Fortnightly - April 18, 2007

Top Stories

• GE - Transportation Delivers Modernized Locomotives to Jordan

• IMF Raises Israel Growth Forecast

• UAE Wood Imports Cross $1.41 Billion

• WEF Finds UAE Most Competitive Arab Economy

TABLE OF CONTENTS:

5: ARAB STATE & PAKISTANI DEVELOPMENTS

Back to top

6: TURKISH & CYPRIOT DEVELOPMENTS

Back to top

7: GENERAL NEWS AND INTEREST

*ISRAEL:

*REGIONAL:

Back to top

8: ISRAEL LIFE SCIENCE NEWS

Back to top

9: ISRAEL PRODUCT & TECHNOLOGY NEWS

Back to top

10: ISRAEL ECONOMIC STATISTICS

Back to top

In Depth

Back to top

1: ISRAEL GOVERNMENT ACTIONS & STATEMENTS

1.1 Fischer Proposes Public Sector Salary Revolution

At a speech on 17 April to the Histadrut (General Federation of Labor in Israel), Governor of the Bank of Israel Prof. Fischer proposed reforms in labor relations and salaries in the public sector. Fischer said, "On average, Israel loses more work days because of strikes than Spain, France, the UK and in some years, the US. Data show that we have a serious problem in labor relations. The fact that the number of strikes in Israel is very high by international comparisons isn't the problem, but a symptom of the problem." Fischer went on to list the main problems in public sector labor relations in Israel: Basic pay, which is derived from criteria such as seniority, rank, and pay grade, is only part of a total salary. The basic salary often accounts for less than half of a total salary. Salaries are not necessary based on an employee's performance. This is not only because of collective or seniority-based pay hikes, but also because of the limited ability to properly compensate employees on the basis of skill, responsibilities, or excellence. "This situation sometimes harms employees' motivation to provide good quality and efficient service. In contrast, there is virtually no way to transfer a low-productive employee to another job, where his productivity might increase, or to remove him from a position where he contributes nothing and even does harm," said Fischer.

Fischer divided his proposed reforms into three groups: salary structure, hiring and the promotion of employees, and solving labor disputes. Regarding salary structure, he said that in the public sector "there are more than 1,000 different salary supplements, and the basic salary is half of the total salary. These supplements create a distorted salary structure that is opaque and raises discussions about inputs rather than the financial compensation of employees.

Fischer proposes creating a mechanism to enable managers to evaluate an employee's performance, and to make promotion conditional on the performance of his tasks, meeting targets, and on the opinion of his superior. He also proposes awarding bonuses for outstanding employees and abolishing automatic pay grade hikes on the basis of seniority or collective grades. This proposal will undoubtedly raise opposition among top civil servants and Bank of Israel employees. Finally, Fischer proposes strengthening the arbitration institute for solving labor disputes, and restricting the right to strike via injunctions and eliminating protections for strikers. (Globes17.04)

Back to Table of Contents

2: ISRAEL MARKET & BUSINESS NEWS

2.1 AudioCodes Announces Completion of Acquisition of CTI Squared

AudioCodes announced the successful completion of its previously announced acquisition of CTI Squared (CTI2), a leading provider of enhanced messaging and communications platforms deployed globally by service providers and enterprises. CTI2's platforms integrate data and voice messaging services over internet, intranet, PSTN, cellular, cable and enterprise networks. AudioCodes completed the exercise of an option to acquire the remaining outstanding shares of CTI2, for a purchase price of $10m, $5m paid in cash at the closing and $5m payable in cash by February 28, 2008.

Lod, Israel's AudioCodes (http://www.audiocodes.com) provides innovative, reliable and cost-effective Voice over Packet (VOP) technology, Voice Network products, and applications to OEMs, Network Equipment Providers, Service Providers and System Integrators worldwide. AudioCodes provides a diverse range of flexible, comprehensive media gateway and media processing technologies (based on VoIPerfect - AudioCodes' underlying, best-of-breed, core media gateway architecture) and Session Border Controllers (SBCs). The company is a market leader in product development, focused on VoIP Media Gateway, Media Server and SBC technologies and network products. Herzliya Pituah, Israel's CTI2 (http://www.cti2.com) delivers Next-Gen, value-added solutions to leading carriers and service providers worldwide, with product lines spanning Web/IPTV Advertising, T-Commerce, Messaging and Conferencing services. CTI2 is spearheading the cable industry with advanced revenue-generating services including Location- based advertisement and Content Promotion services. By developing innovative, scalable, optimized and adaptable technology, CTI2 supports communications solutions that enable service providers to launch lucrative services. (AudioCodes04.04)

Back to Table of Contents

3: REGIONAL PRIVATE SECTOR NEWS

3.1 GE - Transportation Delivers Modernized Locomotives to Jordan

Four new modernized GE C24 MMI locomotives are now Jordan-bound to help Aqaba Railway Corporation provide reliable and efficient rail service as part of its large phosphate mining operations. Aqaba Railway Corporation operates a diesel locomotive fleet of 24 units that transport phosphate rock from the mines to the port of Aqaba. GE Transportation's C series locomotives have more hauling ability and meet the U.S. Tier I emissions standards, making them a great fit for markets around the world like the Middle East. Weighing in at 20 metric tons of axles, this set of GE's C24 MMI series locomotives provides 2400 horsepower and features GE's Brightstar technology. Brightstar is an advanced digital microprocessor system that helps customers maximize fleet capacity by controlling and monitoring all critical locomotive systems, such as temperature, fuel, water, horsepower and more. The self-diagnostic feature of the system can improve troubleshooting, reduce maintenance and minimize road failures, allowing customers to achieve up to 25% more productivity from their locomotive fleet and generate further savings on maintenance and fuel. The locomotives were shipped in late March from GE's manufacturing facility in Contagem, Brazil, and will arrive in Jordan in late April. (GE Transportation12.04)

Back to Table of Contents

3.2 E-Monee Dubai Signs its First Payroll Account Agreement in the Middle East

Fort Lauderdale, Florida's E-monee.com has secured its first account in the Middle East. Following the company's establishment in Dubai to manage the Payroll and Electronic Payment Solutions for the Middle and Far East Region, E-Monee has signed a Payroll Agreement with Telcon International Marine Engineering Services. Telcon International is the flagship of a group of 11 companies now served by E-Monee; the company will benefit from E-Monee's platform services with the payment of salaries to their unbanked foreign workers. With the acquisition of an E-Monee Payroll Stored Value Card, Telcon International's employees will be able to transact on E-Monee's proprietary ATM and POS network. E-Monee has secured the location of its ATMs around the camps where these employees are located, thus allowing E-Monee to serve a larger population of construction companies that house their workers in the neighboring camps. E-Monee is under current negotiations with the largest Construction Companies in the UAE, which in turn is the most active Construction market in the world. E-Monee.com's core product is a hybrid which integrates technology and telecommunications with banking. (E-monee12.04)

Back to Table of Contents

4: ISRAEL MACRO-DEVELOPMENTS

4.1 Moody's Report: Israel Outlook Positive at A2

In its annual report on Israel, Moody's Investors Service says its investment-grade ratings and positive outlook reflect the country's improved economic dynamism and unusual resilience despite war and ongoing regional tensions. Israel's foreign currency country ceiling for bonds is Aa1, based on the foreign currency government bond rating of A2 and Moody's assessment of a very low risk of a payments moratorium in the event of a government bond default. The Israeli economy is in the midst of a prolonged upturn that was only briefly affected by last year's war with Hezbollah, the militant Islamic terrorist movement based in Lebanon," said Moody's Vice President Kristin Lindow, one of the authors of the report. "Growth has averaged 5% for the last three years, yet the current account surplus actually widened further each year and inflation was nonexistent in 2006." She added that the fiscal deficit narrowed and the government's very high debt burden shrunk by 9% as a share of GDP. Although Lindow cautioned that the economy's performance would likely be vulnerable in the event of a prolonged or severe deterioration in the security situation, she emphasized that its newly entrenched dynamism suggests that its resilience has been greatly strengthened in recent years. Please see the In-Depth section for the complete report. (Moody's 30.03)

Back to Table of Contents

4.2 IMF Raises Israel Growth Forecast

The IMF has raised its growth outlook for Israel by 0.3 percentage points in a new World Economic Outlook report published on 11 April, on the eve of the World Bank Group and IMF 2007 Annual Meeting. In the Article IV consultation with Israel, published on January 23, the IMF predicted 4.5% growth. It now predicts 4.8% growth in 2007 and 4.2% growth in 2008. The IMF's growth forecast for Israel is one of the highest for developed countries; the IMF categorizes Israel as such. The IMF predicts higher growth rates in 2007 for Hong Kong and Singapore, at 5.5% each, and for Ireland, at 5%. It predicts 4.4% growth for South Korean, 2.9% growth for the UK, 2.3% for Japan, 2.2% for the US, and 1.8% for Germany. The IMF also predicts 0.1% deflation for Israel this year; the only developed country for which it predicts this. The IMF projects that Israeli inflation will only reach the government's inflation target midpoint of 2% in 2008. For the sake of comparison, the IMF average inflation rate for developed countries in 2007 is 1.8%. The IMF predicts that Israel's unemployment rate will fall to 7.5% of the civilian labor force in 2007 and 7.2% in 2008, down from 9% in 2005 and 8.4% in 2006. Israel's unemployment rate is still among the highest among developed countries; only Germany, France, Spain, Belgium and Greece are projected to have higher rates. (Globes 11.04)

Back to Table of Contents

4.3 Israel Must Desalinate 200 Cubic Meters of Water Annually by 2017

Israel Water Commissioner Shani said recently that "Israel must produce another 200 million cubic meters of desalinated water at $0.60 per cubic meter within ten years." Shani said that the added desalinated water would improve the country's water balance and water quality, which was already suffering salinity. He added that $122m should be invested in purifying water for agricultural use. Shani said that the condition of Israel's aquifers was poor in both water quality and quantity. All the aquifers were below their upper red lines, which meant that there are no reserves. The water quality in the Jordan basin is already too saline, as are parts of the coastal aquifer as a result of over-pumping. Shani predicts that the desalination facility at Shomera will never be built, which means that the Ashdod facility will have to be expanded from the currently planned production of 45 million cubic meters a year to 100 million cubic meters. He said the cabinet should decide on this as soon as possible. The government has already decided on the production of 500 million cubic meters of desalinated water a year, but later cut back the quantity to 350 million cubic meters. So far, only the 100 million cubic meter facility at Ashkelon has come on line, and the smaller Palmachim facility is under construction. Construction of the Hadera facility has not yet started. The government decided that Mekorot National Water Company would build the Ashdod facility through a subsidiary. However, since this subsidiary has not yet been established, construction of the facility has been delayed. (Globes 12.04)

