

Fortnightly - July 21, 2010

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1: ISRAEL GOVERNMENT ACTIONS & STATEMENTS

- 1.1 Netanyahu Government to Reconvene on 2010-12 Budget

On 20 July, Finance Minister Steinitz and Foreign Minister Lieberman were scheduled to meet to discuss the state budget and the budgets to be allocated to ministries headed by Yisrael Beiteinu ministers. Prime Minister Netanyahu

and Lieberman discussed the issue on 19 July. The two also decided that the conversion law debate would be postponed a number of months and that a committee would be formed to investigate the issue.

The biennial state budget 2011-2012 was not yet approved by the cabinet late Thursday night after more than thirteen hours of debate including fierce opposition to lower defense spending. The cabinet was scheduled to reconvene Friday morning at 8am to continue hammering out a deal.

On 16 July, the Israeli Government approved a new two-year budget. However, cuts both in defense and welfare brought criticisms from parts of the coalition. Following the some \$700 million reduction in the defense budget, ministers from Israel Beiteinu stormed out of the meeting and Foreign Minister Lieberman, the leader of the party, threatened to vote No in the Knesset. Shas' leader, Interior Minister Yishai announced that he will fight in the Knesset for the increase in welfare funds. Defense Minister Barak (Labor) did not target the government but underlined the "challenges faced" by the Israel Defense Forces. Steinitz said the government approved a professional budget, which balances the different needs of the market. After years in which the security budget received significant additions, which strengthened the military, the government has chosen to give these additions to the education budget, health and welfare.

According to a new fiscal rule, spending will increase in real terms by 2.7% in 2011 and 2012 compared with 1.7% in previous budgets, Steinitz said. The planned deficit for the budget is 3% in 2011 and 2% in 2012. (Various 20.07)

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1.2 Health Ministry Notes Gains in Health Basket and Dentistry In Budget

Deputy Minister of Health Litzman and Ministry of Health director general Dr. Gamzo won a budget victory on 16 July, when they succeeded in adding hundreds of millions of shekels to the budget for healthcare funds, the basket of healthcare services, and reforms that are already underway. However, they failed in obtaining more hospital beds, although they got a promise that the matter would be discussed soon. For the first time, the health budget includes a major increase in the demographic coefficient in the healthcare funds: NIS 40 million has added to the 2010 budget baseline, and the annual demographic coefficient will rise to 1.2% from the current 0.9%. After rising substantially in recent years, the basket of healthcare services will be increased by NIS 300 million a year over the next three years, for a total of NIS 900 million. The dentistry reform also got a boost. Beginning in July, children up to the age of 8 receive dental treatment at a participation of just NIS 20, even without supplementary insurance. Each year, the eligibility will be extended by two years, so that by 2013 children up to the age of 14 will be covered. (Globes 18.07)

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2: ISRAEL MARKET & BUSINESS NEWS

2.1 Governor Ritter Heads Colorado Economic Mission To Israel

Colorado Governor Bill Ritter was in Israel in 12 – 18 July on an economic development mission. The Governor led a delegation of Colorado administration officials and more than a dozen Coloradan businesspeople and community personalities who will begin to establish business and research partnerships in fields such as energy, clean-tech and water. The Allied Jewish Federation of Colorado is sponsoring the mission. Governor Ritter and the Colorado delegation signed a number of memoranda of understanding (MOU) during the mission, including a bilateral agreement between Israel and Colorado; an MOU between Colorado State University and the Desert Research Center at Ben Gurion University; and an MOU between the Colorado Department of Natural Resources and the Agro Research and Development Center. The delegation met top business and government officials, including President Peres, Minister of Industry, Trade and Labor Ben-Eliezer and Minister of National Infrastructures Landau, who in October invited Governor Ritter to visit Israel. The delegation also visited electric car venture Better Place, BrightSource Energy's Solar Energy Development Center in the Negev, Noble Energy, which is helping to diversify Israel's energy portfolio with natural gas, Netafim and other water-technology leaders, and geothermal energy company Ormat Industries. (Globes 11.07)

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2.2 VocalTec and YMAX/magicJack Announce Merger

VocalTec Communications and West Palm Beach, Florida's YMAX Corp., the creator of magicJack and other products and services, have successfully merged and will be traded on the Nasdaq under the symbol (NasdaqGM (Global Markets)). VocalTec stock ceased to be trading using the symbol (NasdaqCM:VOCL) after close of business on 16 July. It commenced trading using the symbol (Nasdaq:CALL - News) on 19 July. The parties believe that the combined company has an enterprise value of \$245 million and a per share value of at least \$17.50 on a stock split adjusted basis. The combined companies have the use of over 30 patents, some dating to when VocalTec invented VoIP. In the current legal world we live in, this protection is crucial. The company believes that its patents, technology and inventions are prior art to other existing patents and may also expose patent invalidity. The combination of patents and softphone/softswitch technology were the primary drivers of the merger. The combined company is much stronger now.

Netanya's VocalTec Communications (<http://www.vocaltec.com>) is a global provider of carrier-class multimedia and voice-over-IP solutions for communication service providers. A pioneer in VoIP technology since 1994, VocalTec provides proven trunking, peering and residential/enterprise VoIP application solutions that enable flexible deployment of next-generation networks (NGNs). (VocalTec 19.07)

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2.3 Zerah Set For Commercial Oil Production At Emunah-1

Zerah Oil And Gas Explorations will begin commercial oil production at its Emunah-1 well in August 2010, the partnership notified the Petroleum Supervisor at Israel's Ministry of National Infrastructures. The well, in the 321 license, which the partnership wholly owns, is located in the Dead Sea area between Ein Gedi and Masada. Zerah will store the oil

produced in two 200,000-liter storage tanks at the Ashdod industrial zone, where the water will be separated from the oil. The Emunah-1 well produces about 480 barrels of liquid a day. The liquid ratio is about 45% oil and 55% water. No accelerants are used. Zerah believes that the well can produce 44,000 liters a day, equal to two tankers. Zerah plans to build a permanent storage facility, and said that when it is built, the well can reach full production capacity of 88,000 liters a day. The Petroleum Law (5712-1952) stipulates that, with the start of production, the partnership will begin paying royalties as set out in the law. Zerah notified the Petroleum Supervisor that it intends to apply for a lease for the area pursuant to the Petroleum Law. Zerah's partnership unit price jumped with the announcement, rising 11% in morning trading to NIS 0.081, giving a market cap of NIS 134 million. (Globes 12.07)

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2.4 SiSense Closes \$4 Million Series A Financing

SiSense has secured \$4 million in Series A funding from Opus Capital, Genesis Partners and private investor Eli Farkash. SiSense will use the funding to ramp up marketing and sales operations in the US, and to further develop its ground-breaking BI product. SiSense has been developing its technology for the past five years. Unusual at the Series A funding stage, the company already has a shipping product and dozens of paying customers. Unlike traditional BI implementations, which require expensive and time-consuming IT projects, data warehouse systems and custom coding, SiSense's Prism delivers powerful, end-to-end BI which can be implemented in a matter of hours with no special expertise. Unique technologies developed by the company, including just-in-time in-memory processing, allow Prism to execute complex ad hoc queries against millions or billions of records in just seconds, using ordinary PC hardware.

Netanya's SiSense (<http://www.sisense.com>) is leading the way to a new era of business intelligence, where fast and flexible BI is available to any business user analyzing any type or amount of data. Based on advanced technologies developed during the course of five years, SiSense delivers an end-to-end BI solution which allows organizations to mash-up up variety of data sources containing mountains of data into server-based interactive dashboards and reports in less than a day, thus securing immediate ROI. SiSense customers enjoy very high performance do-it-yourself BI, without IT projects, data warehouse systems, OLAP cubes or programming. (Sisense 13.07)

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2.5 Waterfall Security Solutions to Open US Offices

Rosh Ha'Ayin's Waterfall Security Solutions (<http://www.waterfall-security.com>), the leading provider of Unidirectional Security Gateways and data diodes, for secure network connectivity for Process Control Networks, SCADA systems, remote monitoring and segregated networks, introduced today Waterfall's USA based offices and operations. Waterfall's patented cyber security solutions enable Utilities and Critical Infrastructures to securely connect their critical industrial networks to external networks, thus securely fulfilling their business needs without exposing these networks to the risks and threats of cyber attacks, cyber terror and hacking from the external, less secure networks. Waterfall's cyber security solutions assist Utilities and Critical Infrastructures to achieve compliance with NERC-CIP, NRC, CFATS and other regulations and standards, as well as cyber-security policies and best-practices. (Waterfall Security 07.07)

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3: REGIONAL PRIVATE SECTOR NEWS

3.1 US Hardwood Lumber Exports to MENA Exceed \$13.9 Million in April 2010

The value of direct US hardwood lumber exports to the MENA region has reached \$13.9 million or 19,832 cu. meters from January to April this year, according to official trade data released by the American Hardwood Export Council (AHEC), the leading international trade association for the American hardwood industry. The growth is highly evident in the numbers recorded across leading regional markets such as the UAE, which is showing renewed and steadily increasing interest, with the import value hitting \$2.5 million during the first four months of the year. This is double the \$1.17 million seen last year in the same period. Usage of US hardwood lumber in the MENA region has been increasing significantly in recent years, with red oak emerging as the most in-demand among all species in the Middle East, recording a total export volume of 4,688 cu. meters.

In the North Africa region, red oak has also seen high demand, but demand for white oak has been increasing and shipments reached over 1,000 cu. meters in the first four months of this year. In addition to the UAE, other top importers of US hardwoods in the Middle East region from January to April 2010 include Saudi Arabia, which ordered products with a total value of almost \$1.9 million. The Kingdom remains a very important market for hardwoods due to its young and fast-growing population, a factor that can further fuel the domestic construction sector in the foreseeable future.

Driven by its massive furniture, interiors and exporting industries, Egypt accounts for the bulk of US hardwoods shipments to the North Africa region, with more than \$3.1 million in total exports delivered to the country during the same period. Lebanon registered \$1.17 million in total imports from January to April 2010; and Jordan, where \$639,000 worth of American hardwood lumber were delivered during the same time span. Qatar, whose total value of US hardwood purchased reached \$701,000, according to the same statistics, is also being eyed by the Council as a high-potential market, in addition to Oman, Kuwait and Bahrain where exports totaled \$363,000, \$271,000 and \$38,000 respectively. (BI-ME 12.07)

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3.2 Boeing & Royal Jordanian Sign Order for Three Additional 787 Dreamliners

Boeing and Royal Jordanian, the national carrier of Jordan, signed an order for three 787-8s at the Farnborough International Air show. The order is valued at approximately \$500 million at list prices. This order previously was attributed to an unidentified customer on Boeing's Orders and Deliveries website. Direct purchases and leases combined, Royal Jordanian has committed to 11 787-8s. The Middle East carrier placed its first orders for four 787s in 2007 and also has arranged to lease two airplanes each from CIT Aerospace and International Lease Finance Co. Royal Jordanian was the first airline in the Middle East to order the 787 Dreamliner. It will place the 787 on North American routes initially, including New York, Chicago, Detroit and Toronto. Royal Jordanian has cited the 787's

performance versatility and impressive economics as the main reasons behind its decision to replace its medium- and long-haul twin-aisle fleet solely with the 787. Based in Amman, Jordan, Royal Jordanian became a member of the oneworld alliance in 2007. (Boeing 20.07)

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3.3 SAIC Awarded Two Contracts Valued at More Than \$10 Million by Jordan

McLean, Virginia's Science Applications International Corporation (SAIC) has been awarded two new contracts to support the Kingdom of Jordan with DNA consultancy services to the Jordan Public Security Directorate (PSD) new forensic lab, and provide command, control, communications, computers and intelligence (C4I) support to the Jordan Armed Forces (JAF) Joint Special Operations Command (SOCOM). The first contract has a five-year period of performance and is valued at more than \$3 million. Under the contract, SAIC will provide DNA consultancy services to the Jordan PSD in support of a forensic laboratory in Amman, Jordan. SAIC will help ensure that the new laboratory is a state of the art facility capable of providing support to the police, security, and law enforcement activities of the Kingdom. The second contract, awarded by the JAF, has a two-year period of performance and is valued at more than \$7 million. Under the contract, SAIC will design and equip a new command and control (C2) center, and will integrate C4I system upgrades for JAF SOCOM, also in Amman. These upgrades will help enhance SOCOM's ability to control and communicate with military assets during field operations. The C2 center will be a central location for JAF command officers to meet and evaluate real-time events. (SAIC 15.07)

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3.4 Qatar Airways selects Hamilton Sundstrand APS3200 Auxiliary Power Unit

