by 2015 are looking increasingly far-fetched. (EIU03.06)

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11.3 LEBANON: Dividends of Peace

Lebanon may have a new president and be on the way to gaining a new cabinet, but the country's economy will face a long road back from instability and the effects of political infighting. As the Oxford Business Group noted, there are no guarantees that the deal brokered in Doha in mid-May between Prime Minister Fouad Siniora's government and the opposition will stand the test of time. Under the terms of the deal, former army chief of staff General Michel Suleiman was elected president and a path was negotiated for a multiparty government and reforms to Lebanon's electoral laws.

While Suleiman has been installed in office, ending a stand-off that saw 19 failed attempts to elect a new president since Emile Lahoud stood down in late November, the task of appointing a cabinet from the various factions represented in the parliament, which falls to recently reappointed Prime Minister Fouad Siniora, will be a difficult one. The number of cabinet posts each faction will hold was established in the Doha agreement, with the majority coalition led by Siniora getting 16 of the 30 ministerial positions and Hezbollah and its allies receiving 11, and a further three to be chosen by the president. The appointment of posts could have a particular impact on Lebanon's economy, especially given the wide gap between Hezbollah and its allies and the pro-Siniora March 14 forces over some key economic policies.

Hezbollah in particular has opposed the privatization of the two state-owned mobile phone networks and the selling off of the country's landline monopoly, though it had backed the proposal before leaving the coalition government in 2006. Initially slated for 2007, the privatization of the telecommunications industry and the auction of a third mobile phone license have been repeatedly delayed.

Siniora's former government had committed to using the expected $6bn windfall from the telecoms sell off to reduce Lebanon's debt levels. However, the sale and the proposed use of the funds could be subject to the veto power granted to Hezbollah and its allies under the Doha deal.

Another possible impediment to implementing long stalled economic reforms is the relatively short life span of the incoming national unity government. Lebanon's voters are scheduled to go to the polls in less than 10 months, after the parliament passes a series of amendments to the electoral laws. These changes include lowering the voting age to 18, a move many believe will favor Hezbollah, which has an active youth branch.

With the country's parties jockeying for position and popularity ahead of the vote in 2009, there may be a reluctance to put in place plans to raise the value added tax rates this year and next. Siniora had committed to do so at the Paris III donors' conference in January 2007.

However, the new government will not be in a strong position to spend heavily on programs that will increase popularity with the electorate. The gross public debt hit $43.2bn at the end of the first quarter of the year, up 2.74% since the last quarter of 2007, representing 175% of Lebanon's gross domestic product (GDP). Nevertheless, there have been some positive signs for the economy in the weeks following the declaration of political peace. Real estate sales have jumped and analysts have made predictions for strong foreign direct capital inflow. According to Nabil Itani, chairman and general manager of the Investment Development Authority of Lebanon, foreign investors are returning to the market. "The picture in Lebanon has completely changed after the Doha talks and the election of the president. We are getting a lot of inquiries that will be translated into projects in the future," Itani told the local press on May 28.

With the end of the Hezbollah-sponsored protests in Beirut's central business district, which led to a dramatic downturn in retail trading and new project development, there will be a renewal of activity, Itani said. While it is too early to tell if Lebanon's political truce will hold, for the moment at least, the leaders of various factions are talking up reconciliation and the economy. "Emerging from economic stagnation and activating the economy requires political and security stability," President Suleiman said in his inauguration speech on May 25. "Let us unite [...] and work towards a solid reconciliation."

On May 26, Seyyed Hassan Nasrallah, the secretary general of Hezbollah, said his group was not seeking to control Lebanon or impose its views on other entities. He added that Hezbollah would not use armed conflict to reach its goals. "Lebanon is a pluralistic country. The existence of this country only comes about through co-existence," he said in an address to mark the anniversary of the departure of Israeli forces from Lebanon in 2000. As long as the actions speak as loudly as words, Lebanon's economy may reap the dividends of peace. To achieve that however, the Lebanese will need first to recover from the shock of an armed takeover by Hezbollah of parts of the capital in May. (OBG03.06)

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11.4 KUWAIT: Looking to Gas

Although the country has discovered significant reserves of natural gas over the past few years, the Oxford Business Group commented that growing demand is leading Kuwait to look abroad to meet its immediate needs. Demand for natural gas in Kuwait is now outpacing supply by 8% per year. This figure is largely driven by increased consumption from the country's power stations, which are looking to gas for environmental reasons, as well as to free up oil for export. There are also a number of petrochemical projects in the pipeline that will become major consumers of natural gas, putting an even greater strain on supply.