Back to Table of Contents

4.4 New Private Power Plant Proposed In Dimona

The progress in the laying of the natural gas pipeline in Southern Israel has led to an increase in the number of companies seeking to use natural gas for the production of electricity. One such company is Dimona Silica Industries Ltd. (DSI) which recently applied to the Ministry of National Infrastructures and the Public Utilities Authority for a license to construct a private power plant at an estimated investment of $100-120m. DSI wishes to construct a natural gas-fired power plant with a production capacity of 110 megawatts. The plant will use the cogeneration method, which enables the production of both heat and electricity. It is designed to supply DSI's energy requirements and any surplus electricity will sold to private consumers. The Public Utilities Authority is expected to grant DSI an electricity production license. DSI is the second company from the Negev region to apply for electricity production license in recent months. The Public Utilities Authority recently also issued a license to Eshkolot Energy to construct a private power plant in the Mishor Rotem region. The state-owned gas company, Israel Natural Gas Lines Company Ltd., has begun laying a pipeline from Kiryat Gat to the Dead Sea. Construction of the pipeline will be completed by early 2008. (Globes 16.04)

Back to Table of Contents

5: ARAB STATE & PAKISTANI DEVELOPMENTS

5.1 Jordan & Azerbaijan Sign MoU

Jordanian Foreign Minister Al-Khatib and his Azeri counterpart Mammadyarov signed a memorandum of understanding (MoU) aimed to improve bilateral cooperation and exchanging viewpoints on issues of mutual concern. The two sides discussed means of boosting bilateral ties, particularly in the fields construction and pharmaceuticals. Al Khatib briefed the Azeri Minister, whose country hosted the conference of foreign ministers of the Organization of Islamic Conference last year, on King Abdullah's efforts to serve the Arab and Islamic issues, foremost of which is the Palestinian issue being the core of conflict in the region. He also reviewed the outcomes of the recent Arab Summit in Riyadh as well as the tasks assigned to the summit the ministerial follow up committee to activate the Arab peace initiative. Earlier, a Royal decree was issued to open a Jordanian Embassy at the Azeri capital at the level of a Charge d'Affaires. (Petra09.04)

Back to Table of Contents

5.2 Iraq Targets 3 Million Bpd 2007 Oil Production

Iraq hopes to raise oil production by nearly 1 million barrels per day (bpd) this year, achieving its long-held target of 3 million bpd by restoring northern exports, Oil Minister Shahristani said on 12 April. Iraq has struggled to overcome the sabotage and outdated infrastructure that has hobbled its production since the U.S.-led liberation of 2003, largely due to unrelenting attacks on a key pipeline that runs north through Turkey. It has regularly fallen short of production and export targets aimed at restoring pre-war levels. Iraq produced 1.97 million bpd in March, up from 1.89 million bpd in February, though 2006 production averaged 2.3 million bpd. Despite the weak production figures, exports climbed last month to 1.62 million bpd, the highest since last September, on increased shipments from the southern Basra oil terminal, shipping sources said. The country is targeting oil production of more than 4 million bpd in 2011. Shahristani was in Seoul to sign a cooperation deal with South Korea's energy minister Kim Young-joo on broadening opportunities for South Koreans to secure oilfields in Iraq, anxious to inject new investment into the ailing industry. In 1997, state-owned Korea National Oil Corp. (KNOC) and Iraq's oil ministry under Saddam Hussein signed a preliminary deal to develop the Halfaya oilfield, estimated to hold up to 3.8 billion barrels of reserves and produce 250,000 bpd. Iraq issued invitations for 15 Arab, Asian and American firms to drill 100 oil wells in the country's south as part of efforts to boost production, the oil ministry said earlier this month. (Reuters12.04)

Back to Table of Contents

5.3 IMF Casts Doubt on GCC Currency Union

On 11 April, the International Monetary Fund (IMF) cast doubt on the establishment of the GCC Monetary Union by 2010. In its latest World Economic Outlook (WEO) report, the IMF said the Gulf countries need to establish a common institutional framework in order to realize the GCC Monetary Union by 2010. While efforts to enhance policy coordination would be beneficial to the GCC countries, important preconditions remain to be fulfilled. These include the need to better define monetary policy objectives, the use of more uniform monetary instruments, the establishment of the institutional framework required to improve the coordination of monetary policies, and formation of the planned customs union. Following Oman's announcement of its decision not to join the GCC monetary union at the scheduled date of 2010, it is reported that the six GCC monetary authorities are considering possible alternatives, including closer monetary policy coordination, during the transition to a full monetary union. Despite the recent high growth and rise in real per capita incomes in the region, Middle Eastern oil exporters remain heavily dependent on the hydrocarbon sector. (GulfNews12.04)

Back to Table of Contents

5.4 Kuwait Revaluation Becoming More Likely

Kuwait's state news agency, which reflects the view of the state's government, blamed the dinar's peg to the dollar for rising inflation, building a case for a currency revaluation after weeks of market pressure on the country's exchange rate. A chief factor that prompted the price hike has been the exchange rate against foreign currencies such as the euro, the pound and the yen, which have risen against the dinar after it was pegged to the US dollar. The dollar lost around 10% of its value against the euro last year and touched a two-year low on April 13, fuelling inflation in Kuwait by driving up the cost of some imports. The central bank has been trying to deter market speculation that it would allow the dinar to appreciate against the dollar to tackle inflation which was running at an annual 3.7% in December. The bank cut two key interest rates and the coupon rate on benchmark bonds as markets piled pressure on the peg before GCC central bankers met this month to inject momentum into a flagging monetary union project. Kuwait, Saudi Arabia and four other GCC oil producers have pegged their currencies to the dollar to prepare for monetary union in 2010. With that timetable in doubt after Oman, one of the six states, decided not to meet the deadline, markets are betting that some Gulf states will revalue their currencies. The central bankers meeting in Saudi Arabia produced no breakthrough. (Reuters17.04)

Back to Table of Contents

5.5 Expatriate Health Care Costs Bahrain $47 Million

Medical care to Bahrain's expatriate population costs $47.7m to the country's health service. Bahraini Health Minister Dr. Haffadh told parliament that this was a huge drain on the ministry's annual budget of $278.66m. The number of expatriate workers is increasing and it is costing the government more. Compulsory health insurance for expatriates is due to be introduced by 2009. Dr. Haffadh said the ministry had already come up with revised fees for large companies and expatriate workers. She was responding to a question by an MP on why expatriate health insurance had not yet been implemented. There are 400,000 expatriates in Bahrain, which is 70% of the current population and they are increasing. (TradeArabia 04.04)

Back to Table of Contents

5.6 UAE Wood Imports Cross $1.41 Billion

The huge construction boom taking place across the UAE is fueling the demand for wood and wood products, giving rise to a market that is seeing unprecedented levels of growth. Statistics from the department of Dubai Ports, Customs and Free Zone Corporation (PCFC) reveal that imports and re-exports of all types of timber into the region are at an all time high; a demand that has increased the need for specialist woodworking machinery and tools. There are record amounts of all types of wood and wood related commodities being used in the construction industry, products that include; hardwood, softwood, plywood, veneers, parquet, laminates and MDF. This need is obviously having a knock-on effect for subsidiary industries and we are seeing an increased requirement for specialist woodworking machinery and tools for this area; equipment such as lathes, sanders, saw blades, laminators and dovetailing jigs to work with the raw materials. Figures from PCFC estimate that in 2005, wood imports grew by 34% to reach $1.41b; with flooring imports alone registering an astonishing 1,345% rise.

The US is a significant exporter to the region and according to a US Department of Agriculture report, the country exported $654m of soft-wood lumber to the Middle East in 2005, a 123% increase since 2001. Last year, American hardwood exports to the UAE topped nearly $70m, with lumber constituting the bulk of this trade. Analysts believe that these figures represent the region's transfer into a major wood importer and consumer. It isn't just the quantities of wood being brought into the UAE that have scaled new heights over the past couple of years. Re-export figures also grew substantially in 2005, with the total value amounting to $436m, an increase of 32.5% over the previous year. The statistics suggest that the country is now also a primary trading hub for the regional wood industry. (Al Bawaba 10.04)

Back to Table of Contents

5.7 Transparency Report Puts UAE on Top in Arab World

The UAE achieved the highest ranking among the Arab countries on the Berlin-based Transparency International's Corruption Perceptions Index. The UAE led with a score of 6.2 points, compared to Qatar that came second with six points. The scores range from ten (squeaky clean) to zero (highly corrupt). A score of five is the number Transparency International considers the borderline figure distinguishing countries that do and do not have a serious corruption problem. The index is based on studies conducted by 12 independent research houses to guarantee optimum objectivity and authenticity. The UAE's credibility score ranged between 5.6 and 6.9 on the index's scale. Finland, Iceland, New Zealand and Denmark are ranked top five with the highest transparency and minimal corruption rates. (TI07.04)

Back to Table of Contents

6: TURKISH & CYPRIOT DEVELOPMENTS:

6.1 Turkey's Central Bank: The Rise in the CPI is Temporary

Expressing that the annual inflation rate in March appeared to be 10.86%, Turkey's Central Bank explained that the annual inflation rate of the goods group increased due to the law base of the first quarter of the previous year, that the increase in the services prices kept same as that of last year and that the special scope consumers price index (CPI) indicators rose due to these factors. The Central Bank added that the given rose is temporary and that they expect a gradual decrease tendency in the inflation rate, beginning from the upcoming months. For March, the annual CPI level, except for the energy, unprocessed food products, alcoholic beverages and tobacco products reached 9.98%, mostly due to the base effect. The prices of goods group rose by 1.07% and that of services group rose by 0.49% in March. (EkoTurk 05.04)

Back to Table of Contents

6.2 State Planning Organization Says Kyoto Will Be Disaster For Turkey

The economic costs of signing the Kyoto Protocol in its current form could result in as much as a 37% drop in Turkey's Gross Domestic Product (GDP), which was $148b in 2006, reported a paper prepared by the State Planning Organization (DPT. According to the report presented by the DPT to the Parliamentary commission investigating the matter, by signing the protocol Turkey would be willingly accepting responsibility to undertake certain measures and the repercussions of these measures could cost between 10 to 37% of the GDP. The Kyoto Protocol would see Turkey decrease its carbon emission, while providing the opportunity to increase such emissions to countries like Greece, Norway, Australia and Portugal. The DPT report notes that Turkey is behind many countries in terms of decreasing its carbon emissions. The per capita per year carbon emission of the United States is around 20 tons, followed by 17 tons for Canada, nine tons for Japan, eight tons for EU countries, seven tons for Poland, five tons for Bulgaria and three tons for Turkey. Turkey comes 75th in per capita carbon emissions, while on a national basis, it comes 22nd. (TDN17.04)

Back to Table of Contents

7: GENERAL NEWS AND INTEREST

*ISRAEL:

7.1 Israel Honors Fallen Soldiers With Jerusalem Service & National Siren

On Sunday night, 22 April and 23 April, Israel observed Memorial Day. Events to mark Memorial Day for Israel's fallen soldiers will begin at 7:30 P.M. with a ceremony at the Western Wall in Jerusalem, attended by the Prime Minister, other dignitaries and bereaved families. At 8 P.M., a one-minute siren was heard across the country. The siren sounded again, for two minutes, at 11 A.M. Sunday, marking the beginning of memorial services at each of Israel's 43 military cemeteries. Though a regular work day, activity is usually curtailed and many leave their offices early pending the Independence Day celebrations that follow.