Qatar Airways has selected San Diego, California's Hamilton Sundstrand Power Systems' APS3200 Auxiliary Power Unit (APU) for its new fleet of 24 Airbus A320 aircraft family. Hamilton Sundstrand is a subsidiary of United Technologies Corp. The APS3200 APU is currently on board more than 1,600 Airbus A320 aircraft around the world and has accumulated more than 23 million hours since entering service on the Airbus A320 aircraft family. The APS3200 has been a popular choice with airlines since its introduction to service in 1994. Hamilton Sundstrand has a long-standing relationship with Qatar Airways, providing customer support and repair services on the airline's existing fleet of more than 20 A320 family aircraft. With 2009 revenues of \$5.6 billion, Hamilton Sundstrand is headquartered in Windsor Locks, Conn. Among the world's largest suppliers of technologically advanced aerospace and industrial products, the company designs, manufactures and services aerospace systems and provides integrated system solutions for commercial, regional, corporate and military aircraft. United Technologies Corp., based in Hartford, Conn., is a diversified company providing high technology products and services to the building and aerospace industries worldwide. (Qatar Airways 20.07)

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3.5 Saudi Plane Makes First Flight To Iraq In 20 Years

A Saudi civil airliner touched down in the main southern Iraqi city of Basra on 15 July on the first such flight between the neighboring countries since Iraq's 1990 invasion of Kuwait. The Alwafeer Boeing 747 flew into Basra from the western Saudi city of Jeddah, gateway to the Muslim holy places, but there were no passengers on the incoming flight. On its return trip, the plane was to carry 450 Iraqis intending to make the lesser pilgrimage, or omra, to Mecca and Medina. For years Iraqi pilgrims have had to make the long overland bus journey to the Muslim holy places or pick up a flight to Jeddah in a neighboring country. State carrier Saudi Airlines halted flights to Iraq after Saddam's invasion of Kuwait and never resumed them amid strained relations between Riyadh and Baghdad. Even since Saddam was removed from power in 2003, the Saudi government has remained cautious about relations with Iraq, and still refuses to reopen its diplomatic mission in Baghdad, citing security issues. When it launched last September, privately owned Alwafeer focused on charter flights carrying Muslim pilgrims to Jeddah from Niger, Chad, Libya and India before getting government permission to begin flying to and from Iraq. (BI-ME 16.07)

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3.6 PhotoMedex Receives Middle East Order for Seventy-Five XTRAC Laser Systems

Montgomeryville, Pennsylvania's PhotoMedex received from AMICO Group, its distributor in the Middle East, a multi-million dollar order to purchase XTRAC laser systems that will be installed in hospitals throughout Saudi Arabia. The order includes customary terms and conditions, including advanced payments and letters of credit covering the purchase order. Delivery is expected to be in the third and fourth quarters of this year. GlobalMed Technologies, the Company's master distribution partner, will facilitate the logistics associated with the deployment of the XTRAC systems under the purchase order, throughout the Saudi market. PhotoMedex is a Global Skin Health Solutions company that provides integrated disease management and aesthetic solutions through complementary laser and light-based devices, pharmaceuticals and cosmeceuticals. Headquartered in Jeddah, Saudi Arabia, AMICO, in a span of 27 years has expanded its network and operations into 16 countries with 25 branch offices throughout the Middle East. AMICO is a leader and pioneer in multiple medical fields. (PhotoMedex 08.07)

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4: CLEAN TECH & ENVIRONMENTAL DEVELOPMENTS

4.1 Recurrent Energy & Greensol Agree Distributed Solar Power Projects in Israel

San Francisco's Recurrent Energy, an independent power producer and a leading developer of solar power projects, today announced a joint development agreement with Greensol Alternative Energy, an Israeli solar power systems developer, to finance, build, and operate distributed-scale rooftop and ground-mount solar photovoltaic (PV) power plants across Israel. Greensol's local development expertise in Israel and Recurrent Energy's global experience in the financing and engineering of distributed PV power plants, including projects such as 4.8 MW in Barcelona and Madrid, Spain, 60 MW in Northern California, 50 MW in Southern California and 177 MW in Ontario, Canada, will provide commercial and industrial building land owners in Israel with the option to lease out and utilize their unused rooftop or

land as sites for solar power systems. Under the terms of the agreement, Greensol will pursue opportunities to develop ground-mount and rooftop-based solar power projects on government, kibbutz and privately-owned land across Israel. Recurrent Energy will finance, own and operate the solar power systems once contracts are in place. The renewable electricity generated by the distributed power plants will be fed back into the local utility grid, for which Recurrent Energy will be paid a feed-in tariff in accordance with Israeli renewable energy policy. Recurrent Energy and Greensol are committed to working together on the first 50 MW of joint projects secured over three years. Bnei Brak's Greensol (<http://www.greensol.co.il>) is an independent developer of solar projects in Israel. The company was incorporated in 2009 to develop and operate PV power plants in an economically reasonable and eco friendly manner. (Recurrent Energy 15.07)

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5: ARAB STATE & PAKISTANI DEVELOPMENTS

5.1 Lebanon Unveils \$5 Billion Power Revamp Plan

Lebanon has unveiled a \$5 billion plan to overhaul its decaying power sector and provide it with 24-hour electricity in four years. Lebanon's electricity sector is saddled with old power plants, insufficient infrastructure and inefficient supply lines. The loss-making sector adds \$1.5 billion to the budget deficit annually and the cost to the wider economy from poor power supply is at least \$2.5 billion. Energy Minister Bassil said the plan calls for the production of 4,000 MW of electricity by 2014 at a total cost of \$4.87 billion. The government will provide \$1.5 billion, the private sector \$2.32 billion and international donors will contribute \$1 billion. The state-owned Electricite du Liban can only meet two-thirds of peak demand of 1,650 megawatts, which means the average supply of electricity per day is 18 hours. Central Beirut, where the majority of businesses and banks are located, faces daily power cuts of three hours while greater Beirut and towns and cities further away experience longer cuts, some up to nine hours. Homes and businesses are forced to depend on power generators, adding extra electricity costs. Lebanese across the country have held protests, blocking roads with burning tires, to demand a solution to the problem, especially with high summer temperatures approaching. The plan envisages building pipelines for transporting natural gas along the coast, an LNG terminal and upgrading power plants or building new ones in more accessible areas. (TradeArabia 08.07)

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5.2 Jordan's Exports To EU & North America Increase

Jordan's exports to European Union (EU) and North American Free Trade Agreement (NAFTA) countries have increased during the first five months of 2010. According to the recent figures by Department of Statistics, the Kingdom's exports to the EU increased by 52.6% during the first five months of 2010 to reach JD75.2 million compared with JD49.4 million in the same period of 2009. On the other hand, Jordan's exports to the North American countries have increased to JD249 million during the period from January until May, 2010 from JD236.3 million during the same period of last year. The Kingdom's imports from the EU dropped by 7% to JD832 million, compared with JD895.5 million during the same period of 2009, while imports from NAFTA countries dropped by 10.3% reaching JD252.2 million during the first five months of 2010 from JD281 million during the same period of 2009. (Petra17.07)

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5.3 Finance Ministry & IMF Expect Jordan to Achieve 3.4% Economic Growth

Jordan's Ministry of Finance expected that the Kingdom's economic growth in 2010 would increase by 3.4% compared to 2.3% in 2009. The economic growth witnessed a big decline last year due to consequences of the global financial crisis. In a joint press conference with a team from the International Monetary Fund (IMF), Minister of Finance Abu Hammour said that 2010 growth expectations were positive, but the regional and global developments entailed reconsidering growth levels. Earlier, the government and the IMF expected that the Kingdom's gross domestic product (GDP) would reach 3.9% in 2010, but this expectation was reconsidered due to developments, which highly affected national, regional and international economies. Deputy Director of the IMF's Middle East and Central Asia Department Sahay said the team's talks with the government were "constructive", commending the government's procedures in dealing with the global economic downturn. The IMF expected that Jordan's economic growth would continue this year, noting accomplishments achieved in the Kingdom's economic sector. The state budget deficit, during the first five month of this year, stood at JD137 million compared to JD348 million in 2009, the minister added. (Petra 17.07)

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5.4 France Sets Up Business Centre in Iraq

France built a heavily fortified Iraqi business centre and boutique hotel where businessmen can sleep, eat and work in safety. The complex, financed by private companies, near its embassy in Baghdad's once glamorous Abu Nawas neighborhood, has room for 20 offices - half of which have already been claimed by major firms. There are also 10 bedrooms for visiting would-be investors. The companies that have installed themselves in the French business centre include Lafarge, a pioneer of investment in Iraq which already has cement plants in semi-autonomous Iraqi Kurdistan and has just started a \$200 million renovation of an Iraqi state-owned cement plant in Kerbala. Others are oil contractor Technip and engineering firm Alstom. Oil major Total, which has partnered with China's CNPC to develop Iraq's giant Halfaya oilfield, plans to move from Baghdad's Green Zone government and diplomatic enclave to the business centre, French diplomats said. Emerging from war, Iraq is trying to shake off years of violence, sanctions and economic decline by opening up its vast oil reserves - the world's third largest - and attracting foreign investment and expertise to help it rebuild. But while it has signed 11 deals with global oil companies to develop its richest fields, projects outside the energy sector have rarely gone beyond aspirations. Lingering violence and political uncertainty, four months after an inconclusive election, are keeping most western investors on the sidelines. Of those brave enough to invest so far, Iranian, Turkish and Gulf companies lead the pack, especially in Shi'ite tourism, housing and banking. The UAE is the biggest investor in large projects, with total pledges of \$37.7 billion, while Lebanon tops the list of investment deals below \$1 billion, according to a report last year by Dunia Frontier Consultants. (Various 08.07)

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5.5 Iraq Oil Exports Hit 1.9 Million Barrels Per Day

Iraq's crude exports in June averaged 1.9 million barrels per day, the same level as the previous month, the head of the State Oil Marketing Organization said. Average exports from the southern oil hub of Basra reached 1.45 million bpd while exports from oilfields in the north around Kirkuk averaged 450,000 bpd. The exports from Kirkuk included 10,000 barrels per day taken through Jordan via trucks. Iraq's oil output and export capacity has been constrained by years of war, sanctions and underinvestment. But the Opec member has signed deals with global oil majors that could quadruple its production capacity to 12 million bpd in seven years, potentially rivaling top producer Saudi Arabia. (Various 08.07)

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5.6 GCC Investments in Europe Jump to \$78.9 Billion

Foreign direct investments (FDI) from the six-member Gulf Cooperation Council (GCC) into the European Union jumped to more than €63bn (\$78.9bn) in 2008, according to latest figures from Eurostat. The FDI total in 2008 was a major increase on the €2.3bn (\$2.88bn) invested in 2007. At the same time, EU investments in the GCC went up from €4.6bn in 2007 to €18.9bn in 2008. The largest GCC investments were made in Luxembourg with €59.3bn. The biggest GCC investor in Luxembourg was the UAE (€58.5bn) followed by Qatar (€641m), Saudi Arabia (€134m), Bahrain (€110m) and Kuwait with €23m. The report said the largest investments in the GCC were made by Luxembourg at €12.7bn, followed by Denmark with €1bn, the UK (€867m) France (€711m) and Germany with €236m. The Eurostat report noted that FDI inflows from outside the EU in 2008 were worth only half of what they had been a year before. FDI from the GCC made up 31.8% of total FDI inflows into the EU in 2008, the second-biggest by a regional bloc. FDI worth €65.8bn from North America to the EU made up 33.1%. (AB 09.07)

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5.7 Kuwaiti PM Takes Latin America Tour

Kuwait's Prime Minister Sheikh Nasser Al-Mohammad Al-Ahmad Al-Sabah embarked on a nine-country tour of Latin America. The three-week trip will help strengthen relations between the Gulf oil-producing state and countries in South America, Al-Sabah said in a statement. The focus of the tour will be to promote Kuwait's \$128bn development plan and to encourage foreign investment in the country. The development plan, approved by parliament in February, includes the construction of roads, bridges, a new hospital and airport. During Al-Sabah's 30,000-mile tour he will visit Cuba, Brazil, Chile, Uruguay, Argentina and Mexico and will be accompanied by ministers of Foreign Affairs, Finance, Commerce and Industry. Kuwait is looking to open new embassies in Cuba, Mexico and Chile as it looks to bolster trade relations with South America. The tour reflects Kuwait's interest in these countries and the interest of the Premier in spreading awareness of Kuwait's identity as much as possible in the continent. (Various 15.07)

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5.8 Qatar Leads Gulf Region on Broadband Penetration

Broadband penetration in Qatar is the best in the Gulf region with 44% of households covered, Euromonitor International said on 12 July. Qatar's fixed line market's growth was being driven by internet usage. The study said 44.5% of Qatari households possessed a broadband-enabled computer by the end of 2009, up from just under 7% in 2004. Qatar was well ahead of its Gulf neighbors on broadband penetration in 2009, the report added, with Kuwait and Bahrain on 26%, the UAE on 18% and Saudi Arabia (8%). Qatar has also seen a significant growth in telephone lines over the past five years, rising from 191,000 in 2004 to 274,600 last year. Euromonitor International also said Facebook was the fourth most popular website in Qatar, with 160,000 active users in August, according to data supplied by the social networking website. This represented more than 37% of Qatar's total internet users, the report added. By comparison, about 20% of Kuwaiti and UAE internet users were Facebook users in 2009. Euromonitor International added that internet usage in Qatar is generally hindered by censorship. (AB 12.07)

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5.9 Oman's Nominal GDP Shrinks 23.5% in 2009