In an effort to bridge the gap, the country has signed a $150m contract with US-based Excelerate Energy to build import facilities for liquefied natural gas (LNG) at the Ahmadi port, state refiner Kuwait National Petroleum Co (KNPC) said in a statement on May 8. Imports are scheduled to begin in May 2009. In the same statement KNPC explained, "This move came in response to the rising demand for gas and other energy sources by the ministry of electricity during summertime, as the current volume of gas production in Kuwait does not meet the minimum needs of the power generating sector."

Officials had previously suggested the country was looking to import between 500m and 750m cubic feet of LNG per day on a temporary basis. While it has not been confirmed where the gas will be sourced from, the most likely candidate is Qatar, which is home to 14% of the world's total reserves and is the world's largest exporter of LNG. In 2000, Kuwait signed an agreement with Qatar, which originally involved developing an underwater pipeline to transport natural gas to the United Arab Emirates (UAE), Oman and Kuwait. However the deal has been delayed by Saudi Arabia, which refused permission for the pipeline to pass through its territorial waters. Transporting LNG by ship to a port like Ahmadi and then directing it to the country's power stations could be a replacement for the pipeline project, though it is a much more expensive alternative.

Meanwhile, Kuwait is looking to develop domestic gas production. In March 2006 Kuwait announced the discovery of 35trn cubic feet of non-associated natural gas in the Sabriyah and Umm Niqa fields. This was the first find of its kind - most of Kuwait's natural gas is "associated", meaning it is produced as a by-product during the extraction process of crude oil. Industry studies have estimated that between 60% to 70% of the gas discovered in the north is in fact recoverable. According to local press, this discovery could raise Kuwait's natural gas reserves by 55.7%, making the country's reserves the 11th largest in the world, up from its current standing at 20th.

Farouk Al Zanki, the chairman of the Kuwait Oil Company (KOC), told OBG that the country's goal is to start production with an initial output of 180m cubic feet per day, along with 50,000 barrels per day (bpd) of light oil or condensate. This will be increased to 600m cubic feet of gas by 2011, and will reach 1bn cubic feet by 2014-15. Although industry insiders have questioned whether Kuwait will be able reach full self-sufficiency, the government seems optimistic that enough natural gas is available to eventually meet demand.

"We have found gas in the Dhabi field and Umm Niqa is very promising," Mohammed Ahmad Hussein, deputy managing director for planning and gas at KOC, told local media. He added, "Offshore has huge potential too and we are looking at the prospect of Jurassic gas throughout Kuwait. Deeper horizons are being investigated and more drilling prospects are being identified." (OBG06.06)

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11.5 IRAQ: Oil Supply Savior for Economy?

The growing concerns in the world energy market about the risks of a supply crunch have been a critical factor behind the recent surge in oil prices to a new record of $135/barrel. Speculators are betting huge sums on the assumption that the oil market (and other primary energy markets) will remain tight for many years to come, owing to the inelasticity of demand and to the constraints on long-term supply. Saudi Arabia, the world's largest oil exporter, is doing its bit to allay these concerns, but has acknowledged that once its current crop of oilfield projects is complete in around 2013, there will be little scope for further capacity increases. Similar strains are evident in most of the other major oil-producing countries. One significant exception is Iraq, which holds (at least) 10% of the world's proven reserves, but accounts for only 2.5% of total production. Iraq has the potential to furnish a long-term solution to the oil market's long-term supply problem, but it will need to improve dramatically on its recent performance before buyers of oil futures will be convinced that it can deliver.

All About Oil

If history had been kinder, Iraq could now be producing at a comparable level to Saudi Arabia. Instead, three wars, 13 years of sanctions and five years of internal conflict have eroded Iraq's oil infrastructure and human capital. However, Iraq also has a history of recovery. Production peaked at over 3.5m barrels/day (bpd) in 1980 on the eve of the Iran-Iraq war, but then averaged less than half that level during the eight-year war. It had nearly recovered to 3.5m bpd in 1990, after which the invasion of Kuwait and the subsequent UN sanctions severely limited exports, and hence production. In the five years before the US-led liberation of 2003, the sanctions regime gradually permitted greater exports, and production was often above 2.5m bpd. However, it fluctuated considerably due to the impact of years of underinvestment, restrictions on the import of spare parts and isolation from the international oil industry.

This volatility in production has continued in post-Saddam Iraq, although the average level has usually been below 2m bpd, and only exceeded the immediate pre-war level of 2.3m bpd for the first time at the end of 2007. Operations have been frequently disrupted by events ranging from the bombing of pipelines to the murder of oil workers. Moreover, the competition between political factions for influence at every level in the industry- as well as widespread corruption - has not provided suitable conditions for a revival of the industry. There is even concern that damage may have been caused to some fields in order to maintain production at modest levels.