Back to Table of Contents

7.2 Israel's Independence Day - 59 Years Since Rebirth

Celebrations for the 59th anniversary of Israel's regaining its independence will begin on Monday evening of 23 April throughout the country, continuing throughout Tuesday, 24 April. The official observance starts when the state flag is raised to full mast at a national ceremony on Mount Herzl in Jerusalem. Israel Independence Day is celebrated annually on 5 Iyar, which corresponded to 14 May 1948, the date the British mandate ended over the Land of Israel. A religious and national holiday, Yom Atzmaut - Independence Day is a celebration of the renewal of the Jewish state in the Land of Israel, the birthplace of the Jewish people. In this land, the Jewish people began to develop its distinctive religion and culture some. Here it has preserved an unbroken physical presence, for centuries as a sovereign state, at other times under foreign domination. Throughout their long history, the yearning to return to the Land has been the focus of Jewish life. With the rebirth of the State of Israel, in 1948, Jewish independence, lost two thousand years earlier, was restored.

Back to Table of Contents

7.3 Yad Vashem Designates Nisan (April 2007) as Names Recovery Month

Yad Vashem has designated the Hebrew calendar month of Nisan (April 2007), including both Passover and Yom Hashoah, as Names Recovery Month, marked by the simultaneous spearheading of individual grassroots campaigns around the world. Names Recovery Month is part of the overall 11th hour campaign calling upon people to memorialize Jews murdered in the Holocaust by recording their names, and when available, photos and other biographical data on Pages of Testimony. It has taken upwards of five decades to document over 3.1 million names currently listed in the online Central Database of Shoah Victims' Names. Millions of victims remain unidentified. Yad Vashem urgently calls upon Jewish communities to recover their names through a worldwide Names Recovery Project. Since 1955, Yad Vashem (http://www.yadvashem.org.il) has worked to fulfill its mandate to preserve the memory of the six million Jews who perished in the Holocaust by collecting their names, the ultimate representation of a person's identity. (Yad Vashem10.04)

Back to Table of Contents

*REGIONAL:

7.4 23 April - Turkey Marks National Sovereignty and Children's Day

April 23 is the "National Sovereignty and Children's Day" (Ulusal Egemenlik ve Çocuk Bayram?±) in Turkey. The date commemorates the opening of Turkish National Assembly in 1920 during the Turkish Independence War. The designation of Children's Day came in 1929 upon the recommendation of the Institution of Children's Protection. Since 1986 the Turkish government organizes an international children's festival on April 23. On April 23 of every year, children in Turkey celebrate this "Sovereignty and Children's Day" as a national holiday, and is celebrated by citizens throughout the country during ceremonies preceding the day. Among the activities on this day, children from all around Turkey gather in the capital city, Ankara, and they replace the selected members of the Grand National Assembly. They have an elected president and prime minister and they govern Turkey for one day in order to emphasize the importance of the children in the society. In many places governmental agencies leave the authority to children symbolically for the day. Traditionally since 1986, children come to Turkey to represent their country of origin to children of the world with artistic performances. They're housed in Turkish homes and can meet with Turkish children. This event is organized by the Turkish Radio and Television Corporation. The groups of foreign children also participate in the special session held at the Grand National Assembly. Turkish people hope these children will remember the day for their lives and will contribute to a bond with other cultures. The internationalization is thus aimed toward Turkey's principle of, "peace at home, peace in the world", and "Sovereignty belongs unconditionally to the people".

Back to Table of Contents

8: ISRAEL LIFE SCIENCE NEWS

8.1 Pluristem Life Systems Receives $1.1 Million From Exercise of Warrants

Pluristem Life Systems said that it has received $1.1m from the exercise of approximately 15 million warrants at an exercise price of $0.075. This represents exercise of more than 25% of Pluristem's outstanding listed warrants as of March 30, 2007. Their stronger working capital position allows Pluristem to complete preparations for their application to the FDA to conduct clinical trials for our first product, PLX-I, for Leukemia, planned later this year. Haifa, Israel's Pluristem Life Systems (http://www.pluristem.com) is life sciences driven Company that is developing and commercializing stem cell expansion technology products for the potential treatment of a variety of disorders. The Company is discovering and developing cell-based therapeutics that utilizes adult stem cells expanded in a three-dimensional proprietary bioreactor termed the PluriX that mimics different naturally occurring physiological environments. Pluristem expects its first product, PLX-I, will be involved as an efficient and superior alternative to the standard procedure of bone marrow transplantation (BMT). PLX-I is intended to target a critical global shortfall of matched tissue for BMT since BMT is often the only cure for patients suffering from leukemia, lymphoma, myeloma and many other hematological diseases. The Company has made a strategic decision to work only with adult stem cells since the practical use of embryonic stem cells is severely restricted by various religious, ethical and legal considerations. (Pluristem 04.04)

Back to Table of Contents

8.2 Obecure Completes Patient Enrollment for Phase II Obesity Trial

Ramat Gan, Israel's Obecure (http://www.obecure.com) has completed enrollment of patients for its Phase II clinical trial to evaluate the efficacy of the company's OBE101 drug candidate for weight loss in obese patients. The double-blinded, placebo-controlled dose-ranging study is being conducted at 20 medical sites across the U.S. The study was conducted in order to extend the Company's preliminary observations that treatment of obese women with OBE101 for 4 weeks substantially reduced their fatty food intake and improved their weight loss, as compared to their control counterparts, treated with placebo. In addition, the U.S. National Institute of Health (NIH) has agreed to undertake a study comprising 80 human subjects that will examine OBE101's mechanism of action by evaluating its impact on body energy consumption and expenditure. OBE101 is comprised of betahistine, a known drug approved in many countries outside the U.S. for the treatment of vertigo. On the market for many years, the drug has a remarkable safety profile as indicated in a recent post-marketing survey that cited worldwide treatment of more that 100 million patients. OBE101's use of betahistine for weight management, alone or in combinations, is protected by patent-pending applications worldwide including in the U.S. Founded in 2005, Obecure Ltd. is a biopharmaceutical company dedicated to the development of weight management drug therapies. Obecure is a subsidiary of Bio-Light Life Science Investments, an investment company, traded on the Tel Aviv Stock Exchange. (ObeCure 11.04)

Back to Table of Contents

9: ISRAEL PRODUCT & TECHNOLOGY NEWS

9.1 Silicom Achieves Design Win with Another World-Leading WAN Optimization Player

Silicom achieved a new Design Win for its BYPASS adapters with a U.S.-based global leader of the WAN optimization market, and that it has already delivered production quantities against the customer's purchase order. The customer's scalable WAN Optimization appliances are used by thousands of companies to monitor, shape, compress, accelerate and manage application traffic across all WAN links, whether in data centers, branch offices or remote sites. Silicom's BYPASS adapters will be deployed in one line of the customer's appliances to assure continuous traffic flow in the event of network disruption, automatically rerouting traffic around non-functioning components. In total, Silicom is now supplying BYPASS products to six suppliers of WAN Optimization appliances. In addition to the four Design Wins it has achieved in the booming WAN Optimization market, Silicom is also shipping BYPASS products to two security customers that have extended their offerings to include WAN Optimization solutions. This demonstrates that Silicom's BYPASS adapters have become the continuity solution of choice for WAN Optimization appliances. Kfar Saba, Israel's Silicom (http://www.silicom.co.il) is an industry-leading provider of high-performance server/appliances networking solutions. The Company's flagship products include a variety of multi-port Gigabit Ethernet, copper and fiber-optic, server adapters and innovative BYPASS adapters designed to increase throughput and availability of server-based systems, security appliances and other mission-critical gateway applications. Silicom also offers a broad range of its traditional PC cards, PCI cards and USB products. (Silicom04.04)

Back to Table of Contents

9.2 Alink Telecom to Deploy VocalTec's Essentra Products to Build VoIP Network in West Africa

VocalTec Communications announced that Alink Telecom, a telecom operator in the Ivory Coast, is deploying Vocal Tec's Essentra products to support their rollout of new voice services. This follows Alink's 2005 deployment of VocalTec's Essentra VoIP Peering Solution and serves Alink's goal of establishing itself as a key player in the West African VoIP market. Alink's installation of VocalTec's Trunking solution, Essentra CX as well as the installation of the enhanced Peering solution, Essentra EX 7.0, will enable Alink to smoothly migrate to a VoIP Next Generation Network, while maintaining seamless connectivity to PSTN/SS7 services, reducing operating costs and enhancing service flexibility and enabling the rapid addition of a new revenue stream. The Alink deployment of the VocalTec solution also includes the Essentra TMS for traffic management. The Essentra TMS is a web-based service assurance and traffic management system, supporting near real-time network performance and QoS monitoring for optimized network operations. Herzlia, Israel's VocalTec Communications (http://www.vocaltec.com) is a leading 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, access gateway and service delivery solutions that enable flexible deployment of next-generation networks (NGNs). (VocalTec 04.04)

Back to Table of Contents

9.3 Tower Semiconductor Chosen by Jet Propulsion Laboratory To Manufacture Airborne Image Sensors

Tower Semiconductor was chosen by the Jet Propulsion Laboratory (JPL) to manufacture a CMOS image sensor for use in the development of its advanced MultiSpectral Polarimetric Imager (MSPI). The device utilizes an image sensor process at Tower's Fab1 facility. This design is JPL's fifth submission to Tower, dating back to April, 2001. The previous submissions totaled 28 different designs, with this latest design being the most challenging of the series fabricated for JPL by Tower. Through its airborne and planned space-borne implementation, the MSPI is intended for the study of atmospheric aerosols. Utilizing complex Analog-to-Digital (ADC) design techniques, the high-speed on-chip 50-Megasamples per second ADC is 9-bit square-root-encoded, resulting in the equivalent of 14-bit quantization at low signal levels. With high Quantum Efficiency and 10-electron read noise, the imager is ideal for JPL's latest state-of-the-art scientific application which requires flexibility in addressing rows in the imager. Migdal Ha'Emek, Israel's Tower Semiconductor (http://www.towersemi.com) is an independent specialty foundry established in 1993. The company manufactures integrated circuits with geometries ranging from 1.0 to 0.13-micron; it also provides complementary technical services and design support. In addition to digital CMOS process technology, Tower offers advanced non-volatile memory solutions, mixed-signal & RF-CMOS, and CMOS image-sensor technologies. (Tower04.04)