The Central Bank of Oman stated that Oman's nominal GDP shrank 23.5% in 2009 following five years of growth amid the impact of the global downturn and a decline in oil prices. The Central Bank said the Oman's macroeconomic performance in 2009 was "adversely affected mainly due to global recession and sharp decline in crude oil prices in the international markets". The report added that despite a 7.1% increase in crude oil production, the share of the hydrocarbon sector in the overall nominal GDP declined from 50.5% in 2008 to 40.9% in 2009. The share of non-petroleum GDP increased from 50.6% to 61.3% during the same period. However some sectors did show growth in 2009, led by electricity and water supply (11.3%), construction (5.6%), real estate services (14.2%), public administration and defense (4%) and agriculture and fishing (4.6%). According to the latest data available from the Public Authority for Social Insurance (PASI), employment of Omanis in the private sector rose by 7.6% to 158,315 in 2009. The report said inflationary pressures in Oman abated significantly in 2009 mainly due to the global recession and consequent fall in commodity prices, including that of oil and natural gas in the international markets. Oman's Consumer Price Index (CPI) decelerated to 3.4% in 2009 as against a peak of 12.4% in 2008. Crude oil production accelerated further by 7.1% to 297 million barrels in 2009 while production of natural gas also increased by 2.6% compared to 2008. Crude oil exports in volume terms increased by 12.1% to 243 million barrels in 2009 compared to 217 million barrels in the previous year, the report added. (CBA 10.07)

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5.10 Oman Foreign Trade Surplus Widens To \$2.73 Billion

Oman's foreign trade surplus increased sevenfold to \$2.73 billion in the first two months of this year compared to a year ago due to higher oil exports income, according to official data. The global crisis slashed oil output in Gulf Arab oil producing nations last year, trimming growth rates of the region's key players such as Saudi Arabia and the UAE. Much smaller Oman was hit less because as a non-Opec member it did not have to join oil output cuts required by the cartel. The Sultanate recorded a trade surplus of RO148.6 million in January-February of last year. Exports jumped 45% to 2.174 billion rials while imports fell nearly 17% to RO1.122 billion compared to the January-February period of 2009, the economy ministry's data showed. Crude exports, which account for over 58% of the overall exports, surged 87.4% in the

first two months of 2010 in money terms compared to the same period last year. Oman, which is producing around 850,000 barrels of oil a day, sold its crude at an average price of \$76.5 a barrel in the first two months of 2010, up 69% from a year ago. (Various 14.07)

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5.11 Oman Pharmaceutical Market Set To Grow 37% By 2014

The pharmaceutical market in Oman is set to grow by 37% by 2014, fuelled by increasing use of generic and over-the-counter (OTC) drugs, a report by Business Monitor International has said. In its latest pharmaceutical review, the research firm said sales in the sultanate's drug market are forecast to reach \$170m by 2014, up from \$124m in 2009. Patented medications accounted for 83% of sales in 2009, with generic drugs taking a 6% share of the market. The bulk of overall sales – 88%- derived from prescription medications, with OTC drugs lagging with just 10.8% of sales, analysts said. Oman's small size and strict price controls have hindered the growth of its pharmaceutical market, leaving it "virtually negligible in global terms" and dependent on imported drugs. However, analysts said: "The country does offer some draws, including its preference for branded products, a low-cost manufacturing base and an improved IP environment." There are also signs that Oman plans to ramp up local pharmaceutical production. In May, Oman Pharmaceutical Products received its first approval from the FDA – America's drug licensing body – to export a generic antibiotic into the lucrative US market. The drug is already approved in Australia, Germany and the UK. (R&M 11.07)

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5.12 Oman Plans \$3.5bn Spend To Boost Oil Output

Oman plans to spend \$3.5 billion in the next five years to boost oil output by 18%, extending previous increases, and to generate cash for infrastructure projects. Oman is targeting an average of a million barrels per day by 2015 and will be spending some \$3.5 billion in the next five years to achieve it. Oman is producing 850,000 bpd and expects to raise output to an average of 870,000 bpd this year. It has managed to turn around declining output, boosting production in both 2008 and 2009. Following a price crash after the July 2008 record of nearly \$150 a barrel, government oil revenues fell in 2009 to \$11.67 billion, about 12% less than 2008. The new investment will be used to drill more wells, including in the Al Ghubar South field, which contains reserves of a billion barrels, the official said, adding Oman hoped it would be able to announce an increase in the size of its reserves. (TradeArabia 20.07)

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5.13 Saudi Arabia's Inflation Rises In June 2010

Year-on-year inflation in Saudi Arabia rose for the fifth month in a row to 5.5% in June 2010, compared to 5.4% in May 2010, reaching a 13-month high, but below its peak of 11.1% in July 2008, according to data released by the Saudi Central Department of Statistics and Information. However, the m-o-m inflation declined to an increase of 0.3% in June, compared to a m-o-m increase of 0.6% in May 2010. The change in the Consumer Price Index (CPI) has been rising on the back of higher rents and food prices, after hitting a y-o-y low in October 2009 of 3.5%. The y-o-y increase in the index was mainly attributed to the food sub-index which accounts for 26% of the overall index, and the housing costs sub-index which accounts for 18%. Price pressures have been rising with the recovery seen across the GCC states in general. However, inflation should be expected to remain within single digits. (TA 11.07)

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5.14 Strong Population Growth in Saudi Arabia Underscores Food Security Issue

Food security is a top priority for Saudi Arabia as strong population growth is set to continue over the next five years. The Saudi population has been growing at an average rate of 2.4% for the last nine years and is expected to continue to grow by around 15.4% over the next five years. This population growth has been adding pressure to the food security issue faced by Saudi Arabia. Prior to the financial crisis, food and agricultural imports had increased by 38% annually in 2008 alone, according to data published by the Saudi Arabian Central Bank (SAMA). Saudi Arabia's food sector, the largest in the Gulf, is set to increase by 18.5% a year. (Various 18.07)

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5.15 Saudi Food Imports Rise To Over \$17 Billion

Saudi Arabia's food and agricultural imports for 2009 were worth \$17.4 billion, driven by national population growth of 3% each year, rising personal income and sustained economic growth. The annual influx of over 10 million tourists and the projected surge in foreign labor over the next five years to accommodate economic diversification projects will further elevate Saudi food demand. Saudi's food sector continues to expand annually at a steady rate of 18.5%. Food and agricultural imports currently account for 15% of aggregate national imports and represent the country's fourth largest import sector. (TradeArabia 19.07)

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5.16 Egypt's Inflation Rises to 10.7% in June 2010

Egypt's annual headline inflation inched up to 10.7% in June 2010, from 10.5% in May 2010, mainly due to a steady increase in annual food inflation and a higher annual change in costs of transportation, recreation, and hotels and restaurants, showed data released by the government statistics agency CAPMAS. The annual change in food was

stable at 18.49% and 18.54% in May 2010 and June 2010, respectively, while the annual change in transportation costs rose to 1.4% in June 2010, from 0.6% in May 2010, recreation and culture rose to 6.3%, from 5.2%, hotels and restaurants to 4.7%, from 4.6% and miscellaneous items to 16.7%, from 16.5% in May 2010. The monthly change in inflation was fairly stable, registering 0.54% in June 2010, compared to 0.48% in May 2010, as the lower change in food costs, of 0.5% in June compared to 0.9% in May 2010, counterbalanced the rise in the monthly change of transportation costs, to 0.9% from 0.2% in May 2010, and recreation and culture costs to 5.7% in June, from no change in May. (CAMPAS 11.07)

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5.17 Suez Canal June Revenues at \$383.7 Million

Egypt's Suez Canal revenues rose 10% year-on-year to \$383.7 million in June but fell from May. Some 1,482 vessels passed through the canal in June, up 5.8% from a year earlier. Non-oil vessel traffic declines 6.3% from May to 1,187 vessels. The Suez Canal is a vital source of foreign currency in Egypt, along with tourism, oil and gas exports and remittances from Egyptians living abroad. If the Canal Authority decides to raise transit fees in 2011, this would raise revenues in fiscal year 2010-2011 to \$5 billion. (Various 07.07)

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5.18 Egypt Proposes Building A \$1 Billion Tunnel Under Suez Canal

Designs are being completed for a \$1 billion tunnel that will go under the Suez Canal, according to Egyptian Investment Minister Mohiedin. Once plans are complete, Egypt will begin seeking the required finance, Mohiedin added. Mohieldin explained the tunnel will have three passageways, one for rail and two for cars and will be built 19 km south of the Suez Canal northern entrance at Port Said.

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6: TURKISH, CYPRIOT, GREEK & BULGARIAN DEVELOPMENTS

6.1 Cyprus Trade Deficit Expands To €1.7 Billion in January - April

Cyprus' trade deficit widened to €1,680.7m in January-April 2010 from €1,526.1m in the corresponding period of 2009. Total imports/arrivals in January-April 2010 amounted to €2,025.3m compared with €1,836.6m in

January-April 2009. Total imports cover imports from third countries and arrivals from other EU Member States. Total exports/dispatches in January-April 2010 reached €344.6m compared with €310.5m in January-April 2009. Total exports cover exports to third countries and dispatches to other EU Member States. During April 2010 total imports/arrivals were valued at €516.9m. Total exports/dispatches, including stores and provisions, in April 2010 amounted to €80.2m. (FM 12.07)

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6.2 Alcohol & Tobacco Prices Spur Greece's Inflation

Spikes in the prices of alcohol and tobacco products took inflation to 5.2% on a yearly basis last month, just lower than May's 5.4%, figures compiled by the National Statistical Authority showed on 8 July. The considerable growth in the special consumption tax on alcoholic drinks, cigarettes and fuel as well as the housing hikes of the last few months saw the country's consumer price index continue to outpace the eurozone's average rate in June. However, there was a monthly price contraction of 0.3% from May, thanks to a small drop in the prices of fruit and vegetables. The government has set a 1.9% target for inflation for the entire year, but economists expect it to soar to 4.5%. This month is likely to see a fresh rise, however, after an overhaul of the value-added tax system and a hike in VAT as of 1 July. (NSA 08.07)

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6.3 Bulgaria June Inflation Eases To 1.4% Y/Y

Bulgarian consumer price inflation went down to 1.4% in June on an annual basis from 1.9% a month earlier, official data showed on 12 July. On a monthly basis the index fell 0.9% in June after decreasing by 0.2% the previous month, driven by a fall in food and soft drinks prices. June is the second month in a row, in which Bulgaria's CPI falls on a monthly basis. Meanwhile, the harmonized index of consumer prices stood at 2% on a yearly basis in June and was down by 0.4% on a monthly basis. The figures bear out analysts' view that Bulgaria does not face the risk of stagflation, which is characterized by a falling GDP and increasing inflation rates. Such fears were fueled by the rise in producer prices and consumer price index since the beginning of the year, alongside with the contraction of the Bulgarian economy. Double-digit inflation and a growing current account deficit have prevented Bulgaria from joining the ERM II, so-called waiting room to the eurozone, since it joined the European Union in 2007. The center-right government dropped its plans for applying for ERM II after raising the alarm that the 2009 budget gap was 3.7% of gross domestic product rather than the 1.9% due to unaccounted procurement deals. Bulgaria's economy contracted by 3.6% on an annual basis in the first quarter of 2010 from 5.9% in the previous quarter, but the government hopes for a 1% economic growth for this year as recovering exports bolster the expansion. (SMN 13.07)

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6.4 Bulgaria Adopts Revised Budget After Insipid 12-Hour Debates

The Bulgarian Parliament has adopted at second reading the 2010 Revised State Budget Act providing after a 12-hour debate in which the ruling GERB party lost the backing of one of its major partners. The revised budget was approved with the votes of GERB together with the MPs from the nationalist party Ataka. The rightist Blue Coalition, which supported the draft bill at first reading in June, this time backed out blaming Finance Minister Djankov for failing to fend off the demands of the other ministers and thus providing for a staggering increase of state spending. The opposition Bulgarian Socialist Party and ethnic Turkish party DPS have voted against the revised budget. The new law provides for increasing state spending by BGN 436 M compared to the original 2010 state budget, and for a reduction of the projected revenues by BGN 1.909 B. Bulgaria's contribution to the EU budget and other EU-bound payments are increased by BGN 257 M. Thus, Bulgaria's state budget deficit for 2010 is projected to be BGN 3.684 B. The GERB party government has sought to justify the revision with the reduced revenues as a result of the economic crisis, and its unwillingness to increase any taxes. One of the main factors that necessitated the revision of Bulgaria's 2010 state budget is the low level of domestic consumer demand, according to Finance Minister Djankov. (SMN 09.07)

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6.5 EU Puts Bulgaria Under Excessive Deficit Procedure

The EU Finance Ministers have decided to put Bulgaria under the excessive deficit procedure, a program to reduce its budget deficit below the 3% threshold required by the Stability and Growth Pact. During Tuesday's meeting of ECOFIN, the Council of the EU Finance Ministers, a decision was made to press Bulgaria, Denmark, Cyprus and Finland to cut their budget deficit gaps. ECOFIN's statement said financial figures showed Bulgaria and Cyprus had budget deficits in 2009 surpassing the limit of 3% of the GDP, while the deficits of Denmark and Finland are also expected to exceed the 3% threshold. With respect to Cyprus and Denmark, the Finance Ministers of the EU decided that the deficits resulted from "special circumstances" related to the global economic crisis. Thus, Cyprus is asked to bring its deficit below 3% by 2012, and Denmark – by 2013. At the same time, in the cases of Bulgaria and Finland, ECOFIN has demanded that the two countries rectify their budget deficits according to the standard timetable