Things may be changing. Iraq's deputy prime minister, Barham Salih, said in April that Iraq's total reserves, could be as high as 350bn barrels, triple the 115bn that has been its officially stated level for many years. The figure is aspirational and should be treated carefully but, given that there has been barely any new exploration of Iraq's promising geology in 30 years, an upward revision of the official reserves figure seems long overdue. This underlines Iraq's uniquely large reserves-to-production (RP) ratio, which was already the world's highest and, based on Mr Salih's estimate and at the expected production level of 2.3m bpd in 2008, would stand at a remarkable 415 years (compared with a world average of about 40 years). If Iraq were able to achieve the average Middle East RP-ratio of 80 years then it would be pumping 4m bpd based on the current reserves, and 12m bpd based on Salih's aspirational estimate. Getting there would take some time, around five years for 4m bpd and probably more than 20 years for the most optimistic level. It would also require Iraq to achieve a sufficient degree of stability. However, if there are promising signs of progress over the next 18 months, then it might be enough to mitigate fears of shortages next decade and dampen the futures market.

Fair Share

The issue on which everything hinges is the basis on which Iraq's oil will be developed. Although at its height in the 1970s, Iraq's national oil industry would have had the capacity to implement a significant part of the exploration and development needed, it has been severely eroded since then. Therefore, it is widely recognized that foreign expertise will be needed, but Iraqis are split on two important issues which have so far held back progress. The first is whether the development and operation of the oil sector will be managed entirely from Baghdad or also at a regional level, particularly in the Kurdish region. The second is the terms under which international oil companies (IOCs) will be invited to participate. In particular, the idea of production-sharing contracts (PSCs) has aroused such considerable opposition—from parliamentarians and oil workers' unions who believe that Iraq should fund the development itself (particularly now that there is a large budget surplus)—that the government has apparently backtracked. These controversies have blocked the ratification in parliament of a national hydrocarbons law which was first approved by the cabinet in February 2007. Although no draft has so far emerged that elicits a majority of support, it may yet pass this summer as part of a bundle of laws.

Stop-gaps

In the meantime, the oil minister, Hussein Shahristani, announced plans in January for a series of two-year technical service agreements to upgrade five existing fields by 100,000 bpd each. This is a relatively uncontroversial first step, simply paying IOCs for their services without granting them any claims on revenues or reserves - but none of the contracts have yet been finalized. Then, in mid-April, Iraq released a long-delayed list of 35 IOCs initially approved to bid for more substantial long-term contracts covering exploration, development and production. Theoretically, bidding on the first round of contracts could be complete by the end of the year, and if Iraq - or at least the regions containing the respective oil fields - is sufficiently stable, then work could begin soon afterwards. However, there is a significant risk that this timeline could slip due to bureaucracy and possibly to political shifts following the provincial elections in October.

Kurdish Exception

In contrast to delays at the national level, there has been a great deal of activity in the Iraqi Kurdistan region. The Iraqi Kurds had long felt that their region had been deliberately deprived of an oil industry by successive governments in Baghdad, and therefore pressed ahead with development in their essentially autonomous region. The Kurdistan Regional Government (KRG) began drawing in IOCs both because it had little capacity itself and also to provide some international leverage in the inevitable confrontation with Baghdad. Given their weak position and limited finances, the KRG has been happy to sign PSCs, and the first oil well was drilled by Norwegian company DNO in 2006 and now produces about 7,000 bpd. It has signed PSCs with other IOCs including Canada's Western Oil Sands, the UK's Sterling Energy and most recently with Niko Resources of Canada in May. Also, in frustration at the failure to agree a national hydrocarbons law, the KRG passed its own in August 2007. Until now most oil majors have avoided the KRG because of the potential backlash from Baghdad, demonstrated by the fact that companies such as the Korea National Oil Corp that have signed contracts with the Kurds were explicitly excluded from the list of 35 approved IOCs.

Hurdles

Although there is some way to go, 2008 may be seen as the year in which Iraq's oil industry began to recover and, when the markets recognize this, it may take some of the edge off the oil price. However, given Iraq's history of dashed expectations, it would be unwise to factor major production increases into oil supply projections until Iraq has passed a series of important tests. One of these is whether the Iraqi army will be able to maintain security as the US draws down its troops. Another is whether the rival Shia movements led by Muqtada al-Sadr and Abdel-Aziz al Hakim can make the transition from street fighting to purely political competition - an issue that will probably not be resolved until the next general election in December 2009. Finally, the KRG and the rest of Iraq will need to conclude that it is worth reaching a compromise on Kirkuk (the disputed northern province that contains Iraq's largest oilfield) and regional autonomy in order to share in the benefits that a major expansion in the oil industry will bring. (EIU23.05)

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11.6 BAHRAIN: Investing Abroad

Bahraini investors are increasingly looking overseas, observes the Oxford Business Group, particularly at Central and Eastern Europe, targeting investments in the transport, logistics, finance and real estate sectors. One of the most active players has been the investment bank Arcapita, formerly known as First Islamic Investment Bank. According to recent media reports, Arcapita is on the verge of taking over Britain's second-largest rail cargo company, Freightliner. On May 25, international press reported the bank was in the process of conducting due diligence investigations and was expected to close the GBP350m deal by early June.