Back to Table of Contents

9.4 Kontera Selects Pixsy to Deliver Customized Video Content Within Kontera's In-Text Advertising Unit

Kontera and Pixsy Corporation, a media search platform that powers private label image and video search engines, announced a strategic partnership. Under the terms of the agreement, Pixsy's award-winning Media Search Platform will be included in Kontera's ContentLink ad units. This will enable users to search for relevant video content while viewing the In-Text Ads, enhancing the consumer web experience. Pixsy's Media Search Platform will enable consumers to search for multimedia content from a broad index of videos and images. Results will be customized to the In-Text Ad and search query on topics such as entertainment, sports, travel, cooking and lifestyle. The ability to search for contextually relevant video content while viewing Kontera's In-Text Ad units will increase site stickiness by improving the user experience. Herzliya Pituach, Israel's Kontera (http://www.kontera.com) is a leading provider of In-Text Advertising Solutions, based on patent-pending contextual analysis technology that increases revenue and ROI for both web publishers and advertisers. The company's flagship product, an In-Text ad unit called ContentLink, is a contextually relevant keyword that is discovered in real time on a web page from within Kontera's vast network of publishers and is automatically turned into a link to the most relevant ad from among Kontera's thousands of advertisers. (Pixsy04.04)

Back to Table of Contents

9.5 Volantis & Mobixell Announce Joint Mobile Video Offering, Available for Immediate Deployment

Seattle, Washington's, the world's leading supplier of Intelligent Content Adaptation solutions for the Mobile Internet, and Mobixell announced a partnership to deliver a broad variety of multimedia capabilities optimized for every media type, mobile device, and value added service (VAS). The two companies have completed development on a fully integrated mobile video solution that takes advantage of Mobixell's unique multimedia capabilities (supported by its recent acquisition of Adamind) together with Volantis' market-leading content delivery platform. Leveraging Mobixell's Content Production suite for mobile multimedia production and adaptation, Volantis extends and enhances the content management and delivery capability of its managed service platform to include intelligent asset transcoding and real-time streaming adaptation of video and audio of any format. This will ensure that the mobile subscriber experience is always optimized for any type of media, regardless of mobile devices, domains and networks. The new partnership complements Volantis' existing solutions for wireless carriers and content providers that enable the development and distribution of a wide variety of mobile content, including wallpapers, ringtones, audio and video, streaming content, games, and interactive content such as quizzes, polls, and competitions. Mobixell's Content Production Suite transforms mobile content production from a manual process into an efficient and reliable, high-volume automated process, providing carriers and content providers with tools to validate the Quality of Experience (QoE) for each and every mobile device. At the heart of this Production Suite is a smart, all-in-one, media adaptation engine that not only reduces the burden of creating device-specific versions that free the provider to create the best content possible, but also offers a wealth of value-added features for content previewing, DRM, branding and advertising.

Ra'anana, Israel's Mobixell Networks (http://www.mobixell.com) provides innovative multimedia technologies and business solutions that facilitate the expansion of mobile operators, content and service providers' mobile multimedia services by enabling content consumption, Peer-2-Peer content sharing, User Generated Content communities, mobile advertising, and more. Mobixell's reliable network-based solutions deliver the highest quality multimedia, raising user satisfaction while helping operators drive traffic growth, safeguard crucial content revenue streams and realize new revenue streams. (Volantis10.04)

Back to Table of Contents

9.6 Orca Interactive Selected by Lattelecom for First Baltic MPEG-4 IPTV Service

Orca Interactive announced that its IPTV middleware - RiGHTv - has been deployed in the first Baltic MPEG4 IPTV solution for Lattelecom, Latvia's leading provider of information technology and telecommunications services. Utilizing Orca's RiGHTv middleware as part of the end-to-end solution provided by Optibase and supported by local system integrator Hannu Pro, Lattelecom IPTV service includes broadcast television, video on demand, multi-lingual and self service. Orca's Service Delivery Platform (SDP) architecture enabled Optibase to develop an innovative segmented advertising service that allows Lattelecom to send advertisements triggered by the user's actions. Ra'anana, Israel's Orca Interactive (http://www.orcainteractive.com) is a leading provider of IPTV middleware and applications for broadband network operators and service providers. Orca enables triple-play providers to deliver a full array of attractive video-over-IP services that generate new revenue streams and strengthen customer loyalty. Leveraging a flexible telco-grade middleware platform, Orca empowers operators to deliver broadcast TV, video on demand (VOD), personal video recording (PVR), home media and other compelling interactive services. Orca's SI-enabled solutions are designed for easy outsourcing of integration services by an operator's preferred systems integrator. (Orca10.04)

Back to Table of Contents

9.7 Scent Detection Technologies (SDT) Honored With the 2006 Frost & Sullivan Award

Frost & Sullivan presented Scent Detection Technologies (SDT) with the 2006 Technology Innovation Award in the field of advanced explosive detection in Europe. This Award was presented in recognition of the company's innovative explosive trace detection technology and its efforts in the research, as well as the strategic commercialization of its novel portable Explosive Trace Detector (ETD). SDT's High-Frequency Quartz Crystal Microbalance (HF-QCM) technology - is a green technology that can sniff out trace levels of explosive chemicals at a lower cost in comparison to existing explosive trace detection technologies. The highlight of the technology is that it does not employ any radioactive sources, as is the case with IMS-based techniques, X-ray and other CT scanners. The technology is a combination of several scientific disciplines, which digitally recreate the mammalian olfactory processes. The patented High-Frequency Quartz Crystal Microbalance (HF-QCM) technology is used to detect a wide range of substances with great accuracy and speed. SDT's Mini-Nose 1000 Series consists of an array of sensors. The sensors and coatings employed provide high sensitivity and selectivity for trace detection and identification. For detection, the frequency responses from all the sensors are measured over predetermined time intervals. Identification is by means of proprietary pattern recognition algorithms that analyze the obtained data and matches it with a library of digital signatures of different explosive chemicals.

Herzliya Pituah, Israel's Scent Detection Technologies (http://www.scent-tech.com) was founded in 2004 as a joint venture between M.S. Tech Ltd. and the Israel Military Industries Ltd. (IMI). The company was established to commercialize and market M.S.Tech's highly sensitive and cost-effective trace detection technology. This entails the development of trace detection solutions for explosives, narcotics, chemical & biological agents and water security applications. The company's markets include the aviation and homeland security industries, law enforcement agencies, first responders and similar. (SDT10.04)

Back to Table of Contents

9.8 7-Eleven Deploys Retalix Software in Convenience Stores Across Norway and Sweden

Retalix announced that 7-Eleven Norway and Sweden, a part of the Reitan Service Handel group, has deployed Retalix software solutions to improve operations and management of its 185 convenience stores in Norway and Sweden. Retalix StorePoint provides 7-Eleven Norway and Sweden with extensive functionality and flexibility to support its various business initiatives at the stores, while the Retalix head office solution (HOST) enables price management, sales reporting and margin analysis at the central management level. The rollout of Retalix StorePoint has been completed in all 185 7-Eleven stores in Norway and Sweden. Retalix is partnering with Wincor Nixdorf (WN) Norway for the contract, with WN Norway providing hardware, project management of roll-out and support. Ra'anana, Israel's Retalix (http://www.retalix.com) is an independent provider of enterprise-wide software solutions to retailers and distributors worldwide. Retalix solutions serve the needs of multi-national grocery chains, convenience and fuel retailers, food service operators, food and consumer goods distributors and independent grocers. The Company offers a full portfolio of software applications that automate and synchronize essential retailing, distribution and supply chain operations, encompassing stores, headquarters and warehouses. (Retalix10.04)

Back to Table of Contents

9.9 ECI Telecom Extends Motorola's Portfolio of Ultra-Broadband Offerings for Carriers

Motorola and ECI Telecom announced a new strategic relationship pairing ECI's formidable IP DSLAM portfolio with

Motorola's innovative and market-leading Fiber-to-the-Node (FTTN) and Fiber-to-the-Premises (FTTP) solutions. This multi-year agreement provides Motorola access to ECI's complete portfolio of proven, carrier class access infrastructure products including Outside Plant (OSP) and Central Office (CO) IP DSLAM solutions. Designed to maximize bandwidth potential and help increase service delivery efficiency, the IP DSLAM is supported by a premier IP/Ethernet switching fabric and deep Quality-of-Service (QoS) assurance capabilities. ECI's technology and ability to capture market share at such a rapid rate makes it a compelling player in both the Ultra-Broadband Access and IPTV markets. This relationship extends Motorola's portfolio of video-optimized FTTN and FTTP solutions and rounds out Motorola's global strategy to help enable service delivery over any carrier and cable access network architecture. The new agreement between Motorola and ECI gives Motorola the global rights to brand, market, and sell ECI's portfolio of access infrastructure solutions. The focus of the relationship is on the OSP and IP DSLAM products. Motorola will be investing in integration of these platforms into their current Ultra-Broadband access portfolio and hence will have an exclusivity period for the North American market. Petah Tikva, Israel's ECI Telecom (http://www.ecitele.com) delivers innovative communications platforms to carriers and service providers worldwide. ECI provides efficient platforms and solutions that enable customers to rapidly deploy cost-effective, revenue-generating services. (Motorola 11.04)

Back to Table of Contents

9.10 RADVISION's ProLab 3G-324M Test Solution is Adopted by NTT DoCoMo

RADVISION announced that its ProLab 3G-324M Test Solution was purchased by NTT DoCoMo. NTT DoCoMo commented that the decision to purchase the ProLab 3G-324M Test Solution was based on its rich feature set. These features include the simulation of 3G-324M signaling and media, the monitoring of H.223, H.245 and media. In addition, the ProLab 3G-324M Test Solution supports IMTC and GCF test case scenarios. The fact that ProLab was bought by an operator of NTT DoCoMo's stature is an honor for RADVISION. The ProLab 3G-324M testing solution was also certified by GCF and PTCRB. RADVISION will add more features to the ProLab family of testing and analysis solutions, not only for 3G-324M, but also for NGN (Next Generation Networks) for customers to easily execute high level tests in a shorter period. Tel Aviv, Israel's RADVISION (http://www.radvision.com) is the industry's leading provider of market-proven products and technologies for unified visual communications over IP and 3G networks. With its complete set of standards-based video networking infrastructure and developer toolkits for voice, video, data and wireless communications, RADVISION is driving the unified communications evolution by combining the power of video, voice, data and wireless - for high definition video conferencing systems, innovative converged mobile services, and highly scalable video-enabled desktop platforms on IP, 3G and emerging next-generation IMS networks. (RADVISION10.04)