Bulgaria was first slated to be set under the EU excessive deficit procedure in early May when the convergence report of the European Commission concluded that it, together with seven other EU member states, did not meet all the conditions for the adoption of the euro. Subsequently, the Commission proposed to the Council of the EU Finance Ministers that it consider setting Bulgaria, together with Cyprus, Denmark and Finland under the so called excessive deficit procedure to ensure that they will reduce swiftly their state spending. The European Union sets a cap on budget overspends at 3% of GDP, and Bulgaria reached a general government deficit of 3.9% in 2009, according to latest data revealed in April 2010. Likewise, Cyprus breached its budget by 6.1%, Denmark is projecting a 5.4% shortfall this year, while Finland expects its deficit to reach 4.1%. A total of 21 countries had already been subjected to the EDPs, with Bulgaria, Cyprus, Denmark, and Finland now added to the list. Estonia, Luxembourg and Sweden are currently the only EU countries within the debt and deficit limits. (SMN 14.07)

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6.6 Bulgaria to Shrink 2011 Budget Deficit, Unable To Pay For Belene NPP

The Bulgarian government will shrink the budget deficit to below 3% from the GDP in 2011, the finance minister has announced. The statement of the Minister Simeon Djankov came as a response to the European Commission's advise to Bulgaria to decrease its budget deficit to below 3% by the end of 2011. He noted that the EC has requested a budget deficit of 2,7-2,8 % of the GDP for 2011 and in his words, the government has prepared even smaller numbers in the macroeconomic framework, which will be announced soon. On 6 July, the European Commission announced its advice to Bulgaria to make the promised reforms in the public administration, health, education and pension systems, in order to decrease its budget deficit. Other recommendations by the EC are for better clarity in the budget management and a better control over state spending. The purpose of the EC recommendations is to help Bulgaria decrease its budget deficit to below 3% by the end of 2011 "in a credible and sustainable manner", the EC said. In order for this to happen, Bulgaria will have to decrease its budget deficit by at least 0,75% from the GDP in 2011. According to the Bulgarian government, in the end of 2010, the budget deficit will be 4.8% of GDP on a cash basis and 3.8% of GDP under EU accounting rules. (SMN 08.07)

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6.7 Bulgaria's Trade Deficit Down By 40% In January-May 2010

The gap between Bulgaria's import and export is closing as the country's trade deficit is down by 39.7% in the first five months of 2010 year-on-year. According to data of the National Statistical Institute, Bulgaria's total exports in January-May 2010 amounted to BGN 10.554 B, which is a 22.1% year-on-year growth. At the same time, the imports amounted to BGN 12.969 B, which is an increase of only 2.5% compared to the first five months of 2009. Thus, in January-May 2010, Bulgaria's trade deficit amounted to BGN 2.415 B, 39.7% decline y/y.

Only in May, Bulgaria exported goods and services for BGN 2.37 B, a 33.8% increase compared to the same month of 2009. At the same time, its May imports amounted to BGN 2.95 B, a growth of 12.5% y/y. Both Bulgaria's export and import are accelerating their growth in April and May 2010. The NSI data indicates that exports of Bulgarian companies are on the rise for a seventh consecutive month. It confirms forecasts that export-oriented sectors will help the Bulgarian economy recover from the crisis and generate a minor growth of employment thanks the rise of foreign demand for Bulgarian-made products and services. Yet, Bulgaria's export in the first 5 months of 2010 is still 15% smaller than the volume of export realized in the same period of 2008, before the global crisis kicked in.

Bulgarian economists and analysts have attributed the rising exports to foreign demand, some restructuring made by export-oriented local companies, and faster recovery in non-euro zone countries. Even though the Bulgarian foreign trade gap is expected to continue closing, it is still believed that the country's exports will not be able to catch up with the imports by the end of 2010. NSI data has indicated that Bulgarian companies are increasingly oriented towards exporting to non-EU states, as the share of Bulgaria's trade with countries outside the EU rose to 40% up from 30% at the beginning of 2010. (SMN 14.07)

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6.8 Bulgaria Moves To Lure Hi-Tech Investors with State Aid

Bulgaria's Cabinet has approved legislative measures providing for state aid and other incentives for foreign investments in projects entailing hi-tech industries, and research and development, adopting amendments to the Regulations for the Application of the Investment Encouragement Act. The changes provide for a state aid to foreign investors reimbursing them with up to 50% for their spending on educational and research and development activities, and a subsidy of up to 10% of the investments in processing industries. The state aid from the Bulgarian government will be granted if at least 50% of the planned investments have been realized by the beginning of the third year of a respective project; this requirement is lowered to 25% for projects entailing education and research and development activities. This is complemented by a requirement that the foreign investor train at least 50 people in Bulgaria. These amendments correspond with the changes to the Investment Encouragement Act adopted in March 2010 allowing for increasing the amount of aid from Bulgaria's state budget to foreign investors meeting certain conditions.

Investors in "priority projects" will be able to purchase properties owned by private persons, the state or municipal authorities without tenders and at a price which is lower than the market price but is higher than the tax price. They will be exempt from the required fees for changing the status of the properties. A further benefit will be providing administrative support for the priority projects but setting up inter-institutional groups on part of the Bulgarian authorities to aid the foreign investor with any specific issues. A legal provision allows for even lower minimum requirements for investor status based on the volume of the investment if a higher number of new jobs are created with the respective project. (SMN 15.07)

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6.9 Russia & Bulgaria to Create Joint Company for South Stream Project

Russia and Bulgaria will create a joint company for the execution of the South Stream gas pipeline project, announced Bulgarian energy minister Traikov on 16 July after negotiations with a Russian delegation headed by his Russian counterpart Shmatko. The details have not been arranged yet but talks are continuing. The deadline for the creation of the joint company is February 2011, according to the Bulgarian minister. The South Stream "Road Map", which is yet to be signed, is going to include other deadlines and specific steps of the project. Traikov also announced that the Bulgarian stretch of South Stream is going to cost \$835m. The entry point of the pipe is going to be near Varna, while the exact route and the infrastructure parameters are yet to be determined, added he. Traikov further commented that while the Russian position is that other European countries are receiving gas at the same prices as Bulgaria, they have opportunities for deliveries of gas not only from Russia. He implied that since almost all of Bulgarian gas comes from Russia, Bulgaria will request lower prices. Traikov was optimistic a solution to the issue will be achieved before expiry of current contracts (2010-2011). He was ambiguous when asked whether Bulgaria would sign the South Stream Road Map if it doesn't get a lowering of gas prices. (TSW 17.07)

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7: GENERAL NEWS AND INTEREST

*ISRAEL:

7.1 Jerusalem Named Best Africa Middle East City

"Travel and Leisure" magazine has named Jerusalem as the best city in Africa and the Middle East. Readers were asked to respond to a questionnaire which ranked cities according to sights, culture and arts, restaurants and food, people, shopping and value. This was the first time that the city received such a ranking since 2000. Cape Town was ranked in second place and Tel Aviv in third place. (Globes 13.07)

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7.2 Women's Group Petitions High Court Over Newspaper Sex Ads

On 20 July, Israel's Taskforce Against Human Trafficking petitioned the High Court of Justice to order the Israel Police to open an investigation against the publishers of Hebrew dailies Ma'ariv and Haaretz for publishing ads for sexual services in their national or local papers. The Taskforce Against Human Trafficking is a joint venture set up by the NPO Justice Works and Kabiri Nevo Keidar Attorneys at Law. The petitioners claim that while the State Prosecutor ordered the Police to investigate prostitution related crimes, the Police is not acting against the advertising of sex services in the newspapers. The Taskforce Against Human Trafficking says that there are more than one million visits to prostitutes in Israel every month and that many of these visits are the results of the advertising efforts by prostitution services appearing in the newspapers. A clause in the Penal Law (5758-1998) stipulates that advertising sexual services is a crime. In 2004, a court convicted newspaper owners in plea bargain in which they paid a fine and promised to stop publishing the ads. (Globes 20.07)

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8: ISRAEL LIFE SCIENCE NEWS

8.1 Jetguide Seeks \$2 Million in Funding

Globes reported that surgical device company JetGuide is seeking \$2 million in funding for clinical trials. JetGuide has received approval to conduct clinical trials for its JetGuide Neuro device, which is used by surgeons in Rambam Hospital's Department of Neurosurgery to compare with existing devices. The device is used for bone drilling in skulls and soft tissues. JetGuide has graduated from the Misgav Technological Incubator. JetGuide claims that its system is easy to use, cost effective and is more accurate because it takes the guesswork out of drilling into a bone. The company's first product for tooth implants is expected to soon receive approval for the US FDA.

Haifa's JetGuide (<http://www.jet-guide.com>) develops systems for real-time intraoperative monitoring with feedback

throughout processes of surgical procedures of bone drilling. JetGuide systems provide surgeons in real-time the distance between the bottom of the drilled bore and a sensitive tissue like nerves, blood vessels and cartilage along the drilling path. JetGuide systems are easy to use, cost effective and take the guesswork out of drilling into a bone. JetGuide systems provide the surgeons greater confidence and comfort, thus allowing them to achieve significantly improved results. (Globes 19.07)

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8.2 WideMed Seeks CE Mark for Sleep Monitor

WideMed has applied for EU CE Mark marketing certification for its Morpheus sleep monitor. The monitor is a computerized system for measuring and diagnosing apnea and other sleep disorders. WideMed has an agreement with MedNet GmbH to represent the company in Europe. Herzliya's WideMed (<http://www.widemed.com>) is a leading company in the growing bio-medical signal diagnostics and treatment market. Leveraging its innovative signal processing algorithms, the company offers comprehensive signal analysis and workflow management services and solutions to the fast growing Cardio-Sleep market. (Globes 19.07)

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9: ISRAEL PRODUCT & TECHNOLOGY NEWS

9.1 IPWireless & Altair Develop Wireless Industry's First Multi-Band, Multi-Mode LTE Modem

San Francisco's IPWireless, a leading provider of 3GPP technology for new applications and markets, and Altair Semiconductor announced a partnership to develop a suite of multi-band LTE modem products that will support key frequency bands ideally suited to global LTE deployments. The companies will integrate Altair's cutting-edge software-defined radio baseband processor into IPWireless' LTE devices. The first consumer friendly LTE USB modem device will support multiple frequency bands including the 800MHz digital dividend band, 1800 MHz and 2.5 GHz. Subsequent devices will also support the entire US 700MHz and AWS frequency. Samples of the device will be available by September, 2010, with commercial availability before the end of the year. Hod Hasharon's Altair Semiconductor (<http://www.altair-semi.com>) is the world's leading developer of ultra-low power, small footprint and high performance 4G semiconductors. The company's products provide device manufacturers integrating any 4G technology into their products with a highly power-optimized, robust and cost-effective solution. Altair's comprehensive product portfolio includes baseband processors, multi-band RF transceivers for both FDD and TDD bands, and a range of reference hardware and product level protocol stack software. (IPWireless 08.07)

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9.2 BluePhoenix Secures \$6.2 Million Deal with Tier one European Banking Institute

BluePhoenix Solutions has secured new contracts with a large Banking Institution in Europe valued at approximately \$6.2 million. The contracts consist of \$4.1 million for software licenses for BluePhoenix AppBuilder development product and software maintenance, \$0.6 million for development services and \$1.5 million to transfer highly skilled IT consultants to the customer. The transfer of consultants is part of the Company's strategy to exit non-profitable activities. Previously, the IT personnel were outsourced by the Company. The transfer of the consultants will reduce the Company's annual revenues by \$5-6 million on an annual basis. Herzliya's BluePhoenix Solutions (<http://www.bphx.com>) is the leading provider of value-driven legacy IT modernization solutions. The BluePhoenix portfolio includes a comprehensive suite of tools and services from global IT asset assessment and impact analysis to automated database and application migration, rehosting and renewal. Leveraging over 20 years of best-practice domain expertise, BluePhoenix works closely with its customers to ascertain which assets should be migrated, redeveloped, or wrapped for reuse as services or business processes, to protect and increase the value of their business applications and legacy systems with minimized risk and downtime. (BluePhoenix 07.07)

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9.3 NICE & Esri Sign Technology Partnership to Enhance NICE's Real-Time Management Solution

NICE Systems Redlands, California's Esri, a leading provider of geographical information system (GIS) software, announced that the companies have entered into an OEM agreement to enhance NICE Situitor with Esri's GIS capabilities, for enhanced situation management. Under the OEM agreement, the Esri ArcGIS software engine will be embedded and integrated into the NICE Situitor solution. The new integrated solution will serve the security operations needs of seaports, airports, public transport, railways, city centers, military organizations, as well as enterprises. The integrated solution combines NICE Situitor's data fusion, analysis and automated response capabilities, with Esri's spatial analysis, data management, and GIS mapping, to improve situational awareness and real-time situation management. NICE Situitor correlates data from diverse security, safety and operational systems, alerting operators in real-time to incidents that require attention. All of the relevant information is then overlaid on an intuitive GIS interface, so control center operators can visualize situations in a geographic context, using Situitor's pre-programmed response plans to help guide and automate their response. For example, operators alerted to a situation can immediately see the locations of various sensors in alarm mode, and view nearby video cameras, mobile responders, vehicles, and other location-aware devices, all dynamically updated in real-time. Automated decision support checklists in NICE Situitor also help operators manage resources for an effective situation response.