The purchase would not represent Arcapita's first foray abroad. It bought Pinnacle Real Estate, a developer and operator of logistics warehouses in Central and Eastern Europe, on May 6. By acquiring Pinnacle, Arcapita gained a portfolio of 230,000 square meters of existing warehouse space in countries such as the Czech Republic, Poland and Slovakia, as well as further 1.5m square meters of land for development. "Pinnacle [...] takes our total European investment into this sector to over 1.4bn euros ($2.2bn)," Atif A Abdulmalik, Arcapita's chief executive officer, said in a statement.

Another major Bahraini investor eyeing the European market is Shamil Bank, which has joined forces with the Sharjah Islamic Bank and Switzerland's Faisal Private Bank to launch a $237m Sharia-compliant fund focusing on the Central and Eastern European real estate market. Abdul Hakim Khalil Al Mutawa, the head of Shamil's private and investment banking group, said seven assets in Romania, Bulgaria and Poland had already been reserved for the fund, with further investments planned in the Czech Republic, Croatia and Ukraine.

Part of the drive to invest in real estate in this area was due to the strong inward investment flows to various economic sectors, Al Mutawa said. "Most of these economies are in transitional stages, ahead of their integration into the globalised economy, which is a good reason for international investors to commit to the region," he said.

Kazakhstan has also been targeted as an investment opportunity, with Ithmaar Bank announcing the launch of a $1bn fund for developing energy projects in the region. Launched in mid-May in partnership with Kazyna Capital Management, an arm of Kazakhstan's Kazyna Sustainable Development Fund, the new project aims to generate investment in the oil and gas sectors of Kazakhstan and nearby Commonwealth of Independent States (CIS). "The abundance of natural energy resources in the Caspian Basin is driving foreign direct investment into the developing economies of Kazakhstan and many of its neighboring countries," said Michael P Lee, Ithmaar's chief executive officer.

It is not just Bahrain's private investment sector that is increasing its international presence. At the end of April, Talal Al Zain, the chief executive of the Mumtalakat Holding Company, Bahrain's sovereign wealth fund, said he was looking at investment opportunities that had resulted from relatively cheap assets in Europe and the US due to the ongoing credit crisis. On May 26, he said up to half of Mumtalakat's approximately $10bn portfolio would be shifted offshore, up from 2% in 2006. "We have to diversify by choosing different investment vehicles, some of which do not exist in Bahrain," said Al Zain. "Some investment must go abroad." With many assets in existing markets going for reduced prices, Bahraini investors are profiting by building up a diverse overseas portfolio, one that fits in well with sectors already being developed at home. (OBG30.05)

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11.7 QATAR: Growing Pains

While Qatar's stellar growth looks set to continue, the increasing presence of inflation on the fiscal horizon is beginning to take effect. A report issued by Kuwait-based Global Investment House (GIH) on June 4 said Qatar would continue to perform well throughout 2008. GIH predicted the economy would expand by 15.5% this year, up from the 12.5% of 2007 but short of the average 34% growth for the preceding three years. "Qatar's medium term outlook is very favorable, with continued strong growth expected to be driven by the hydrocarbon sector, as well as by diversification into higher value-added petrochemicals and other sectors such as real estate, financial and service sector related industries," the report said.

However, high inflation, which hit a near record 14.75% in March, was a challenge that had to be addressed, with GIH forecasting inflation of 10% to 12% for 2008. Gerard Lyons, chief economist with Standard Chartered Bank, echoed these concerns, warning that Qatar could face harder times ahead if it does not move to control the burgeoning economy. "The first and foremost challenge is to get Qatar's macroeconomic policy right," Lyons told the local press on June 5. "Inflation is a big worry for Qatar and the region as a whole," he said. "If you don't address the inflation problem, it is going to keep picking up and up and a boom will be created. If you don't manage the boom effectively, you end up in a bust and then may start talking about riyal devaluation instead of revaluation in about four year's time."

Lyons said key components for future growth and sustainability included responsible spending on infrastructure to meet the needs of the expanding economy, the development of a robust manufacturing base and the development of the service sector. "If you need to achieve sustainable growth, you have to have private sector sustainability. You must build the infrastructure upon which the private sector can grow," he said.

Qatar's current infrastructure program is in fact one of the factors contributing to inflation. Investment in infrastructure has come at the same time as a surge in private sector construction, and supply side shortages have led to spiraling materials prices and a tightening of the labor market. GIH recommended a more conservative approach to spending in order to balance inflation with growth.