Back to Table of Contents

9.11 IncrediMail Introduces Japanese Language Version of Popular Email Application

IncrediMail has released a new Japanese language version of its flagship product, IncrediMail. This new version will offer Japanese consumers the ability to customize the appearance of their emails with IncrediMail's easy-to-use interface and high-quality graphics. The company expects that its experience model, already successful in other markets, will thrive in Japan. The IncrediMail "experience model" is based on IncrediMail's concept that an application's aesthetics and features will eventually become more important to consumers than its core purpose. In other words, the user eventually trusts the basic functionality and focuses, instead, on the cosmetic appeal. In the future, Japanese users will not only have access to an interface in their language, but also to localized graphic content, including email backgrounds and emoticons. IncrediMail is currently available in English, French, Spanish, Portuguese, German, Dutch, Italian and Swedish. The company also plans to release simplified and standard Chinese versions of its IncrediMail product. Tel Aviv, Israel's IncrediMail (http://www.incredimail-corp.com) designs and markets an integrated suite of customized and entertaining email software products for the consumer market, offering users the ability to design highly personalized email presentations with their large collection of multimedia content for email communication. (IncrediMail11.04)

Back to Table of Contents

9.12 ADT Places Multi-Million Dollar Order for NICE Perform to Improve Customer Service

NICE Systems announced that ADT, a unit of Tyco Fire and Security, has placed a multi-million dollar order for NICE Perform to improve customer service, increase agent coaching effectiveness and efficiency, and gain a more holistic view of contact center performance. NICE Perform will be implemented at ADT's fourteen 24-hour centers, serving millions of customers. ADT is the number one security company in America for 24/7 protection of home and family, where the critical nature of customer interactions requires uncompromising contact center efficiency, effectiveness and quality of service. ADT selected NICE Perform as part of an overall initiative to improve customer service, which ultimately helps ensure the safety and security of its customers and their homes. ADT will also benefit from NICE Perform's unique Agent Coaching solution along with capabilities for cross-referencing results with inputs from agent screen analytics. This will provide supervisors with targeted tools for improving agent performance, decreasing attrition, and providing immediate feedback on agents' skills and compliance with procedures. Ra'anana, Israel's NICE Systems (http://www.nice.com) is the leading provider of Insight from Interactions solutions, based on advanced analytics of unstructured multimedia content - from telephony, web, radio and video communications. NICE is revolutionizing VoIP interactions management with state-of-the-art solutions for IP contact centers, branches and command & control centers. (NICE11.04)

Back to Table of Contents

9.13 Tower Semiconductor & Paragon Complete XNN-Based Power Amplifier Booster Development

Tower Semiconductor and Paragon Communications announced the manufacturing of XNN-based Power Amplifier (PA) booster. This innovative product is based on Paragon's patented technology to monitor the Radio Frequency (RF) envelope and modulate the amplification. The product attains up to 6dB improvement in output power, as well as major efficiency and heat dissipation improvements over existing solutions. The XNN PA booster chip will be manufactured on Tower's 0.18-micron process, including its RF-CMOS feature, at Tower's FAB2 facility. Haifa, Israel's Paragon Communications (http://www.paragon-communications.com) provides solutions for enhancing performance of wireless power amplifiers and systems. Paragon offers its XNN technology that enhances output power, efficiency and simultaneously reduces power consumption and heat dissipation in Wi-Fi, WiMAX, Cellular and other wireless systems. Migdal Ha'Emek, Israel's Tower Semiconductor (http://www.towersemi.com) is a pure-play independent specialty wafer foundry established in 1993. The company manufactures integrated circuits with geometries ranging from 1.0 to 0.13-micron; it also provides complementary technical services and design support. In addition to digital CMOS process technology, Tower offers advanced non-volatile memory solutions, mixed-signal & RF-CMOS, and CMOS image-sensor technologies. (Tower11.04)

Back to Table of Contents

9.14 InkSure Technologies Wins Large Order to Combat Check Counterfeiting in Turkey

InkSure Technologies announced an order from MTM Holography & Security Systems, an authorized InkSure value-added reseller in Turkey, for several hundred compact PocketSure readers. MTM is supplying PocketSure to one of its customers, a major Turkish bank, which will distribute the readers to its branches for the field-level verification of commercial check authenticity. Checks will be imprinted with InkSure's HoloSure - a secure hologram that incorporates the Company's SmartInk. The combination of PocketSure and SmartInk will provide the bank with a highly accurate authentication solution that effectively combats check counterfeiting. At 5.5 inches in length and weighing a mere 2.5 ounces, the PocketSure is a next-generation reader that offers customers enhanced mobility and cost economies. Features of the new reader include single-code memory, audio and visual indicators, and the ability to operate on AAA batteries. PocketSure offers significant benefits to organizations with field operations or multiple locations that seek to optimize the effectiveness of their anti-counterfeiting and "reverse logistics" measures. Its simple-to-read LED, single-button operation, and replaceable batteries also make it easy to train a large number of personnel in the utilization of the device.

InkSure Technologies (http://www.inksure.com), with its corporate headquarters in Ft. Lauderdale, Florida and its R&D center in Science Park, Rehovot, Israel, specializes in comprehensive, covert security solutions designed to protect high profile brands and documents of value from counterfeiting, fraud and diversion. The Company's sales and marketing activities target a number of market opportunities, including financial, pharmaceutical, branded products, transportation, and government/institutional, on a global scale. The Company's R&D activities include the development of "chipless" RFID technology for affordable item-level secure logistics and track-and-trace applications. (InkSure11.04)

Back to Table of Contents

9.15 Jupitermedia's Jupiterimages Division Engages with PicScout to Fight Copyright Piracy

PicScout has been selected by Jupiterimages, a division of Jupitermedia Corporation, to track the usage of Jupiterimages content. PicScout's Image Tracker is the market standard for monitoring visual assets. This service applies some of the most sophisticated crawling and image recognition technology in the world, and is capable of detecting images even if they have been altered or distorted. With a proven four year track record, PicScout has successfully generated enormous returns to content owners, via copyright compliance licensing deals and an increased customer base. Over the last few years, Jupiterimages has been strengthening its rights-managed business and solidifying its position as one of the largest providers of rights-managed images worldwide. Following acquisitions of many leading RM stock photo libraries, Jupiterimages is proactively addressing the need to monitor its assets and track misuses. With offices in Herzliya, Israel, PicScout (http://www.picscout.com) is a leading technology-enabled services provider to the digital content industry. The company offers solutions, for visual assets owners and users, to better control and distributes their proprietary visual files across all media. PicScout solutions are based on proprietary image and video recognition technology, advanced Internet crawling capabilities and a robust system that compares millions of files 24/7. The company's Image Tracker is the industry standard for visual assets tracking, serving over 6 million visual files of the world's most prestigious content owners. Jupitermedia Corporation, headquartered in Darien, CT, is a leading global provider of images, original information and events for information technology, business and creative professionals. (Jupitermedia 17.04)

Back to Table of Contents

9.16 RADVISION Technology Delivers IPTV Set Top Box Solutions

RADVISION announced that the company's Multimedia Terminal Framework and Advanced RTP Toolkit is bringing new IP video-based communications capabilities to the Set Top Box (STB) when coupled with the new Intel ICE 2110 Media Processor. RADVISION's Multimedia Terminal Framework allows application developers to focus on application development, hardware integration and user interaction rather than complex VoIP standards when developing IP Set Top Boxes, as well as other Customer Premise Equipment (CPE) devices, such as wireline and wireless terminals, IADs and mobile handsets. This enables faster time-to-market. The framework is a complete solution; encompassing signaling, call control and media management. RADVISION is developing the entire videoconferencing application for Intel's media processing platform, integrating third party audio and video codecs with the platform's peripherals, and developing a reference application for OEMs. This is enabling rapid development and short time-to-market, while maintaining high flexibility and extensibility. Tel Aviv, Israel's RADVISION (http://www.radvision.com) is the industry's leading provider of market-proven products and technologies for unified visual communications over IP and 3G networks. (RADVISION17.04)

Back to Table of Contents

9.17 KinCare Selects ClickSoftware for Optimized Scheduling of Healthcare Workforce

ClickSoftware Technologies announced a new licensing and service agreement with KinCare, a leading provider of healthcare and community care services in Australia. KinCare has purchased both ClickSchedule and ClickAnalyze to optimize and centralize the scheduling operations of several hundred healthcare workers. These mobile workers are responsible for a variety of home services, from cleaning and meal preparation to nursing services and mobility, across Australia. The solution will help the company meet their long term business objectives through operational excellence in the area of field resource management. Travel time is expected to be significantly reduced through the implementation of ClickSoftware's street level routing solution which utilizes detailed street level maps for its ongoing travel time and distance calculations. Furthermore, KinCare is looking to improve responsiveness to its patients while also reducing operating costs. It also views this as an investment for improving care giver productivity while helping them manage their work schedules and improve job satisfaction.

Tel Aviv, Israel's ClickSoftware (http://www.clicksoftware.com) is the leading provider of mobile workforce management and service optimization solutions that create business value for service operations through higher levels of productivity, customer satisfaction and cost effectiveness. Combining educational, implementation and support services with best practices and its industry-leading solutions, ClickSoftware drives service decision making across all levels of the organization. (ClickSoftware16.04)

Back to Table of Contents

10: ISRAEL ECONOMIC STATISTICS

10.1 First Positive CPI Since July 2006: March Index CPI Rises by 0.2%

The Central Bureau of Statistics announced on 15 April that, for the first time since July 2006, the monthly consumer price index was positive. Israel's CPI climbed by 0.2% in March 2007, after a number of negative figures from the year's start. The January CPI had fallen by 0.1% and the index retreated another 0.3% in February. The March figure was boosted by a 1.1% increase in the transportation and communications index, a 0.6% in the foods component, which was strongly lifted by a 5.3% jump in the price of chickens, and a 0.5% hike in the price of furniture and household equipment. Education, culture and entertainment prices increased by 0.4%. Countering the increases were price drops in apparel and footwear, which retreated by 3.6%, and in fresh vegetables, which dropped by 3.1%. From the start of the year, the consumer price index has dropped by 0.2%. In the last 12 months, inflation has been negative, by 0.9%. (CBS15.04)

Back to Table of Contents

10.2 Reciprocal Procurement in Israel Up By 500%

Reciprocal procurement in Israel totaled $1.5b in 2006, a 500% increase compared with 2005. Half of this sum, $810m, represented commitments by Intel Corporation to reciprocal procurement over the next decade. Intel made the undertaking in return for the state grant it received to finance the construction of its new fab at Kiryat Gat, although it met the aforementioned undertaking in full in 2006, and has even exceeded that amount. Under the Mandatory Tenders Law, foreign companies that win government and public tenders are required to purchase goods and services from Israeli industries worth 28-35% of the value of the tender that they won. (Globes 17.04)

Back to Table of Contents

In Depth

11.1 Moody's Report: Israel Outlook Positive at A2

Moody's (http://www.moodys.com) report, "Israel: 2007 Credit Analysis," is a yearly update to the markets and is not a rating action.