Ra'anana's NICE Systems (<http://www.nice.com>) is the leading provider of Insight from Interactions solutions and value-added services, powered by advanced analytics of unstructured multimedia content - from telephony, web, radio and video communications. NICE's solutions address the needs of the enterprise and security markets, enabling organizations to operate in an insightful and proactive manner, and take immediate action to improve business and operational performance and ensure safety and security. (NICE 07.07)

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9.4 Relational SA is Magic Software's New iBOLT Distributor for Greece

Magic Software Enterprises announced an agreement with Relational SA, an integrated software solutions provider, for the distribution of the iBOLT business integration suite to customers and partners throughout Greece and the Mediterranean region. Relational SA has customers in some of the largest companies in the banking, government, retail and telecom sectors and joins a number of new Magic Software partners and distributors in southern and central Europe. Through integration, iBOLT helps companies get more value from their IT investments by automating manual and repetitive workflows and freeing sales teams to focus on selling. With an integrated view of company data, management and employees can make more informed business decisions, get more value from each business interaction and achieve faster time to market for their products and services. iBOLT is a code-free business and process integration suite. The product works seamlessly with solutions such as SAP Business One, SAP ERP, Salesforce.com, Oracle JD Edwards, IBM applications and databases (AS/400), Lotus Notes applications, forms and databases, healthcare systems using HL7, Microsoft Dynamics CRM, Microsoft SharePoint, EDI systems and many more.

Or Yehuda's Magic Software Enterprises (<http://www.magicsoftware.com>) is a global provider of on-premise and cloud-enabled application platform solutions - including full client, rich internet applications (RIA), mobile or Software-as-a-Service (SaaS) modes - and business integration solutions. The company's award-winning, code-free solutions give partners and customers the power to leverage existing IT resources, enhance business agility and focus on core business priorities. (Magic Software 07.07)

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9.5 GreenRoad Founder Wins Connected World Magazine's 2010 Innovation Award

Hod Fleishman, co-founder of GreenRoad, the world's leader in driver safety and efficiency, received the M2M Pioneers award and was recognized as one of the "10 innovators" of 2010 by Connected World magazine. The M2M Pioneers award, presented annually by Connected World, honor 10 individuals for their leadership in advancing M2M solutions, both within their organizations and around the world. Ofer Raz and Hod Fleishman founded GreenRoad after nearly being run off the road by a reckless driver. The two aspired to create a technology that could both accurately calculate the risk of driving maneuvers as well as provide feedback to the driver so he/she can improve performance. Today, GreenRoad's solution is deployed with more than 80 commercial fleets worldwide and GreenRoad's systems have logged over 16 million vehicle trips. Fleets that implement the GreenRoad service typically reduce crash costs by an average of 50% and reduce fuel usage and carbon emissions by up to 10%, in addition to lowering vehicle maintenance costs.

GreenRoad (<http://www.greenroad.com>), with its R&D center in Beit Dagan, delivers the future of driving: smarter, safer and more fuel efficient. We offer the industry's most sophisticated, customizable technology solutions and services to maximize driving safety and efficiency, generating immediate cost savings. GreenRoad 360 provides real-time feedback integrated with comprehensive online visibility. (GreenRoad 12.07)

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9.6 RADVISION Receives 2009 Communications Solutions Product of the Year Award

RADVISION announced that Technology Marketing Corporation (TMC) has named RADVISION's iVIEW SCOPIA Management Suite as a recipient of a 2009 Communications Solutions Product of the Year Award. RADVISION's iVIEW SCOPIA Management Suite provides a comprehensive management solution for video communications. With iVIEW, enterprises can efficiently manage a diverse, distributed video conferencing network including endpoints and infrastructure. iVIEW's endpoint management capabilities have been recently enhanced to manage the diverse range of video conferencing endpoints enterprises have to choose from including systems from Polycom, Samsung, SONY and Tandberg, along with RADVISION's SCOPIA product line. iVIEW provides detailed capabilities to manage user access and costs including controls for maximum bandwidth and participants allowed. Integration with Microsoft and IBM Lotus infrastructure offers the ability to utilize existing enterprise applications for user authentication, conference scheduling, or call launching via instant messaging. Comprehensive reporting tools provide administrators insight into their video conferencing utilization, trends and usage growth, for investment justifications.

Tel Aviv's RADVISION (<http://www.radvision.com>) is the industry's leading provider of market-proven products and technologies for unified visual communications over IP, 3G and IMS networks. With its complete set of standards-based video communications solutions and developer toolkits for voice, video, data and wireless communications, RADVISION is driving the unified communications evolution by combining the power of video, voice, data and wireless – for high definition video conferencing systems, innovative converged mobile services, and highly scalable video-enabled desktop platforms on IP, 3G and emerging next-generation IMS networks. (RADVISION 13.07)

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9.7 BluePhoenix Awarded \$1.8 Million Modernization Contract with US Government Agency

BluePhoenix Solutions was awarded a CoolGen to Java migration contract worth \$1.8 million. BluePhoenix is partnering with a tier one US based system integrator to convert, and remediate the customer's legacy applications, providing the customer with improved productivity and a lower cost of ownership. Herzliya's BluePhoenix Solutions (<http://www.bphx.com>) is the leading provider of value-driven legacy IT modernization solutions. The BluePhoenix portfolio includes a comprehensive suite of tools and services from global IT asset assessment and impact analysis to automated database and application migration, rehosting and renewal. (BluePhoenix 13.07)

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9.8 TrendChip Technologies Adopts RADVISION Client Technology

RADVISION announced that TrendChip Technologies has licensed RADVISION technology for embedding VoIP in their products. TrendChip Technologies, a Taiwanese company that designs and manufactures ADSL CPE chipsets, is using RADVISION's Multimedia Terminal Framework (MTF) in their latest Integrated Access Device (IAD) and Analog Telephony Adapter (ATA) solutions. The company incorporated RADVISION's MTF into their TC3182P2V and TC3182LEV products in order to leverage the Framework's high performance and rich VoIP call control functionality. These powerful features are especially important for IAD operation, making the MTF a critical component of TrendChip's

device offering. RADVISION (<http://www.radvision.com>) is the industry's leading provider of market-proven products and technologies for unified visual communications over IP, 3G and IMS networks. With its complete set of standards-based video communications solutions and developer toolkits for voice, video, data and wireless communications, RADVISION is driving the unified communications evolution by combining the power of video, voice, data and wireless – for high definition video conferencing systems, innovative converged mobile services, and highly scalable video-enabled desktop platforms on IP, 3G and emerging next-generation IMS networks. (RADVISION 13.07)

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9.9 Alvarion Expands its 4G Offering to Include TD-LTE

Alvarion outlined its strategy to provide the most open and flexible platform for 4G networks that use TDD (Time Division Duplexing) spectrum by formally announcing support for the upcoming TD-LTE standard, incorporating it into its industry leading 4Motion solution. The company will continue to actively drive the WiMAX standardization activities, ecosystem development and state-of-the-art products that incorporate the latest features to meet global operators demand. In addition, Alvarion will enable customers to take advantage of an expanding device ecosystem based on the LTE standard in relevant frequencies as it develops. Alvarion expects to engage in TD-LTE field trials in Q1/11. Alvarion has been instrumental in developing and commercializing broadband wireless solutions for various market segments for more than 15 years. The company has played a key role in creating the WiMAX standard based on an open, flexible architecture model and commercializing and optimizing solutions over the last decade. In particular, Alvarion was the first to offer a 4G platform using TDD spectrum in early 2006, and its 4Motion solution was designed to optimize networks using this spectrum.

Tel Aviv's Alvarion (<http://www.alvarion.com>) is a global leader in 4G wireless communications with the industry's most extensive customer base with hundreds of commercial network deployments. Alvarion's industry leading solutions enable true open 4G and vertical applications for service providers and enterprises. Through an OPEN network strategy, superior IP and OFDMA know-how and ability to deploy large scale end-to-end turnkey networks, Alvarion is delivering the true 4G broadband experience today. (Alvarion 13.07)

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9.10 JVS Announces a New Metrology tool for SiGe, Si:C and Strained Silicon

Jordan Valley Semiconductors (JVS) announced the launch of its new JVX7200, which targets the challenging SiGe in-line process monitoring. The system is the first ever production-worthy tool to combine HRXRD (High-Resolution X-Ray Diffraction) and XRR (X-Ray Reflectance) technologies for strain, composition and thickness measurement of SiGe stacks for sub 45 nm technology nodes. The JVX7200 tool leapfrogs contemporary in-line SiGe metrologies and combines a fast 2D HRXRD detector for composition and relaxation measurements with an ultra-small spot, fast XRR detector. The tool is compatible with fully automated modern fabs, and features both a small carbon footprint and a low cost of ownership. Migdal Ha'Emek's Jordan Valley Semiconductors (<http://www.jvsemi.com>), the leader in X-ray metrology solutions for advanced semiconductor fabs, develops and supplies superior metrology equipment for quality control of thin films based on rapid, non-contacting and non-destructive X-ray technology. The company offers the Semiconductor Industry the most comprehensive array of tools, based on advanced XRR, XRF, HRXRD, WAXRD and SAXS technologies, ideal for both product or blanket wafers. For the compound semiconductors industries, JVS offers

fast and economic HRXRD tools for high-brightness LED (HB-LED) manufacturing; this niche was added in 2008, through Jordan Valley's acquisition of U.K.-based Bede Ltd. (JVS 13.07)

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9.11 MTI Wireless Edge New Low Cost 4.9-6.0 GHz 29dBi Dual Polarity Two Feet Parabolic Dish Antenna

MTI Wireless Edge released a new 4.9-6.0 GHz dual polarity 29dBi 2 feet parabolic dish antenna as part of a whole new product line of low cost dual polarity directional antennas covering the 5.15-5.9 GHz WiMAX, ISM and UNII unlicensed frequency bands as well as the 4.9-5.1GHz Homeland Security and Public Safety bands for both PtP (Point-to-Point) and PtMP (Point-to-Multipoint) applications. The range also includes 16-23dBi flat panel directional antennas. These antennas will join the current 4.9-6.0GHz product line that already includes a large selection of single and dual polarity directional antennas for the subscriber end with different gains and base station antennas such as 60 and 90 degrees with dual linear Vertical & Horizontal polarity as well as dual slant -45 and +45 degrees. All antennas are built to withstand the toughest electrical and environmental requirements according international standards such as ETSI while maintaining low cost. This range of antennas provides a powerful solution that allows MTI to offer broadband wireless telecommunication equipment companies, VAR's and integrators the best antenna available at an unmatched price performance ratio.