"Containing inflation over the medium term calls for restraint on current expenditures and the phasing of development expenditures as part of a well-designed fiscal policy, as well as for continuing efforts to address problems related to supply-side bottlenecks, especially housing shortages," the report said. Many analysts have suggested that part of the solution would involve Qatar following the lead of Kuwait and dropping its currency peg with the US dollar. Though officials have in the past rejected such a step, support is mounting for the move as inflation continues its upward trend.

While there were a number of constraints on severing the link with the dollar, especially the question of whether Qatar would take the step alone or in concert with other Gulf Cooperation Council (GCC) member states, the time may have come to cut the long standing tie, said Ibrahim Al Ibrahim, economic adviser to Qatar's Emir Sheikh Hamad bin Khalifa Al Thani. "We have to delink," Al Ibrahim said. "It does not make sense to stay linked to a currency that is declining while our economy is growing. At a time when our currency should be going up, it is going down."

Despite pressure by Washington on the Gulf states to maintain their currency pegs, including a whistle stop tour of the region by Henry Paulson, US treasury secretary, in early June, the need to fight inflation and sustain growth may see Doha cut a historic tie to ensure the future. (OBG06.06)

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11.8 ABU DHABI: Record Trade

Abu Dhabi's long history as a trading power lives on, notes the Oxford Business Group, with non-oil exports reaching all-time highs and a free trade deal with the European Union (EU) set to be finalized by the end of the year. The emirate's non-oil exports hit a record $1bn in 2007, according to a recent report from the Customs directorate at the Abu Dhabi Department of Finance (DoF). Re-exports, considered a key growth area for trade, reached a value of almost $655m.

Qatar was the emirate's primary non-oil export partner, importing almost $240m worth of such goods, followed by China ($141m) and Saudi Arabia ($136m). The three leading re-export destinations were India ($152m), Oman ($112m) and Qatar ($104m).

Meanwhile, the emirate imported goods worth $5.1bn last year. The largest exporter to Abu Dhabi was Japan ($1.2bn), followed by Saudi Arabia ($899m) and Germany ($708m). Japan and Saudi Arabia have long been trading partners - the former imports almost half its oil needs from the United Arab Emirates (UAE) - but ties with Germany have developed quickly over recent years.

While oil exports still dwarf non-oil ones (their total worth remains uncertain), breaking the $1bn barrier is an important milestone for Abu Dhabi. The emirate has made increasing the share of its gross domestic product (GDP) contributed by non-hydrocarbon sectors a key goal, while retaining its open and export-oriented economic policy. According to official figures released by the department of planning and economy in April, plastics, rubber and related materials accounted for 45.4% of non-oil exports in the first six months of 2007, by far the largest proportion. Base metals and derivative products were the second-largest export group, accounting for 13.7% of the total, and machinery the third (12.4%).

Given Abu Dhabi's oil resources, the importance of the plastics industry is understandable. However, in the future, other materials are likely to feature prominently. The emirate is looking into developing its shipbuilding industry, while last year the government's investment arm, Mubadala, launched Abu Dhabi Aircraft Technologies with the aim of establishing an aerospace sector. The organization hopes to create a centre in Abu Dhabi for the maintenance, repair and overhaul (MRO) of aircraft and could stimulate the emergence of an aeronautical parts industry. Mubadala's purchase in 2006 of a 35% stake in Italy's Piaggio Aero Industries has been seen as the first step to constructing aircraft in the emirate.

Meanwhile, Abu Dhabi is also positioning itself as a transportation hub, capitalizing on its geographical location and the resources it is able to invest in infrastructure. This is likely to fuel further development of the re-export market, which also benefits from the UAE's cordial relations with almost all economies in the region and beyond.

Overall trade, and exports in particular, is set to receive a further boost from the signing of a free trade agreement (FTA) between the Gulf Cooperation Council (GCC), of which the UAE is a member, and the EU. The deal has been under discussion since 1990, and has stalled at times over certain stipulations made by Europe. However, at a bilateral meeting on May 26, Benita Ferrero-Waldner, European Commissioner for external relations and European neighborhood policy, said the parties were "closer than ever to conclusion". Ahmad bin Abdullah Al Mahmood, Qatar's minister of state for foreign affairs, said experts working on the FTA expected the final details to be ironed out by the end of June and the deal to be inked by year-end. With European manufacturers struggling to remain competitive, the UAE's producers, who benefit from low taxes and liberal labor legislation, are set to gain.