Macroeconomic Performance Stellar In Spite of War

Israel's economy is solidly on track after a multiple shock-driven recession in 2001-02. GDP growth is estimated at 5.1%

in 2006, marginally lower than the 5.2% registered in 2005. Real per capita income continued to grow quickly, with a cumulative rebound of 9.9% in 2004-06 after a -6.1% contraction in 2001-03. Last year's performance would have been even more robust if not for the war with Hezbollah during the summer (which caused GDP to decline by 0.8% in the third quarter), government spending restraint, and a relatively tight monetary stance. High real interest rates and a strong currency helped to eradicate inflation during the year: consumer prices fell 0.1% in the 12 months to December. With an inflation target of 1%-3%, the Bank of Israel eased policy rates by a cumulative 150 basis points to 4.0% between November 2006 and March 2007, but paused at the latest Monetary Policy meeting on March 26, saying that at current real interest rate levels, the monetary stance was consistent with the inflation target looking out over the next year.

The combination of strong demand for high-tech goods and an undervalued currency helped boost export growth last year, while port traffic and tourism interruptions related to the war and relatively tight fiscal and monetary policy restrained imports. As a consequence, the current account surplus widened to 4.9% of GDP from 2.9% the year before. Foreign tourism has begun to recover now, after having been disrupted by the war last year. Although this weakness was reflected in the current account, it was offset by other items, and there was only a minor impact on GDP growth given its rather small (2%) direct contribution to overall output.

Private Sector Drives Growth

The main catalyst for Israel's fast-paced expansion was healthy global demand for its knowledge-intensive exports, assisted by the generally benign liquidity conditions worldwide. At this point, however, growth seems relatively well balanced between external and domestic impulses. Both business investment and consumer spending are contributing strongly, continuing a trend begun at the end of 2003 in which the weight of the private sector within GDP is growing at the expense of government services. Barring any new shocks, the pace of growth is expected to be sustained at recent levels in 2007.

Israel continues to benefit from its comparative advantage in knowledge-based information-technology products and services. High-tech industries account for 75% of industrial exports. Having more than recovered from the 2001-02 recession, the value of such sales surpassed their 2000 level by 37% in 2006. Information-communications technology accounts for 17.5% of total private sector product (2001 data; likely higher now), as compared with an OECD average of 9.6% (11.4% in the U.S.; 8.4% in France; 7.8% in Japan; 12.2% in Korea). At 4.6% of GDP, expenditure on civilian R&D (2003 data), Israel far outspends all advanced market economies including other top performers Sweden, Finland, and Japan (4.0%, 3.5%, and 3.2% respectively). The OECD average is 2.2% of GDP. In terms of patents issued per million inhabitants, Israel ranks third behind only the United States and Japan.

Foreign investment of meaningful size is a relatively new phenomenon in Israel. In the past, foreign investors had been deterred by the heavy concentration of the banking system. This continues to be a challenge, but there has been significant progress in unraveling these entities. Other impediments were a high-inflation bias, economic volatility, and security risks. Today, FDI is being attracted by privatization opportunities, healthy economic growth and deregulation associated with capital market reforms. Recent large investment inflows have bolstered business confidence, and were undeterred by the general deterioration in the security situation during and after the war. Greenfield inflows into private sector investments were at record levels. FDI inflows and outflows in 2006 were relatively well matched: inflows came to $14.2 billion against outflows of $12.7 billion. Large outward FDI is reflective of the high degree of sophistication of the local corporate sector.

Structural Reforms are Creating a Competitive Market-Based Economy

Structural reforms launched in 2003 have been an important part of Israel's recently rosier economic picture. Capital market, fiscal (including extensive tax and pension) and labor market reforms along with the restructuring of some key monopolies have been important boosts to growth by transforming Israel into a more modern, competitive, market-oriented economy. In addition to all of the big headline fiscal reforms, micro-expenditure reforms on purchasing, tenders and auditing have added up to significant fiscal savings. Still in the works are administrative, municipal, land, and education system reform. The latter two are particularly challenging in the domestic political context.

Israel's Resilience Continues to Be Tested By Shocks

The Israeli economy (and polity) has a proven capacity to respond to shocks. In recent years it has withstood multiple simultaneous shocks including the 2001-02 high-tech/NASDAQ recession, the security threat from the then Palestinian war against Israel, the incapacitation of former Prime Minister Ariel Sharon, the reformulation of the country's political spectrum, the election of Hamas (a political party/socio-religious movement with an aim to liquidate the State of Israel) as the leading party in the most recent Palestinian elections, and most recently, the war with Hezbollah in Lebanon and accusations of misconduct against many government officials. Thus far, the economy has been able to withstand such shocks against the backdrop of a noisy and highly complicated domestic political profile and a very tense geopolitical environment.

Israel's resilience is a testimony to its robust institutional foundations, vibrant civil society, and responsible political-economic elite. These characteristics, along with its relatively high per capita GDP (roughly $20,000) and advanced level of economic and political development, distinguish the country from other emerging markets and situate it close to some lower-income advanced industrial economies. Where Israel falls in this spectrum is key to Moody's analysis of the country, as advanced economies are able to manage much higher debt burdens without substantially increasing the risk of default than are developing countries.

Political/Social Developments

In many respects, Israel is one of the most complex countries in Moody's rating universe from both political and economic points of view. Its political situation is unique: it is surrounded mainly by hostile neighbors who would like nothing more than to see the country disappear, although it has peace treaties with two important neighbors, Egypt and Jordan. While technically considered a developing country, its increasing wealth and the nature of its economic base place the country ever closer to an advanced industrial nation. Furthermore, even though the government is deeply indebted, it arguably enjoys one of the most stable investor bases in the world, a base that has proven repeatedly willing to provide funding during troubled times and good. Finally, Israeli governments tend to be highly fragmented and susceptible to breakdowns and frequent elections. Few countries in the mid-investment grade range are characterized by such volatility, and yet the degree of consensus regarding the success of economic policy direction in recent years suggests that there is a new stability in this area that could survive regardless of the composition of government.

The year 2006 began with the incapacitation of Prime Minister Ariel Sharon in the midst of an election campaign, the election of a Hamas government in the Palestinian Authority, and the associated flare-up in violence in the Gaza Strip only a few months after the Israeli retreat. The threat of a nuclear-empowered Iran and its belligerent leadership is an increasing regional security risk. Prime Minister Sharon's new Kadima political party, created when he and a number of other politicians broke off from more established parties mainly over differences in Sharon's handling of Palestinian relations such as the Gaza retreat, won the parliamentary election with new party head Ehud Olmert, albeit with a smaller margin of victory than expected. A coalition was put together with Labor and some smaller parties, and later strengthened further with the addition of the ultra-nationalist Yisrael Beiteinu party.

In 2007, there has been a lot of noise on the domestic political scene, probably even more than is usually the case in Israel. An unprecedented number of current Israeli political leaders, including cabinet ministers such as the finance minister and the new prime minister himself, face serious corruption allegations related to a variety of alleged transgressions in their personal and public life. The president - who has a largely ceremonial but highly emotive role - faces a possible indictment over sexual harassment charges. From the standpoint of managing economic policy, we believe that most of these allegations are not significant regardless of the outcome, except in the event that any of the charges against the prime minister should lead to the dissolution of government and new elections. Even then, the current government would likely be replaced by a more market-friendly coalition, so the main risk would relate to the potential for policy paralysis during the interregnum. The corruption allegations as well as the repercussions after last year's war with Hezbollah have combined to sink the political leadership's image: recent polls claim that only 3% of the electorate would vote for Kadima if elections were held now.

Second Lebanon War Further Complicates Domestic Politics and Foreign Relations

A fierce conflict with Hezbollah, the militant Islamic terrorist organization based in Lebanon, was provoked over a border incursion in late June 2006 in which Hezbollah killed several Israeli soldiers and kidnapped two others. The frustrations of years of small-scale border conflicts with the group - in which northern Israeli towns faced intermittent rocket fire and other attacks - boiled over after this incident. As described previously, the war lasted roughly six weeks and in spite of heavy defense outlays, serious missile damage, loss of civilian and soldiers' lives, and the interruption of activity at the country's largest port, it proved to have only a brief impact on Israel's economic momentum. On the other hand, the domestic and international political ramifications have been quite damaging and are still being played out.

With respect to domestic politics, the perceived "failure to win" the second Lebanon war led to so many recriminations that the chief of staff of the armed forces later resigned and a parliamentary investigation was launched to determine what went wrong. The main objectives of the war, which were to win the release of the soldier-prisoners and to completely destroy the offensive capability of Hezbollah, were not achieved. In addition, the moderate Lebanese government has been seriously weakened, Hezbollah seems to feel emboldened by having stood up to Israeli military might, and the group now appears to be re-arming. Defense Minister Peretz is widely blamed for this outcome but the actions and decisions of others, including the prime minister, in prosecuting the war are expected to lead to more resignations. The conclusions of this commission are expected within weeks, and there is some concern that the prime minister will be among those most seriously weakened by the findings. Even if this should lead to Mr. Olmert's resignation, however, the most likely outcome would be the assumption of the position by popular Foreign Minister, Ms. Tzipi Livni, rather than the downfall of the government and new elections.

Israel's international stature was also hurt by the war. Although the reasons for these deadly attacks were explained by Hezbollah's placement of its personnel and weaponry in the midst of the population, the pictures of such casualties and the stories of the population's suffering resulted in severe condemnation and the erosion of early sympathy for Israel around the world. The loss of prestige attributable to these images will not be easy to recover. Indeed, these attitudes are part of the explanation for the renewed soul-searching going on in Israel over the war, not so much doubts over the decision to retaliate but mainly over the military tactics utilized and their effectiveness.

Demographics Constrain Labor Force Participation

Israel's low labor force participation rate is the Achilles' heel of the economy. The underutilization of the labor force constrains the economy's growth potential and adds to the already heavy fiscal pressures related to defense and internal security. Cuts in welfare payments launched under the emergency economic reforms in 2003, removal of illegal foreign workers, and the adoption of the "Wisconsin Plan" to help the unemployed find jobs in the private sector have helped raise Israel's labor force participation rate to 56% at year-end 2006, up from 54% in 2003. The current government has introduced "negative income tax" legislation and new expenditures on childcare to further incentivize labor force participation. Still, Israel's participation rate is much lower than other OECD countries even taking into account the active military in Israel, and reflects the country's unique demographics, mainly the large population of ultra-religious nonworking males and nonworking Arab Israeli women. Improving labor force participation and a further reduction in the unemployment rate (7.7% by the fourth quarter of 2006 compared to 10.7% in 2002) are also necessary for alleviating poverty and income inequality, and hence political will to continue to reduce the size of the public sector (general government expenditures equal 46.8% of GDP).

Government Finance and Debt

One of the most important aspects of the structural reforms undertaken in recent years relates to fiscal consolidation, since a major rating constraint is the government's very large debt burden. The authorities are clearly determined to keep the public debt to GDP trajectory on a virtuous downhill course, which has enhanced policy flexibility, even as they continue to lower the tax wedge. Accordingly, spending discipline helped to more than offset additional expenses estimated at around ½% of GDP associated with last year's war. The dynamism of the economy, particularly strong business profitability, also led to another year of strong revenue performance. The general government deficit narrowed to 1.8% of GDP from 2.9% of GDP the previous year. In the first two months of 2007, the central government budget has been in surplus thanks to abundant tax receipts.