Tel Aviv's MTI Wireless Edge (<http://www.mtiwe.com>) is a leader in the development and production of high quality, low cost, antenna solutions for wireless applications such as WiMAX, Broadband Wireless Access and RFID. MTI has about 40 years' experience in supplying antennas for both military and commercial applications from 100 KHz to 90 GHz. MTI flat panel antenna range includes base station, subscriber and Omni Directional antennas for all broad and narrow band WiMAX and broadband wireless applications in both licensed and unlicensed bands. MTI Military products include a wide range of broadband, tactical and specialized communications antennas, antenna systems and DF arrays installed on numerous airborne, ground and naval, including submarine, platforms worldwide. (MTI 14.07)

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9.12 ECI Telecom Announces End-to-End 1Net Wireless Backhaul Solution

ECI Telecom introduced its end-to-end solution for packet evolution of wireless backhaul networks. As no two networks are alike, ECI's 1Net wireless backhaul (WBH) solution offers service providers tailored migration path to next-generation networks whether their optimized path is a Greenfield packet network, an overlay packet infrastructure or by leveraging their existing TDM network. New components include: the 9300 and 9600 Carrier Ethernet Switch Router (CESR) platforms, the BG-Wave advanced packet and hybrid microwave platforms, and the Hybrid+ all-native Ethernet and TDM Packet Optical solution. The portfolio breadth enables ECI to offer its customers the best mix of fully interoperable offerings and to take a technology-agnostic and consultative approach to tailor the best path for each carriers' specific needs, as per an extensive total cost-of-ownership analysis. Cellcom, the leading Israeli mobile service provider, has chosen ECI's 9000 Family for its Carrier Ethernet network, converging wireless backhaul and data services for business customers

Petah Tikva'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, 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. (ECI 14.07)

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9.13 Nova Introduces 4th Generation NovaMARS Optical CD Application Development Solution

Nova Measuring Instruments introduced its fourth generation NovaMARS optical CD application development solution. Nova MARS 4.0 provides a solution for semiconductor manufacturers developing advanced technology of 22nm and below who are faced with a need to visualize complex 3D structures by non-destructive and highly accurate metrology. The new NovaMARS 4.0 provides greater details of the 3D structure, allows shorter time-to-solution and measures with higher accuracy and sensitivity than before. The new release, deployed on the state-of-the-art Nova T500 stand-alone optical CD tool, demonstrated more than 50 times reduction in library calculation time and generated library sizes that are more than 100 times smaller on advanced applications such as logic FinFET, Flash bit-lines and Copper interconnect lines. NovaMARS 4.0 uses an innovative compact library design that enables measurement of more parameters of the complex structure while reducing the size of the library by orders of magnitude. Novel interpretation algorithms boost sensitivity by increasing the amount of spectral information attained during measurement. An improved calculation engine reduces real time regression and library generation time. A new high power computing architecture powered by the latest Microsoft Windows HPC platform provide seamless computing power distribution and multi-user management. Rehovot's Nova Measuring Instruments (<http://www.nova.co.il>) develops, produces and markets advanced integrated and stand alone metrology solutions for the semiconductor manufacturing industry. Nova is traded on the NASDAQ & TASE under the symbol NVMI. (Nova 14.07)

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9.14 Mellanox InfiniBand Enables University of Colorado to Broaden Research for Life Sciences

Mellanox Technologies announced that its industry-leading end-to-end 40Gb/s InfiniBand connectivity products, including ConnectX-2 adapters with FlexBoot technology, IS5025 and IS5600 switches with FabricIT fabric management software, and active copper cables, provide the high-performance server and storage networking for the new University of Colorado at Boulder Dell-based 1,368-node cluster. The new cluster ranks #31 on the June 2010 TOP500 list of supercomputers with peak performance of 152Tflops and an efficiency rating of 86%. Mellanox's end-to-end InfiniBand connectivity, consisting of the ConnectX-2 line of I/O adapter products, cables and comprehensive IS5000 family of fixed and modular switches, deliver industry-leading performance, efficiency and economics for the best return-on-investment for performance interconnects. Mellanox provides its worldwide customers with the broadest, most advanced and highest performing end-to-end networking solutions for the world's most compute-demanding applications. Yokneam's Mellanox Technologies (<http://www.mellanox.com>) is a leading supplier of end-to-end connectivity solutions for servers and storage that optimize data center performance. Mellanox products deliver market-leading bandwidth, performance, scalability, power conservation and cost-effectiveness while converging multiple legacy network technologies into one future-proof solution. (Mellanox 19.07)

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9.15 MTI Wireless Edge Releases Its New Smallest UHF Circular Outdoor Antenna

MTI offers 2 compact 1.5 dBic gain wide band antennas at 865-956MHz, at a small form factor of 95x95mm with IP67 sealing for outdoor use. The models differ in their mounting options. The new models have excellent electrical performances, 1.3:1 VSWR (typ) over temp, very good weight/performance ratio (less than 190 gr.) and very robust structure. Tel Aviv's MTI Wireless Edge (<http://www.mtiwe.com>) is a leader in the development, production and marketing of high quality, low cost, flat panel antennas for RFID applications, offers a large portfolio with over 90 models of Linear and Circular, Single and Dual polarity, Forklift, Embedded and Near Field antennas for active and passive RFID Systems. MTI - Military products include a wide range of broadband, tactical and specialized communications antennas, antenna systems and DF arrays installed on numerous airborne, ground and naval, including submarine, platforms worldwide. (MTI 20.07)

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10: ISRAEL ECONOMIC STATISTICS

10.1 Israel's June Inflation at 0.3%

On 15 July, the Central Bureau of Statistics announced that Israel's Consumer Prices Index (CPI) rose by 0.3% in March, in line with expectations. The index reached 105.9 points at the end of June, compared with 105.6 points at the end of May. Notable price rises in July were in clothing and footwear (11.2%), fresh fruit (7.1%), communications (0.8%), housing (0.6%), and healthcare (0.5%). Notable falls were in fresh vegetables (5.3%), and transport (1.1%). In June 2009, the CPI rose 0.9%, so a rise of 0.3% can be considered small. Annual inflation for 2010 is now expected to be about 2.5%, within the government's price stability target range of 1 - 3%. (CBS 15.07)

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10.2 Israel's Unemployment Rate Continues Drop

The Central Bureau of Statistics announced that unemployment continued to fall in May, with 197,000 Israelis without a job. This was an unemployment rate of 6.5% compared with 7.8% May 2009 and an average unemployment rate in 2009 of 7.6% reflecting 230,000 jobless. Unemployment is thus approaching its lowest point in the past decade of 6% in July 2008. The Central Bureau of Statistics also updated the unemployment figure for April 2010, reporting that it was

6.6% and not 6.9% as previously published. (CBS 19.07)

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10.3 Israel's State of Economy Index Shows Even Slower Growth

The Bank of Israel's Combined State of the Economy Index rose by 0.1% in June 2010, indicating slow economic growth. The Bank of Israel also revised downward the index for April and May to zero for each month, from gains of 0.1%. Gains by the Manufacturing Output Index, the Export of Goods Index and the Import of Production Inputs were offset by falls in the Import of Consumer Goods Index and Sales and Services Proceeds Index. The Bank of Israel attributed the downward revision in the State of the Economy Index for April and May to updated figures for imports of goods and services in May and raw materials imports in April and May. The Manufacturing Output Index rose by 0.6% in May, down from its 1.9% rise in April. (BoI 19.07)

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10.4 GDP Growth Revised Downward

Israel's GDP rose at an annual rate of 3.4% in the first quarter of 2010, down from a previous estimate of 3.6%. The figure is the third estimation of economic growth figures by the Central Bureau of Statistics. Israel's GDP grew 4.4% in the fourth quarter of 2009, and grew 3.9% in the third quarter of 2009. The data shows that in the first quarter, private consumption expenditure rose 4.4%, exports of goods and services rose 3.1% and investment in fixed assets rose 1.3%. (CBS 18.07)

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10.5 Record Tourism Visits Israel in First Half of 2010

The Central Bureau of Statistics announced that a record 1.6 million tourists visited Israel in the first half of 2010, up 39% compared with the first half of 2009 and up 10% compared with the first half of 2008 - the previous record. June was also a new record for that month, with 259,000 tourists visiting, up 24% from 2009 and 8% from June 2008. Some 214,000 visitors in June stayed at least one night in Israel, an increase of 19% compared with June 2009 and 4% compared with June 2008. Another 8,500 visited Israel on cruise ships, a seven-fold increase compared with June 2009 and 2.7 times more than June 2008. The Ministry of Tourism estimates, income from incoming tourism (excluding air travel) reached \$1.55 billion in the first half of 2010. This figure is about 35% higher than the income from tourism in the first half of 2009 and similar to the figure in H1/08. The Central Bureau of Statistics also reported that 1.7 million Israelis traveled abroad in the first half of 2010, up 9% from 1.5 million last year. In June 322,000 Israelis traveled abroad compared with 310,000 in June 2009. (CBS 12.07)

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11: In Depth

11.1 ISRAEL: Summary of Israeli High-Tech Company Capital Raising Q2 / H1 2010

On 14 July the IVC Quarterly Survey conducted by the IVC Research Center (<http://www.ivc-online.com>) was released. This Survey reviews capital raised by private Israeli high-tech companies from Israeli venture capital funds, foreign and other investors. The Survey is based on reports from 99 investors of which 47 are Israeli management companies and 52 are other – including foreign – investment entities.

In the second quarter of 2010, 104 Israeli high-tech companies raised \$343 million from venture capital funds and other venture investors – both local and foreign. The amount was up 47% from the \$234 million raised by 91 companies in the first quarter of 2010, and 23% above the \$279 million raised by 122 companies in the second quarter of 2009. In the first half of 2010, capital raised by 195 Israeli high-tech companies was \$577 million, 6% increase from H1 2009 levels.

In Q2 of 2010 the average high-tech financing round was \$3.3 million, compared to \$2.57 million in the previous quarter and \$2.29 million in the second quarter of 2009.

Sixty-three companies attracted more than \$1 million each. Of these, two companies raised more than \$20 million each, seven companies raised \$10 million to \$20 million each and 15 companies raised \$5 million to \$10 million each.

Israeli VC Fund Investment Activity

In the second quarter of 2010, Israeli VC funds invested \$91 million in Israeli companies, 17% more than the \$78 million of Q1 2010, but 19% below the \$113 million invested in the second quarter of 2009. In the first half of 2010, Israeli VC funds invested \$169 million in Israeli companies, a decrease of 23% from the \$219 million invested in H1 2009.

Israeli VC funds accounted for 26% of the total amount invested in Israeli high-tech in Q2 2010, compared to 33% in the previous quarter and 40% in Q2 2009. The remainder of capital came from foreign investors as well as from non-VC Israeli investors. In the first half of the 2010 Israeli VC fund share was 29%, compared to 40% in H1 2009.

"We are seeing what may be the seeds of recovery in capital raising by Israeli high-tech companies" said Koby Simana, CEO of IVC Research Center. "However, the share of Israeli VC fund activity continues to drop - declining in Q2 to its

lowest level in ten years. In the meanwhile, some of the impetus can be explained by non-Israeli VC funds stepping up. It still remains to be seen if the increase in amounts raised is a one time event or a bona fide change in the trend."

First investments by Israeli VC funds accounted for 36% of their total dollar investments in the second quarter, compared to 38% the second quarter of 2009. In the first half of the 2010 first investments accounted for 31%, compared to 34% in H1 2009. The average first investment by Israeli VC funds was \$1.94 million, while the average Follow-on investment was \$0.85 million in Q2 2010.

Israeli VC funds invested \$12 million in foreign companies during Q2 2010 (in addition to their investments in Israeli high-tech companies), compared to \$3 million in Q1 2010 and \$21 million in Q2 2009. Two out of seven foreign transactions were first investments.

Capital Raised by Sector and Stage

The Life Sciences sector continued to lead capital raising both in the second quarter and H1 2010, with \$109 million (32%) and \$195 million (34%) respectively. The internet sector followed with \$70 million (20%) in Q2, and \$100 million (17%) in H1 2010.

In the second quarter of 2010, Seed companies attracted 5% of capital raised, as in the previous quarter, which compares to 9% in the second quarter of 2009. Early Stage (R&D) companies captured 32% of total capital raised. Mid-Stage companies (up to \$10 million in revenues) attracted 49% of capital raised.

In the first half of 2010, Seed companies attracted 5% of capital raised, compared with 7 present in H1 2009. Early Stage (R&D) companies accounted for 33% of capital raised, Mid-Stage companies (up to \$10 million in revenues) 48% and Late Stage companies 14%.

IVC is Israel's leading research center providing business leaders with an unmatched wealth of data on Israeli high-tech, venture capital and private equity industries. IVC products and services are used regularly by high-tech companies, venture capital funds, private investors, financial investors and institutions, as well as public entities such as the Office of the Prime Minister, the Central Bureau of Statistics, the Bank of Israel and the Office of the Chief Scientist. (IVC 14.07)

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11.2 KUWAIT: Cargo construction

Kuwait occupies a strategic location at the head of the Gulf, in close proximity to the large and expanding markets of Saudi Arabia, Iraq and Iran. Over the years, the country has developed a strong reputation in the logistics sector, built on the performance of its leading companies in the sector. At present, however, its two main ports face issues with congestion and are in need of expansion should the country wish to become a leader in an increasingly competitive regional port landscape.

A recent World Bank report ranked Kuwait 36th out of 155 countries in terms of the movement of goods and services. While scoring relatively high on road infrastructure (30th), its overall ranking was dragged down by a lower ranking on the quality of its ports (69th).

Kuwait's two main ports of Shuwaiba and Shuwaikh, with a combined capacity of 1.2m twenty-foot equivalent units (TEUs), are both facing capacity limits, with shipping companies and export manufacturers located in industrial zones nearby complaining of delays and inefficiencies. Hamad Al Terkait, the president and CEO of EQUATE Petrochemical Company, recently told OBG, "Shuaiba is today overcrowded and everyone is vying for access to its limited port facilities. Access to the sea is crucial for the expansion of our industry."

Average clearance for a shipment at both ports is estimated to take three days, compared to only one day in Dubai. Furthermore, the ports are relatively shallow, which means larger ships travelling with cargo originating in or destined for Kuwait must dock in Dubai and then send the cargo via land, or vice-versa.

Besides the need to serve the domestic market, Kuwait is aware of its potential to serve as a gateway for its northern neighbor, Iraq. With major reconstruction efforts and projected double-digit economic growth on the back of its underexploited hydrocarbon reserves, Iraq stands to emerge as the region's prominent logistics growth destination in coming years.

Kuwait is particularly well placed in that it already has extensive logistics experience serving the Iraqi market. This has mainly taken the form of defense contracts with US and coalition forces, which have used Kuwait as a base for military operations. Partly as a result of these contracts, and the consequent revenue and experience they have provided, Kuwait now possesses a handful of leading international logistics companies such as Agility (formerly known as PWC Logistics), KGL Holding and Mubarrad Transport. All three firms have undertaken expansion or acquisition deals and have won projects in major markets across the region.