The prospects are somewhat less rosy for another FTA on the table, this time a bilateral one between the UAE and the US. In December 2007, the Office of the US Trade Representative (USTR) announced that negotiations over the deal would not be recommenced under the presidency of George W Bush, who stands down in January next year. With a recent upsurge of protectionist sentiment in the US as the country's economy hits tough times, and the end of Bush's powers to "fast track" the legislation, the FTA has been put on ice. Nonetheless, renewed economic growth may convince the next head of the White House to restart the talks with a country that is fast becoming an economic - and trading - giant. (OBG30.05)

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11.9 SAUDI ARABIA: Oil's Uncertain Future

In late May Saudi Arabia marked 75 years of oil production with unusually jaunty celebrations at the site of the nation's first oil well. Yet amidst the revelry, as observed by the Oxford Business Group, there is no disguising the fact that oil, and the kingdom's role in the oil economy, is entering an uncertain future.

Saudi Arabia's first concession was signed with Standard Oil of California in 1933, although it was not until almost five years later, in 1938, that oil was discovered. The first well, Dammam number 7, has since been renamed 'Prosperity Well', in recognition of the pivotal role the resource has had in transforming the country's outlook. Saudi Arabia is now the world's only "swing producer" of oil, sitting atop an estimated one-fifth of global reserves, and one-tenth of production. That position brings great wealth to the kingdom, yet as benchmark prices break $135 a barrel, it is also bringing increasing pressure from the world's major oil consumers.

A few weeks ago US President George W Bush made a special visit to Saudi Arabia to plead for an increase in crude oil production. In response the Saudi government raised production by 3.3%, but announced their skepticism that the move would have any effect on prices. "Customers, where are you? I want to sell oil but where are the customers? I can't sell oil just to be stored at sea," commented Saudi foreign minister Prince Saud, a reference to growing suspicion among producers that the current high price of oil is a result of speculation, and even covert hoarding by some of the larger traders.

However, with prices at the pump rocketing, and wealthy Western consumers feeling the pinch, their governments are searching for places to allocate the blame. OPEC is fast becoming the target of government ire. In the US, Congress is treading more boldly than the President. As Bush headed to Riyadh, Democrats in the US Senate introduced a resolution blocking an arms shipment to Saudi worth some $1.4bn, unless the Saudi government raises production by some 1m barrels per day. More recently Congress, in a move described as "an exercise of quite staggering futility" by one observer, has attempted to bring a lawsuit against the Organization of the Petroleum Exporting Countries (OPEC) for collective action.

The open season has spread to the UK, where British Prime Minister Gordon Brown has attempted to shore up his own embattled position by taking aim squarely at OPEC. According to Brown, "It is, as people will recognize, a scandal that 40% of the oil is controlled by OPEC, that their decisions can restrict the supply of oil to the rest of the world, and that at a time when oil is desperately needed and supply needs to expand, that OPEC can withhold supply from the market." Brown hopes to use the forthcoming G8 summit to address the issue of oil supply. He is unlikely to face much opposition from his fellow leaders.

Whether they know it or not, many of the sentiments displayed by these politicians fall embarrassingly wide of the mark. Few, for example, have made any attempt to address the link between the current boom in oil prices and under-regulated OTC (over the counter) trading in London and New York. Little attention has been paid to the collision of interests at banks who both trade energy futures and issue headline price predictions to the media. The elephant in the room - the number of investment funds that have simply jumped from securitization speculation to commodity speculation - is being studiously ignored.

In this climate, Saudi Arabia is understandably feeling bemused. It has plans to expand production from 11.3m bpd to 12.5m, primarily by increasing production at the offshore Manifa field by some 900,000 bpd, and installing two new refineries with a combined capacity of 800,000 bpd. The additional capacity should be enough to absorb actual demand from the market, and maintain a "cushion" of excess supply. Yet there is no guarantee the installation of additional capacity will have any effect on oil prices, which seem to be driven more by speculation than demand outstripping supply. (OBG28.05)

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11.10 TURKEY: Seeking To Become Energy Transit Hub

The UPI reported that Turkey, which imports 90% of its energy needs, is positioning itself to become a major regional energy transit hub. Azeri and Iraqi oil already flow through pipelines crossing Turkey, but Ankara is seeking a bigger share of transporting rising Caspian energy exports.

While most Americans think of the Middle East as swimming in oil, not all nations there are blessed with abundant hydrocarbon resources. Among those lacking substantial petroleum reserves are Turkey and Israel, leaving both nations to scramble to meet their energy requirements by diversifying their import sources.

In addition to looking far afield for imports, Turkey is striving to position itself as an energy transport corridor, a position that meshes nicely with Washington's twin political policies of isolating Iran while lessening Europe's growing dependency on Russian hydrocarbons. In the 17 years since the collapse of the Soviet Union, the West's one shining success in developing Caspian energy reserves has been Azerbaijan and its attendant Baku-Tbilisi-Ceyhan pipeline. May 28 is the second anniversary of the BTC pipeline's first oil reaching Turkey's Mediterranean port; the BTC is now slaking the world's oil thirst by transporting 1million bpd. If expansion plans come to fruition, the pipeline's transport capacity could be increased to 1.6m bpd by 2012-2013.