The decline in the debt to GDP ratio has also been significant in recent years, propelled by primary budget surpluses and also by repayment of debt using the significant proceeds from privatizations. The debt ratio had tipped back over 100% of GDP in 2003, a serious deterioration attributable to the multiple shocks already described above, but subsequently fell back. Last year the debt ratio shrank by 9%age points of GDP to 88%. Benchmark revisions to the national accounts last year raised the level of GDP by around 5%, therefore the fiscal deficit and debt ratios mentioned are correspondingly lower than mentioned in Moody's February 2006 Analysis on Israel. The scale of improvement is far more favorable than foreseen even a year ago. The financing program required low issuance, and the government has not drawn on its U.S. credit line since 2004, although it extended the loan program through 2011.

Barring the eruption of a severe and/or more prolonged military campaign, further improvement in the debt ratio can be expected going forward. This would be true even if the budget deficit widens somewhat this year as a consequence of post-war reconstruction and replenishment of the military's equipment inventory. The 3-year budget frame was revised after the war, but upper limits on the deficit as well as on real spending growth should ensure that the downward trend continues. The revenue from the sale of the Haifa oil refinery and the remaining State shares of Bank Leumi will also be used to pay down debt.

The only official goal for reducing the public debt level is the plan to lower it to 80% of GDP by 2011, although the current trajectory would over-achieve this target. Of course, this would still be a high level relative to Israel's rating peers. Some risks could conceivably be posed by the renewed pressure by smaller parties within the government coalition to raise welfare and elderly pensions, depending upon how weakened the leading parties in government may be from the recent scandals. On the other hand, the pace of fiscal improvement could accelerate a bit more in future years should progress be achieved on municipal consolidation, which was to be on the agenda for this year. Additional help would derive from increased transparency of the defense budget, which consumes the equivalent of 10% of GDP (60% of which is paid by Israel and the rest by the U.S. in the form of grants and loans). Although the size of the government sector has shrunk in recent years, with general government spending to GDP having fallen from 52.2% in 2002 to 46.8% last year, there is likely still room to rationalize further at least in these areas, possibly providing scope to raise spending on education and other social and physical infrastructure.

Debt Composition and Investor Base Alleviates Large Debt Burden

The composition of the debt and the nature of the investor base partially mitigate the size of the public debt burden. The domestic shekel market has deepened and become relatively sophisticated with the benefits of the capital market reforms and capital account liberalization. Shekel-denominated debt constitutes roughly 74% of the total government debt stock, although a still-large proportion is non-tradeable CPI-linked debt, a carryover from the high-inflation era. The government no longer issues US$-linked bonds in the local market. The goal is to reduce the foreign currency share further to 20% within five years, and within that share, to lower the dollar-denominated portion from 90% to 80%. The credibility of the inflation target has helped to lower average interest rates paid on marketable debt. Public debt management has become increasingly sophisticated along with the market, which has already greatly improved liquidity, lengthening and smoothing the maturity structure. In addition, there are plans to apply to join Euroclear for trading the benchmark 10-year fixed-rate Israel government bonds (formerly called Shahar bonds) within the next two years.

In the external debt arena, the government enjoys access to a large pool of overseas investors in the form of the Jewish Diaspora, whose growing importance injects an increasing level of oversight against policy missteps. The spreads on foreign currency bonds have touched record lows, partly attributable to ample global liquidity but also due to greater confidence in economic management and the direction of policy. The introduction of the primary dealer system has encouraged more foreign participation in domestic debt auctions as well, with favorable impacts on the exchange rate and yields.

Peer Comparisons

At 88% of GDP, Israel has a much higher debt burden than its comparably-rated country peers in the A-range. Other A2-rated countries are Cyprus, whose debt ratio is 65%; Poland at 42%; or Latvia at 10% (a currency board country, Latvia cannot prudently have much government debt). The main "capacity to pay" debt metric, the government debt to revenue ratio, is also much higher than these other countries. The same is true of the Israeli government's 11.6% interest/revenue ratio, which is substantially above that of other countries in the same rating range. Then again, in Moody's opinion, some of the characteristics of the debt and the nature of the creditor base partially compensate for its relatively large size. In fact, these factors are seen to be positively influencing its creditworthiness relative to the government's current A2 rating.

External Vulnerability and Liquidity

Current Account Surplus Widens; Capital Account More Dynamic

Israel's external finances have undergone substantial changes in the past few years, with current account deficits being transformed into surpluses and a recent pick-up in foreign investment inflows. While the trade balance remains in deficit, it is fully offset by surpluses in the services account due to vibrant high-tech services exports. Transfers, principally intergovernmental remittances, and to a lesser extent private transfers and post-WWII reparations from Germany, are also an important offset. Depending on future circumstances, however, these latter flows could diminish over time.

In spite of these trends, Israel's current account surplus mainly reflects cyclical rather than structural factors. The undervaluation of the shekel, the main reason for the surplus, is already starting to adjust. Over time, and especially if monetary policy tightens and enhances this trend, the current account surplus will likely narrow.

Capital account liberalization and the harmonization of taxes on local and foreign currency instruments have triggered increasing outflows of money being placed overseas as Israeli residents and banks diversify their assets abroad. The banking system's net foreign asset position has swung to close to $5 billion from a large net liability position of over $7 billion in 2002. Official foreign exchange reserves of about $26 billion are more than adequate in relation to external debt service payments falling due (currently maturing long-term debt excluding banking system liabilities over the next few years are $4-$6 billion), particularly considering the Bank of Israel's non-interventionist policy regarding the exchange rate.

Government's External Liquidity is Strong

The government's external liquidity position is quite comfortable. Of total public sector external debt of $30 billion at end-September 2006, $15 billion carries a direct guarantee from the U.S. government (hence, rated Aaa). Another $10 billion has been sold through the "State of Israel Bonds" program. These securities are issued on preferential terms to investors with more than just a financial interest in Israel. This group of creditors provides a deep source of potential debt issuance for the country. In the end, only around $4 billion of marketable bond debt (non-guaranteed, non-State of Israel bonds) is outstanding, amounting to about 5% of the country's total external debt.

The government's external debt is very long-term, with nearly two-thirds maturing well beyond 2011. Amortizations due run about $2-$3 billion a year, a fraction of the roughly $65 billion in government revenues generated each year. Payments on non-U.S. guaranteed bond debt amount to about $200 million, roughly approximating 1% of annual government revenues.

Private External Debt is Manageable

Government (public sector) external debt amounts to 37.5% of the total external debt of Israel. About half of the private sector debt of $50 billion is owed by the banking system, and mostly comprises US$-denominated nonresident deposits ($22 billion) of the large Israeli and Jewish Diaspora. Even though these deposits' maturity structure tends to be short-term, their levels have been stable for many years, including during the Palestinian war against Israel that began in autumn 2000 and the war last year, since they are not speculative in nature. About one-third of non-banking private sector debt comprises suppliers/trade credits. These lines have also remained intact during numerous episodes of heightened hostilities.

Banking System is Highly Dollarized

Israel is still a highly dollarized economy. Foreign currency (almost exclusive dollar-denominated) deposits make up about a third of the system's total deposits. In addition, dollarization of housing prices adds volatility to the inflation indices as well as embedding the mentality among investors and residents. This high level of dollarization increases Israel's potential external vulnerability in that it poses the risk of exacerbating swings in the exchange rate, as well as increasing non-performing loans in the banking system should such exchange movements be adverse.

Peer Comparisons

A peer group comparison of Israel's external ratios is somewhat challenging. While the economy possesses characteristics of an advanced industrialized economy, such as a high level of institutional and economic development, its per capita income is somewhat lower and it exhibits greater macroeconomic and political volatility than most mid- to high-rated investment-grade countries. Comparisons with some governments rated A2 or even higher for foreign currency bonds, such as Poland, are not that useful given these countries' lower level of economic development. Comparison with Cyprus, also rated A2 in foreign and local currency, and also carrying a positive outlook, is perhaps the most apt given their similar income levels.

Israel's ratios of external debt/GDP and current account receipts are 60% and 107%, respectively, against an average of 45% and 82% for Aaa-A3 rated developing economies, and 137% and 245% for Cyprus. Cyprus' fiscal ratios are much better than Israel's and its external ratios will improve instantly once it joins the Euro-zone. Israel's external vulnerability indicator (EVI), which measures currently maturing long-term debt plus short-term debt and total nonresident deposits as a percentage of official foreign exchange reserves -- is a key indicator to highlight short-term external liquidity pressures. At 126%, Israel's EVI is high, but it is comparable to the median for Aaa to A3-rated developing countries, and much lower than that of Cyprus (427%). (On the other hand, entry into the Euro area will make the EVI ratio irrelevant for Cyprus.) It is also important to mention that for Israel, netting out nonresident deposits from the numerator - a practice that more accurately reflects external liquidity risks in Israel because of the stability of these stocks - would have reduced the ratio to just 50% at year-end 2006. Therefore the main risk to the country's liquidity position is that overseas investors move deposits out of Israel. (Moody's 30.03)

Back to Table of Contents

11.2 Bank of Israel Governor Stanley Fischer submits Annual Report for 2006

I submit herewith the Annual Report of the Bank of Israel for 2006, in accordance with section 59 of the Bank of Israel Law, 5714-1954.

The year 2006 was a good one for the Israeli economy. GDP grew rapidly for the third year in a row. GDP growth of 5.1% was led by the business sector, which grew by 6.4%. Improvements in the macroeconomic environment were reflected on many fronts: among them the decline in unemployment to 7.7% at the end of 2006, accompanied by increases in the rates of both employment and labor force participation; the increase in the current account surplus of the balance of payments to almost 5% of GDP; and declining interest rates and increases in stock price indices in the capital markets. These economic achievements are all the more remarkable given the background of the Second Lebanon War, which took place during the summer.

Israel's economic growth was bolstered by the continuation of strong global growth, particularly in the high-tech industries, and the continued implementation in Israel of an economic strategy that supports sustainable growth. The government maintained fiscal discipline as reflected in a considerable reduction in the deficit, while continuing the implementation of a long-term tax reduction plan. These policies made it possible to bring the public-debt/GDP ratio down sharply, although it still remains too high.

Inflation rose above the upper boundary of the price stability target range during the first half of the year, and in later months fell below the lower boundary. This was principally due to changes in the shekel/dollar exchange rate, as well as energy prices, which raised inflation in the first half and then subsequently lowered it. Monetary policy acted to bring inflation gradually back to within the target range over a 12-month horizon.

The incidence of poverty in Israel has risen in the last few years, measured in relative terms. An alternative "absolute" measure of poverty, based on the ability to purchase a basket of essential goods and services, or a fixed basket of goods and services, showed (according to the latest available data, of 2005) a decline, after rising in the previous three years. This change in trend was due to continued economic growth, which improved conditions in the labor market for all workers, including those with low levels of education, among whom the employment rate increased.