The phased US military withdrawal from Iraq will result in increased logistics business in the short term, through the requirement to repatriate huge amounts of troops and equipment. Kuwait will need to compensate for the eventual loss of this cargo niche in the longer term by attracting and serving commercial cargo bound for Iraq. The prospects for this look promising, however, as political stability should result in an increase in imports, particularly of materials needed to rebuild the economy, service domestic industry and meet consumer demand.

In this respect, all eyes are on plans to build a new seaport on Kuwait's largest island, Boubyan, which is located in the country's north-east near the Iraqi border. The project has faced multiple delays, with initial proposals dating back to 2004.

There has recently been positive news that the project may now move forward. In early July a \$1.2bn deal to build the first phase of a container port on Boubyan (with a 42-month target date) was signed between the Ministry of Public Works (MoPW) and a consortium involving Kuwait's Kharafi Group and South Korea's Hyundai Engineering and Construction.

According to Marzouk Nasser Al Kharafi, the group vice-president for the Kharafi Group, "It is a huge concern that projects have been continually delayed. Parliament acting as a hurdle rather than supporter of state projects remains a major obstacle. However, we are starting to see the government get serious about pushing things through parliament. The timing is right and all circumstances point toward a pressing need for projects to go ahead. The government has surplus funds and there is a surplus of local and foreign contractors hungry for work."

In addition to a planned 60 berths and capacity to handle 2.5m TEUs, according to the MoPW, the overall development will also involve the establishment of free trade zones and light industrial areas. The project calls for the construction of a rail link which, as part of a wider GCC rail network, will connect directly to Iraq's only deep-water port of Umm al Qasr, the optimal eventual destination for much of Boubyan's arriving cargo.

With the Iraqi government currently undergoing negotiations with potential bidders for the construction of a new port, time is of the essence, especially since Kuwait is far from the only player looking to capture its share of shipments bound for the Iraqi market. In 2009 Bahrain opened the 1m-TEU Khalifa bin Salman Port, which was constructed with the intention of serving commercial traffic throughout the northern Gulf. Meanwhile Turkey, Jordan and Syria are each positioning their main ports as trans-shipment points for goods destined to northern and central Iraq. Mohammad Al Muali, the vice-chairman and CEO of Kuwait's Mubarrad Transport, told OBG, "Boubyan Port will undoubtedly provide a boost to the country's logistics sector. We have a strategic location and a business understanding of Iraq that simply cannot be replicated by any of our neighbors." While Kuwait has undeniable competitive advantages when it comes to serving the Iraqi market, it will need to move quickly to put the infrastructure in place to make the most of them. (OBG 19.07)

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11.3 QATAR: Telecoms, Mobile, Broadband & Forecasts

Research and Markets (<http://www.researchandmarkets.com>) "Qatar - Telecoms, Mobile, Broadband and Forecasts" report says Qatar is small and very wealthy, with income per capita almost twice as high as even Kuwait or the UAE. This is reflected in high penetration rates for mobile and fixed-line telecoms and for broadband internet services.

Qatar was the last country in the region to introduce competition to its telecoms market. In July 2009 Vodafone Qatar launched mobile services, ending the monopoly of all sectors of the market previously enjoyed by incumbent Qtel. The consortium led by Vodafone plc of the UK won the second mobile license in December 2007. A second fixed-line license was awarded in September 2008, also to the Vodafone consortium.

Vodafone Qatar came into a market where mobile penetration was already over 150%. Almost all the many new licenses tendered in the region over the past few years have been won by local regional operators - other than France Telecoms long-term share of Jordan's JTC, Vodafone is the only European operator in the region. The path to launch was not easy, with both an IPO and the launch subject to delays.

Despite the high mobile penetration in Qatar, a lower percentage of 3G subscribers than in the UAE provided a market for Vodafone to target plus the ever-changing high expatriate population provides new subscriber opportunities. Qtel prepared for competition, lowering tariffs in all sectors. Broadband tariffs in Qatar are particularly low (relative to incomes) for the region and broadband penetration on a household level is relatively high, being estimated possibly as high as 60%. In addition to ADSL services, mobile broadband subscribers are growing and Qtel has plans to build a Fiber to the Home (FttH) National Broadband Network (NBN), so far only with pilot projects completed. In addition to services to consumers and businesses, the trans-sector implications are understood. Qtel is successfully selling its Mozaic triple play package of voice, ADSL and IPTV.

Qtel has expanded outside its home market. Through its purchase of Wataniya of Kuwait, Qtel also acquired operations in Tunisia, Algeria, Saudi Arabia, the Maldives and a licence for the Palestinian Authority. In addition it has separately acquired in Iraq and Oman. Unlike most of its regional rivals, Qtel has expanded further into Asia with interests in Singapore, Cambodia and Laos. In February 2009 it completed the purchase of a 65% share in Indosat of Indonesia. Its operations outside Qatar made up over three quarters of its revenues for 2009 but remain considerably less profitable than its Qatari operations. (R&M 08.07)

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11.4 OMAN: Back To Speed

Growth in Oman may rebound even stronger than anticipated this year, said the Oxford Business Group, with a recent report predicting GDP will expand by 7.3% in 2010. The report, written by the Arab Organization for Industrial Development and Mining (AOIDM), singled out diversification in the non-oil sector as a leading spur for growth, with Oman's non-oil GDP tripling from \$2.1bn to \$6.4bn between 2004 and 2008.

The headline figure is notably higher than the government's initial prediction in January of 6.1% for 2010 and more bullish than the IMF's early estimate of 4.1%. If realized, it would mark a strong recovery from comparatively slow growth in 2009, when the global downturn and a slump in oil prices saw GDP expand by 1-2%. Indeed, the figure comes close to matching the 7.8% growth experienced in 2008, a boom year for the Gulf which saw record oil prices nearing \$150 a barrel.

In common with the rest of the Gulf, Oman's current bright outlook has much to do with a steady strengthening in the price of oil in recent months. Oman oil (which serves as a benchmark for the region's Asian exports) has recently been trading at close to \$75 a barrel. This is significantly higher than the government's conservative estimate of \$50 a barrel, made at the start of the year during budget calculations. The higher price is likely to see the government register either a budget surplus for 2010, or a much reduced deficit.

Predictions based on the \$50 price had foreseen an initial deficit of some \$2.1b. By comparison, in 2009 the government predicted an average oil price of \$45 a barrel and a budget deficit of \$2.07b. The actual price realized that year averaged out at \$56.7 a barrel, and as a result the final budget deficit came in significantly lower, at \$1.76b. With the gap between estimated and actual oil prices likely to be even larger this year, and oil production in Oman increasing, the effect on the predicted deficit will likely be even greater in 2010.

With stronger growth fundamentals, however, come greater inflationary pressures. Early government predictions for inflation in 2010, released at the same time as the 6.1% growth forecast, foresaw inflation in the Sultanate averaging 3.5% for the year. The AOIDM report, however, suggests that inflation may reach 5.2% – close to the 5.3% level experienced during the commodity bubble of 2008. Latest government figures show inflation to be on the rise, with the headline rate hitting 3.2% in May, the last month for which figures are currently available.

The uptick in inflation, which according to the executive president of the central bank, Hamood Sangour Al Zadjali, was prompted by an increase in global food costs and greater demand for building materials, has led the government to revise upwards its initial inflation estimate to between 4% and 5% for the year.

Indeed, inflation in neighboring Saudi Arabia has already crept up to 5.4%, largely due to the same factors, as a buoyant oil price and resurgent dollar contribute to the cost of basic goods and services. With no plans to reassess the rial's dollar peg, the Omani monetary authorities will be keeping a close eye on the situation, no doubt mindful of the events of 2008.

One key difference from that year, however, and a potential bright spot on the horizon for the Omani authorities, is the relative weakness of the eurozone. The dollar's significant strengthening against the euro reduced and then stabilized rates for tourism-related real estate on the Omani market. According to a recent report by Cluttons, a real estate specialist, a decline in residential leasing as well as an oversupply of rental property have combined to reduce rental values in the Sultanate. This could well play a significant role in taking the edge off developing inflationary pressures, as one key characteristic of the 2008 Gulf inflationary cycle was rocketing real estate prices. With real estate currently quiescent and headline estimates for growth continuing to rise as the year progresses, the Omani economy looks set to be returning to speed. (OBG 19.07)

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11.5 OMAN: Telecoms, Mobile & Broadband

Research and Markets (<http://www.researchandmarkets.com>) announced the "Oman - Telecoms, Mobile and Broadband" report. One of the six GCC countries, Oman has a GDP per capita at a similar level to that of Saudi Arabia but with a much smaller population. Its mobile penetration is also very similar to that of Saudi Arabia. The telecoms market as a whole has been much less competitive but things are about to get more interesting.

Incumbent Omantel has had a monopoly of all fixed-line and Internet access services. In November 2008 alternative mobile operator Nawras, 55.6% owned by Qtel of Qatar, won a 25-year licence to also build and operate domestic and international services, together with submarine cables and transmission stations. The licence also includes spectrum rights, valid for 15 years and possibly renewable for a further 10 years, to provide wireless broadband. Nawras will pay the same 7% royalties as does Omantel and was required to pay a one-time fee of OMR500,000. Nawras is building a latest generation fiber optic backbone across the country, in conjunction with WiMAX networks, and a new international gateway. It launched its first fixed-line services, to corporate customers, in May 2010. Possibly linked to the lack of competition in the market, fixed-line penetration is low, even by regional standards, at below 10%. Internet-user penetration is also low and ADSL broadband penetration is less than 2%.

The mobile sector is more exciting. Omantel and Nawras have roughly equal shares of the market but may find the ongoing environment challenging. Oman was the first country in the region to launch MVNOs. Five licenses were awarded in June 2008 and in April 2009 Connect Arabia's FRiENDI became the first operating MVNO in the Middle East. It was closely followed in May 2009 by Majan Telecoms Renna. Both operators are targeted at the expatriate population with low recharge amounts and competitive international rates. Connect Arabia also partnered two radio stations to launch a second brand, Halafoni, in July 2009, this time targeted at young nationals and other Arabic speakers, with an emphasis on downloadable content. Two further MVNOs have launched in 2010, both using Nawras network.

Oman was also earlier than most countries in the region to introduce mobile number portability, in August 2006. The more competitive mobile market and the low broadband penetration rates provide an opening for mobile broadband services through HSPA. Both mobile operators have launched services and have marketed them strongly with numerous special offers. They appear to be winning subscribers from fixed-line broadband and the broadband market is becoming mostly mobile. (R&M 08.07)

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11.6 SAUDI ARABIA: Saudi Nuclear Drive Gains Momentum

UPI reported that Saudi Arabia's decision in early July to sign a nuclear cooperation pact with France marks a major step forward for a pan-Arab drive toward nuclear power, even as the United States strives to rein in Iran's nuclear ambitions. Jordan is talking with Areva of France and Mitsubishi of Japan, among other companies, to acquire the technology required to build the Hashemite kingdom's first nuclear power generating plant. Earlier this month, the United Arab Emirates, which is the Arab state furthest down the path of developing nuclear energy, issued licenses to the Emirates Nuclear Energy Corp. to start preparing a site for a nuclear power facility. In December, the Emirates awarded a South Korean consortium a \$20.4 billion contract to build and operate four 1,400-megawatt nuclear power plants. All told, 13 Middle Eastern states, including Egypt, have announced plans - or dusted off old plans - to build nuclear power stations since 2006.

This is causing unease in Washington even though they have all declared that their objective is to boost electricity generation to meet a rapidly growing demand. All say they have no intention of seeking to develop nuclear weapons. But there is concern that once they've mastered the technology they'll seek to counter Iran's alleged push to acquire such weapons by doing so themselves. Lurking behind this rationale is a general, and seemingly growing, sense that U.S. President Obama's administration is unable or unwilling to take on Iran over its contentious nuclear program. The Sunni-led Arab states, those in the gulf in particular, see Shiite-dominated Iran determined to become the regional

colossus and without the conviction of U.S. protection, they feel extremely vulnerable and exposed.

Saudi Arabia's King Abdallah, "fears that his country's historically closest ally is naive, and dangerously so, for putting so much faith in diplomacy," says British analyst Simon Henderson, an expert on Saudi Arabia with the Washington Institute for Near East Policy. "Despite the official blandishments, there are clear indications that under Abdallah, and especially since 2001, Saudi Arabia has put distance into its relationship with the United States …The kingdom's own pursuit of (peaceful) nuclear energy is a clear sign that Riyadh thinks that the United States cannot or will not stop Iran's program." The Americans have sought to ensure that none of the Arab states will seek to enrich uranium to weapons-grade level.