Besides enriching Azerbaijan, the $3.6b, 1,092 mile pipeline has provided a cash bonanza for Turkey in transit fees, as the pipeline traverses 669 miles of Turkish territory. On May 24 Energy and Natural Resources Minister Guler told journalists that BTC transit revenues had earned Turkey $2b from transporting 378m barrels of Azeri oil. Guler said, "We are proud to realize a project which was seen as a dream."

Ankara regards the BTC revenue stream as belated partial compensation for the estimated $40b in transit revenue, scrapped oil sales and port fees that Turkey lost from transiting Iraqi crude because of U.N. sanctions imposed after Iraq invaded Kuwait in August 1990 and following Operation Desert Storm. The sanctions, which lasted up to the March 2003 U.S.-led invasion, permitted Iraqi oil shipments only under the U.N. "oil for food" program, established in 1995, along the 600-mile, 800,000 bpd Kirkuk-Ceyhan Oil Pipeline, Iraq's largest crude oil export line, and idled Ceyhan port.

The U.N. Security Council, under the "oil for food" program, required the majority of Iraqi oil be shipped from Ceyhan to permit Turkey to recoup transit fees, since the Kirkuk-Yumurtalik pipeline, which Turkey built in 1997 and which operated at about half its capacity in the 1990s after running at full potential during the Iran-Iraq war, was shut.

BTC links into one of the Mediterranean's largest oil facilities; besides BTC's Azeri exports, the port handles Iraqi oil from Kirkuk as well. Ceyhan contains seven storage tanks and a jetty capable of loading two Very Large Crude Carrier tankers of up to 300,000 tons. An official with Turkey's state pipeline company BOTAS called the pipeline network terminating at Ceyhan "the Silk Road of oil."

If BTC has provided an economic lifeline to Turkey, it has caused Azerbaijan's economy to soar; since its opening two years ago Azerbaijan is now one of the world's fastest-growing economies, with a 2007 growth rate of more than 29%, giving the Caspian nation a wealth currently estimated at $21b, growing at more than triple the rate of China's. The future in a world of record-high energy prices is even brighter, as BTC is projected to generate profits as high as $230b over the next two decades.

Baku's economic miracle is because of BTC and the foreign investment that it brought into the country. British Petroleum, a member of the BTC consortium, has a 30.1% share of BTC, exceeding the State Oil Co. of the Azerbaijan Republic, which owns 25%. Other Western investors include Chevron with 8.9%, Norway's StatoilHydro with 8.71%, Turkey's Turkiye Petrolleri Anonim Ortakligi with 6.53%, Italy's Eni/Agip group and France's Total with 5% apiece, Japan's Itochu with 3.4%, Japan's Inpex company with 2.5% and the American Hess Corp. with 2.36%. It is notable that no Russian firms are involved in the project and that Western concerns receive 75% of BTC's revenues.

Turkey can only marvel at such riches, as its domestic production last year produced a mere 8.7% of the nation's crude oil and 2.6% of its natural gas needs. TPAO and foreign operators Royal Dutch/Shell and ExxonMobil account for the majority of Turkey's oil production. While TPAO currently pumps about 80% of Turkey's production, it's a proverbial drop in the bucket, at about 44,000 bpd vs. imports of 724,400 bpd.

Turkey's Finance Ministry estimates that a $1 increase in crude oil prices adds $530m to Turkey's annual import bill. If economists' projections prove correct and prices rise to $150 or $200, then Turkey may see its annual oil imports bill increase to $50b to $60b, a figure almost twice as high as its 2007 total oil purchases. In such a harsh fiscal scenario, it is hardly surprising that Ankara is promoting any and all potential pipeline projects that might transit its territory.

Guler is not short of dreams himself; after discussing the fiscal benefits of the BTC pipeline to Turkey the minister concluded, "Now, the next projects are the Samsun-Ceyhan and Nabucco pipelines." The only unanswered question is where the gas and oil to fill the two projects will come from. As BTC took 13 years from conception to completion, perhaps Guler's reveries may yet come to pass; in the meantime, there are rising energy bills to pay. While one Turkish proverb notes, "A hungry hen dreams she is in the barley store," another notes, "Great patience is the key to joy." In Ankara's case, both seem to be true. (UPI 28.09)

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11.11 BULGARIA: The Report 2008

Oxford Business Group (OBG) officially released it "The Report: Bulgaria 2008". The following is taken from the report as an overview of Bulgaria and its economy.

Politics

Prime Minister Sergei Stanishev's Bulgarian Socialist Party (BSP) has an overwhelming majority in parliament but is seeing increasing challenge from the opposition movements, including the Citizens for the European Development of Bulgaria (GERB), which has been gaining in popularity since its formation in 2006. Boyko Borisov, GERB's leader, has been calling for elections to be held before the scheduled date of June 2009, claiming the present government is "disastrous" for the country. The ultranationalist Ataka party has also gone through periods of popularity, demonstrating that public opinion is divided and changeable.

In 2007, Bulgaria's first elections for the European Parliament in May and local polls in October showed growing support for the centre-right. Allegations of corruption involving former economy and energy minister Rumen Ovcharov led to a slight reshuffling of the cabinet, though changes were more minimal than expected. The government signaled it would continue its conservative fiscal policy and commitment to a surplus, which was followed through in autumn 2007 when Stanishev faced down a month-and-a-half strike by teachers demanding pay rises and increased investment in education. While it is too early to say if the local elections will mean be a turning point in Bulgarian politics, the opposition does seem to be gaining ground in criticizing a number of issues, including the privatization of the Kremikovtsi steel plant and the proposed South Stream pipeline, which would carry Russian gas from the Black Sea to the Aegean. In addition, a report by the European Commission contained some stiff criticism on corruption, organized crime and judicial in the country, signaling that while Bulgaria has joined the EU, it is still being pressured to reform.

Economy

Bulgaria finished up 2007 with a growth rate of 6.2%, largely due to fixed capital investment and strong domestic demand, as well as excellent performances from the manufacturing, construction and services sectors. While industry continues to grow, contributing 31% to GDP last year and pushing up exports, the demand for raw materials and investment goods has caused the trade deficit to widen, in turn inflating the current account deficit. However, industry experts predict manufacturing companies will remain competitive and Bulgaria is already growing its share of European markets. Growth for 2008 is forecast at 6%, thanks to continued inflow of EU funding. Such grants and loans will have a major impact on a variety of sectors, from construction to tourism to education.

The government has remained committed to a tight fiscal policy and successfully maintained a budget surplus for the past few years, achieving 3.8% of GDP in 2007. Economists are predicting the surplus will remain stable for the next three years, though there is some concern those politicians will be tempted to use the surplus for activities related to the 2009 elections. Foreign direct investment (FDI) has grown for the third year in a row, and reached a record high of €4.4bn in 2006. There is some imbalance in these inflows, however, with 60% of FDI going to real estate, tourism and commerce, and only 30% to production. The drought in summer 2007 was a tough time for Bulgaria, causing food prices to soar and driving year-on-year inflation up to 12.5% in December. Inflation is expected to stay up in 2008 with higher energy prices and excise taxes, though the state hopes that building up capacity to bolster the supply side, as well as high investment rates, can lend a hand in cooling the economy.

Industry

Bulgaria's industrial sector is in its developing stages and the country is primarily a producer of raw materials, concentrated on low-tech, labor-intensive industries. The sector is also relatively fragmented. However, a steady stream of foreign investment has helped propel sector growth of about 8% per year since 2003. While still relatively small, Bulgaria's mining industry, producing mainly copper, iron, lead, zinc, manganese and coal, has also witnessed substantial growth as privatization efforts have taken effect, with production increasing 8.5% in 2007.

Some insiders have suggested the government could do still more to promote the mining industry and make the country less reliant on foreign imports. The textiles segment has shown itself to be a stable player, despite serious competition from regional neighbors and Asia. This is primarily due to the country's serving niche and boutique markets in Greece and Italy, though there are some concerns the textile sector may be about to hit a slowdown, with exports slowly declining. A lack of qualified labor and outdated technology are challenges, as are rising wages, which are leading to increased competition from countries such as Macedonia, Romania and Serbia.

Other issues to be addressed include Bulgaria's outdated transport infrastructure and technology, a lack of qualified labor and spiraling energy prices. The pharmaceuticals industry is showing good growth, with foreign and local companies bringing new products onto the home market, as well as expanding their presence abroad. Many of the road bumps associated with EU accession have been resolved, leaving analysts confident that, despite the remaining challenges, the industrial sector should continue its upward growth trend.

Retail

Retail in Bulgaria has benefited from the expansion of the middle class, and local and international chains have begun to spread across the country. Electronics and clothing have also seen considerable development. Continued growth of the middle classes is seen as essential for the ongoing progress of the sector. There has been increasing demand for downtown and city-centre retail space, and for shopping centers across the country. There are some concerns that the market will soon reach saturation, and it is clear that such high levels of growth cannot be sustainable in the long term. Still, for the short-to-medium term, there remains plenty of room for investment in the retail property sector, with demand for mall space still high. The grocery segment has seen significant investment from Balkan chains, and EU accession has led to increased interest from large international companies such as Carrefour. Overall, a move to higher quality and luxury food products is expected. (OBG10.06)

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- Israeli Shekel conversions done at a rate of NIS 3.30 = $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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