Washington will be uneasy with the Saudis opting for French nuclear assistance rather than American, which would have made surveillance of Saudi enrichment easier. The Obama administration endorsed the Emirates' contract with the South Koreans only after Abu Dhabi pledged to refrain from enriching uranium - the process that's at the crux of the dispute with Tehran. But Washington is at odds with longtime ally Jordan because it plans to exploit large uranium deposits it recently discovered in the desert. The Americans see that as a proliferation risk. (UPI 14.07)

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11.7 SAUDI ARABIA: Telecoms, Mobile and Broadband

Research and Markets (<http://www.researchandmarkets.com>) "Saudi Arabia - Telecoms, Mobile and Broadband" feels that the Saudi Arabian telecoms market is perhaps the most interesting in the Middle East. It is more competitive than most others and all the big regional players have at least a toehold in the market. Saudi Arabian incumbent STC is the largest telecoms company in the Middle East when measured by either revenue or by market capitalization. It has been joined in the Saudi Arabian mobile market by the second and third largest Middle Eastern regional players - Etisalat of the UAE and Zain of Kuwait.

Etisalat has considerably more than a toehold in the market. It won the second GSM/3G mobile licence and, operating as Mobily, now has over one-third of the GSM market and three-quarters of the 3G market. It has also bought Bayanat Al Oula, a major ISP/data comms licence holder, and has invested in considerable fiber and WiMAX infrastructure. Zain won the third GSM/3G licence in 2007 and launched operations in August 2008. It paid a huge \$6.1 billion fee, almost twice the price paid by Etisalat for the second mobile licence (\$3.45 billion) in 2004. At the time it was the worlds highest licence fee on a per capita basis, at \$226 per Saudi inhabitant.

These three giants have been joined in the market by Batelco of Bahrain and Qtel of Qatar. Batelco is a major investor in a consortium, Etihad Atheeb, which has won a fixed-line licence. Finally, the remaining large regional player, Qtel, has a major share in the small iDEN mobile operator, PTC, through its Wataniya subsidiary.

What makes Saudi Arabia so attractive to all these operators the combination of its population-size and wealth. While its total population is nowhere near as high as that of Turkey or Iran, its GDP per capita is much higher and while the

smaller gulf countries are richer per capita, their populations are tiny. In addition, its market has been slower to develop than some others in the region such as the UAE or Qatar, leaving room for growth.

Fixed-line penetration has remained steady for some years rather than falling as it has in some other countries in the region. Internet user penetration is nearly 40% but DSL broadband subscriber penetration is only around 5%. However, the number of DSL subscribers doubled in the two years to end-2009. STC also started work on a FttH network in early 2009. Mobily and Atheeb Telecom are planning to make extensive use of WiMAX. Mobily had coverage of 20 cities by early 2010. It launched a WiMAX service for residential subscribers branded broadband@home in September 2008 at speeds up to 2Mb/s. Mobile subscribers have grown rapidly in the competitive market and penetration rates have now reached 175%. Mobily is making an extensive push with mobile broadband. Mobily claimed to have over one million mobile broadband subscribers in early 2010.

As competition becomes fierce in its home market, STC has used its considerable resources to expand abroad. It has direct interests in Malaysia, Kuwait and Bahrain and, through its purchase of a 35% share in Oger Telecom, also in Turkey and South Africa. (R&M 08.07)

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11.8 YEMEN: Democracy on Hold

On 13 July, Ginny Hill wrote in the Carnegie Arab Reform Bulletin (<http://www.carnegieendowment.org/arb>) that Yemen recently celebrated the twentieth anniversary of unification between the Yemen Arab Republic (North Yemen) and the People's Democratic Republic of Yemen (South Yemen). Unique political conditions created by unification led the country's decision-makers to introduce universal suffrage to the Arabian Peninsula. Yemen's 2006 presidential ballot - deemed an "open and genuine contest" by European Union election monitors - raised hopes that after nearly two decades, the country was progressing towards mature participatory politics.

Four years later, Yemen's democracy is on hold, at least temporarily. Neither constitutional reforms, recommended by the EU election monitors in 2006, nor suggested technical amendments to the election law have yet been implemented. The last round of parliamentary elections, scheduled for April 2009, were delayed for two years by mutual agreement between the ruling party, the General People's Congress (GPC) and the Joint Meeting Parties (JMP), a coalition of opposition groups. Now Yemen will need to take action within the next two months, or elections planned for April 2011 will not be possible.

Last year's postponement deal included a commitment to hold bi-partisan dialogue that would seek to break the deadlock over the electoral framework. The outbreak of violent protests in south Yemen a few months later, followed by renewed conflict in the northern province of Saada, however, ruptured the conditions required to establish fruitful talks. The recourse to violence indicated that the grievances of the southern separatists and the Saada rebels - the so-called "non parties" - were beyond resolution by the existing parliamentary system. In response to these rising tensions, President Ali Abdullah Saleh promised to sponsor a wide-ranging national dialogue, but as yet these talks remain elusive.

Instead, the JMP has gone ahead with an independent national consultation exercise to canvass grassroots opinions and determine an alternative vision for the future of the country. The resulting national salvation plan calls for "leverage for peaceful change" to relieve the country from "despotism and corruption." Supporters count the JMP's initiative as a sign that the opposition is transforming itself from an urban phenomenon into a credible national political movement. Many Yemenis still believe, however, that parliamentary politics are hostage to elite self-interest and that key protagonists in both parties are bringing the system to its knees by pushing for their own advantage.

Cross-party negotiators continue their efforts to set the parameters for national dialogue, but both power blocs are repeatedly criticized, for stalling. The JMP can resort to the threat of boycott in next year's elections, while the GPC is blamed for playing with time to maintain the balance of power in parliament. When talks reached stalemate in April, unknown gunmen opened fire on the JMP's chief negotiator. A week later, President Ali Abdullah Saleh announced that delayed parliamentary elections would be held on schedule in April 2011, regardless of the status of negotiations. During unity celebrations in May, however, Saleh offered an amnesty deal for the release of political prisoners and called for a coalition government.

After thirty years at the top, President Ali Abdullah Saleh is beset with challenges including falling oil production, a currency that is rapidly dropping in value, complaints about the concentration of power, and a popular backlash against civilian deaths in missiles strikes that are intended to target al-Qaeda's leadership. Opposition leaders might well fear that they have little to gain and much to lose by joining a coalition cabinet. But they will also share the blame for derailing Yemeni democracy if they fail to negotiate a timely agreement to hold next year's elections or decide to boycott the ballot.

Yemen's upcoming elections pose various hard choices and possible dilemmas for Western donors. Should the European Union deploy election monitors if its 2006 recommendations for constitutional reforms remain ignored? If it does, how will the EU guarantee the security of its observers? What if observers judge the result to be unfair? Without Yemen gaining a clean bill of electoral health, donors will be even further constrained in their relationship with the Yemeni government and the gap between rhetoric and reality on democracy and governance reforms will grow even wider. A controversial election result has the potential to stretch a coordinated donor stance to the limit.

Yemenis themselves are divided over the significance of the planned elections. Opposition figures argue that political reforms are an essential precondition for effective measures to tackle the macro-economic challenges. Yet within Yemen's administration, there are some who claim that the country cannot afford the luxury of elections while there is such a pressing need to tackle the escalating economic crisis. Among Yemen's political class, there are figures who say that flawed elections would be worse than no elections at all because of the risk that voters will lose faith in the political process completely and be further disposed toward violence.

Decisions taken in the coming weeks will determine the direction of Yemen's shaky political trajectory. Ramadan begins in mid-August and by Eid al-Fitr on September 9, an agreement between the two parties must be in place to implement technical reforms and begin the process of registering voters in sufficient time for the 2011 poll. As each week goes by, ambitious suggestions such as a shift to proportional representation, seem ever more elusive.

"If we have not reached an agreement by September, we can say goodbye to democracy in Yemen," says former Prime Minister Dr Abdul-Kareem al-Iryani. "The president himself is the only person who can break the deadlock now but if he leaves it to the eleventh hour to strike a deal, there will be no time to implement the agreement." He adds: "If we cannot guarantee free and fair elections next year, we will not see democracy in my lifetime and a light will go out in the region." Ginny Hill is an associate fellow at Chatham House in London, where she runs the Yemen Forum. (CARB 13.07)

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11.9 TURKEY: Hats Off to Fiscal Performance

Morgan Stanley's (<http://www.morganstanley.com>) Tevfik Aksoy writes that Turkey showed noticeable improvement in fiscal performance: In late 2009, the government prepared its 2010 budget rule with a real GDP growth rate assumption of 3.5%, which was in harmony with the official three-year Medium-Term Plan. The outperformance in economic growth, which suggests a much faster-than-expected recovery from last year's recession, has resulted in a noticeable rise in tax revenues. This is particularly true for indirect taxes such as domestic VAT and the Special Consumption Tax (SCT). Other than the faster-than-anticipated growth, another contributing factor was the one-time hike in the VAT and SCT rates that was applied to certain items earlier this year - this hike reflected the re-introduction of higher rates that had been previously lowered as part of crisis-related measures introduced in 2009 (e.g., lower rates on automobiles and white goods).

The government's pursuit of a sound fiscal policy - based mainly on the premise of containing the rise in non-interest expenditures at a reasonable level - is the other factor behind these commendable results. As such, during the January-May period, the yearly rise in non-interest expenditures was limited to around 10%, which translated into a real growth rate of zero. In combination with the strong rise in tax revenues and controlled spending, the primary surplus almost reached the levels seen in 2007 and 2008. While the month of May is not the best period to judge revenue trends, given its seasonal nature, even a similar trend interpolation suggests that the year-end numbers might surprise on the upside.

Looking in detail at the revenue data, the most striking growth related to the collection of VAT and SCT during January-May. VAT revenues rose by 29.6%Y during this period. This included 32.4%Y for SCT revenues. Essentially, both the VAT (c.20%Y) and SCT (c.22%Y) revenues grew at significantly high real rates. In our view, the more significant portion of the rise can be attributed to a strong improvement in domestic demand. However, we also believe that the government's efforts to improve tax collection have seen results.

Risks to fiscal outlook: Given the limited extent of fiscal deterioration during the peak of the crisis, when the budget deficit to GDP rose to 5.5% in 2009 from 1.8% of 2008, any weakening in fiscal policy should remain manageable, in our view. However, when it comes to risks on the fiscal front, especially when there is no solid fiscal rule in place, the political agenda is usually the number one determinant of the possible direction.

We see the upcoming general elections scheduled for summer 2011 (and potentially to be held earlier, in the spring) to be the main risk. In the event that the polls indicate a comfortable margin for the governing party, and/or the unemployment rate does not decline during the course of the economic recovery (which is possible), the government might be tempted to hire personnel, increase discretionary spending and use the fiscal cushion that has been created so far. Looking back, there have been both positive and negative examples of this. In the 2004 local elections, the government refrained from raising spending ahead of the polls; this was somewhat less the case leading into the 2007 general elections, and in the run-up to the 2009 local elections non-interest spending rose by 28%Y, which coincided with the global crisis.

The long-awaited fiscal rule soon to be in place: As we analyzed in detail in Turkey Economics: Fiscal Rule to Set a Strong Anchor, May 12, 2010, the government has given final shape to a fiscal rule that will be implemented starting with the 2011 budget. The draft proposal has been approved by cabinet and sent to parliament, where it has been cleared by the relevant commission. At this point, we believe that it should be only a matter of days or weeks before the draft legislation is passed by parliament (given the ruling AKP's significant majority) and ratified by President Abdullah Gul. We think that the passage of the fiscal rule and the enactment of the control mechanisms within it are likely to allay fiscal concerns stemming from the political agenda, to a large extent.

External backdrop might be a negative: Exogenous factors, such as general economic weaknesses in trading partner economies, pose a potential risk. Were the situation in Europe and the rest of the DM to deteriorate rather than improve, Turkey's growth potential would be capped, private consumption would be cut due to a more conservative stance and tax revenues would stall. Since a double-dip scenario is not our base case, we attach a low probability to this.

Debt dynamics more than sustainable: Turkey's public debt to GDP stood at 46% at the end of 2009; we believe that this is likely to remain more or less stable in 2010, easing slightly in 2011 depending on the fiscal performance next year. According to our projections, based on conventional formulas of debt dynamics, Turkey's debt to GDP ratio will not only be on a declining path, but also a rather steep one.

Our assumption of average real GDP growth of 4.5% (trend growth) with a reasonable and rather non-ambitious primary surplus of 2% (steady state) leads to a debt to GDP ratio of around 25% by 2020. This would not only be a fraction of the debt level that Turkey had post the 2001 financial crisis, but would also be one of the lowest in the DM and EM universe.

We believe that the government's fiscal performance so far this year has been highly impressive and, despite potential risks ahead, that any potential deterioration will remain limited. In fact, this is the main reason (aside from improved growth prospects) why we maintain our budget deficit forecasts of 4.3% of GDP in 2010 and 4% in 2011. (MS 06.07)

- Israeli Shekel conversions done at a rate of NIS 3.80 = \$1.00
- Turkish Lira conversions done at a rate of NTL 1.60 = \$1.00
- Euro conversions done at a rate of € 1.00 = \$1.40
- Jordanian Dinar conversions done at a rate of JD 1.00 = \$1.41
- UAE Dirham conversions done at a rate of Dh 3.67 = \$1.00
- Omani Rial conversions done at a rate of OR 0.385 = \$1.00
- Pakistani Rupee conversions done at a rate of Rs 82 = \$1.00

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