The main goal of economic policy for the next few years is to sustain and strengthen the continuing growth of the economy, which will make it possible to raise the overall economic well-being of Israelis, and to tackle social problems. To do so, macroeconomic policy will need to continue its path of fiscal consolidation and to maintain price and financial stability. In addition, reforms are needed to improve the functioning of the education system and restart the drive for structural reforms that are intended to improve the infrastructure and enhance competition in the economy. Further, policy should focus on reducing poverty, with an emphasis on expanding employment among those populations with low participation in the labor market.

To achieve these goals the government needs to maintain fiscal discipline over time, including by keeping the budget deficit low. This will enable the debt/GDP ratio to decline, and hence reduce the heavy burden of interest payments in the government's budget, enhance the economy's resilience to external shocks, and allow the government to adopt a countercyclical policy when needed. The challenge in managing fiscal policy is enhanced in light of security developments and given the need to advance the treatment of social issues, including education.

In order to bolster the effectiveness of monetary policy, it is important that legislation of a new central bank law is completed, as has been done in other countries in recent years. The new Bank of Israel Law is intended to anchor the independence of the central bank, clearly define its purposes, and determine new frameworks for decision-making and transparency.

The main objective of the Bank will be defined as maintaining price stability in accordance with the target set by the government, while supporting the government's other economic targets such as growth and employment, so long as doing so does not undermine long-term price stability. In addition, the Bank will support the stability of the financial system. It is proposed in the new law that two new bodies be established, a monetary committee and a (management) board of directors, both of which will include members from outside the Bank with the appropriate qualifications, while avoiding potential conflicts of interest. The monetary committee, with the Governor as chairman, will make decisions on monetary policy; the board of directors, chaired by one of its outside members, who will constitute a majority, will approve administrative issues such as the Bank's work plan, its budget and staff salaries. Each of these bodies will have to report its decisions to the public, so that a system of public checks and balances will be created alongside the Bank's independence.

The implementation of structural reforms in the areas of infrastructure, which will increase competition, and help increase productivity in the business sector and growth, should be continued. Development of the financial infrastructure and further increases in competition in the capital markets, particularly with regard to the household sector, should be strengthened; this will also support economic growth.

Social policies for the reduction of poverty require a long-term approach. This requires equal opportunities in the labor market, and it is therefore important that resources allocated to education, and their efficient use, should ensure a proper level of education for all, and in particular for the weaker parts of society. Several steps are required to reduce poverty and increase social mobility, including a focus on the sections of the population with a particularly high incidence of poverty - the ultra-orthodox and the Arab sectors. Measures that would increase disposable income include the Earned Income Tax Credit - which the government recently decided to implement gradually - and improving the programs for vocational retraining, basic education for adults and job placement services, which will increase earning capacities. All of these will provide incentives to join the labor force for those able to do so. Resources will also have to be allocated to those unable to work, and to improve the mechanisms for testing the ability to work. (BoI11.04)

Back to Table of Contents

11.3 Israel: The Poverty of the Welfare State

Morgan Stanley's Serhan Cevik commented that breaking away from the legacy of welfare state, Israel has achieved faster income growth. Two factors - the lack of political direction to resolve territorial conflicts and the burden of an ever-growing welfare state - have kept the Israeli economy below its true potential. Even though a comprehensive peace deal with the Palestinians still remains in a distant future, structural reforms and prudent fiscal management in recent years have helped to rationalize Israel's welfare system and thus reduce its burden on the economy. With intensifying political pressures over the decades, the cost of welfare expenditure and transfer payments to households increased from 31.5% of GDP in 1980 to 42.2% in 2002. As you would have thought, such an extravagant level of social spending not only worsened public finances, but also distorted economic incentives and lowered the economy's growth potential. Realizing the extent of structural strains, especially on income growth in the private sector, the authorities have finally started moving away from the legacy of welfare state and dealing with institutional constraints. Accordingly, the burden of welfare spending and transfer payments declined rapidly to 36.5% of GDP, helping to lower the overall budget deficit to 0.9% of GDP at the end of last year and giving a significant boost to the economy.

Rationalizing welfare expenditures has merely unveiled the 'hidden' poverty. Israel has enjoyed robust output growth and the lowest unemployment rate in a decade, but the benefits are not distributed equally, at least in the early stages of normalization. Consequently, the number of people living below the relative poverty line increased from 20.6% in 2002 to 24.7% in 2005. Although the rationalization of welfare spending has contributed to diverging growth rates across the income spectrum, it merely unveiled the 'hidden' poverty. Indeed, excluding transfer payments and taxes, the poverty rate was already much higher throughout the 1990s and even showed some improvement in recent years. Moreover, defining the poverty line as half of the median income after transfer payments and taxes distorts poverty statistics. Since the upper quintiles of the income spectrum have experienced faster growth in the initial phase of economic expansion, it is normal to see an increase in the relative incidence of poverty. Nevertheless, the rationalization of social expenditures has already led to a small but encouraging improvement in the relative poverty rate to 24.4% by mid-2006.

Institutional factors and structural changes are behind Israel's poverty problem. Fiscal stabilization measures and reforms lowered the number of people receiving income support and unemployment benefits by 19.5% and temporarily exacerbated poverty and income inequality. However, institutional factors are far more important for understanding the underlying trend, in our view. First, two segments of the Israeli society - Arabs and ultra-Orthodox Jews - constitute 60% of the poor. This is due to cultural preferences and inadequate educational attainments that limit the participation of these groups in the labor force. Second, globalization and the rise of Israel's technology-intensive sectors have resulted in a dual economy, in which higher demand for skilled workers relative to the demand for less-skilled labor input leads to a wider earnings gap and thereby a worsening in relative poverty indicators. Of course, as Israel's own experience with welfare spending has shown, transfer payments to households cannot eradicate poverty on a sustainable basis.

Increasing employment, not welfare spending, will deal with poverty. International figures show that the poverty risk is predominantly a function of educational attainments, which become even more important in Israel's high-technology economy. Indeed, the incidence of poverty increases from 11.2% among Israelis with 16 years of formal schooling to 47.8% for those with less than eight years of schooling. This is a direct result of the level of participation in the labor market, which increases from 23.5% among Israelis with less than eight years of education to 77.3% among Israelis with at least 16 years of schooling. Therefore, policies aiming to increase employment, not unsustainable welfare spending, are the key to eradicating poverty and improving income distribution. (MS11.04)

Back to Table of Contents

11.4 WEF Finds UAE Most Competitive Arab Economy

United Arab Emirates is the most competitive economy in the Arab world among the countries in the third and most advanced stage of development according to The Arab World Competitiveness Report 2007 (http://www.weforum.org/en/initiatives/gcp/Arab%20World%20Competitiveness%20Report/index.htm), released by the World Economic Forum. It is followed by Qatar and Kuwait. Among countries in the second stage of development, Tunisia and Oman are the best performing Arab economies, while Egypt is the regional best performer in the third group of countries.

This year's report includes 13 Arab economies - Algeria, Bahrain, Egypt, Jordan, Kuwait, Libya, Mauritania, Morocco, Oman, Qatar, Syria, Tunisia and United Arab Emirates. Libya, Oman and Syria are assessed for the first time. Rankings are presented in three country groups according to the stage of development to enable benchmarking against peers in other parts of the world.

"Today, the Arab world is at a critical juncture. Although the region's economies are currently very dynamic and offer tremendous business opportunities, there is no doubt that improvements to national competitiveness and closer integration with the global economy and within the region are necessary if this growth momentum is to be sustained." said Klaus Schwab, Founder and Executive Chairman of the World Economic Forum.

"The report underscores the importance of a profound change in mindsets to realize the region's full potential. Entrepreneurship, an element that is often cited as the key to unlocking the potential of the Arab economies, can only take root in societies where freedom of thought, enthusiasm for inquiry and critical thinking are popular values. To that end, the pace at which the leaders of the region will address educational reform and the route that this reform will take are the determining factors when it comes to ushering in the productive power of Arab entrepreneurship. Diversification of Arab economies and improving business competitiveness are a direct function of education reform," said Sherif El Diwany, Director, Middle East , World Economic Forum.

"The rankings highlight the diversity of Arab economies and the divergent performance in terms of national competitiveness. A closer look at the results reveals that although most countries have achieved significant progress with respect to their own past, many challenges remain to be addressed. The most important weaknesses are to be found in the areas of education, low efficiency of goods markets as well as labor markets and, for the more advanced economies the very weak innovative capacity," said Margareta Drzeniek Hanouz, Senior Specialist, Senior Economist at the World Economic Forum's Global Competitiveness Network and Co-Editor of the Arab World Competitiveness Report.

"The current situation provides an opportune moment for forging ahead with reforms to improve national competitiveness. Educational reform is a high priority in the region, given the high unemployment rates among educated youth. Educational outputs remain mismatched with the needs of the business sector, depriving the economies of the trained talent needed to raise productivity and move up the value chain. At the same time, high unemployment and labor force growth require that governments overhaul the regulation of labor markets that rely heavily on the public sector and migrant workers," said Tarik Yousef, Dean, Dubai School of Government.

The Arab World Competitiveness Report series serves as a platform for public-private dialogue on issues related to competitiveness, as is being witnessed at the Arab World Competitiveness Roundtable in Doha. These high-level discussions use the findings of this report as a basis for competitiveness benchmarking and for advancing policy discussions.

This year's Arab World Competitiveness Report features a progression in the methodology with respect to how the competitiveness of resource extracting economies is assessed, based on the methodology of The Global Competitiveness Report's Global Competitiveness Index. Developed for the World Economic Forum by Professor Xavier Sala-i-Martin of Columbia University, this index provides an excellent tool for assessing and analyzing national competitiveness.

The rankings are drawn from a combination of publicly available hard data and the results of the Executive Opinion Survey, a comprehensive annual survey conducted by the World Economic Forum, together with its network of Partner Institutes (leading research institutes and business organizations) in the countries covered by the report and other nations worldwide. Over 11,000 business leaders were polled in a record 128 economies worldwide. The survey questionnaire is designed to capture a broad range of factors affecting an economy's business climate that are critical determinants of sustained economic growth. The Forum annually delivers a comprehensive overview of the main strengths and weaknesses in a large number of countries, making it possible to identify key areas for policy formulation and reform.

This year's report features a number of external studies on pertinent issues related to global competitiveness and, more generally, themes which emanate from the World Economic Forum's concern with growth and development. The report contains a detailed country profile for each of the 13 economies featured in the study, providing a comprehensive summary of the overall position in the Index rankings as well as a guide to what are considered the most prominent competitive advantages and disadvantages of each. Also included is an extensive section of data tables with regional rankings covering 90 indicators.

United Arab Emirates is at rank 29 the best performing Arab country among the 40 most advanced economies. Sound economic management has contributed to stabilizing the macroeconomic environment and strengthening public institutions. Areas of concern include educational attainment, in particular at the primary and secondary levels. These need to be tackled on a priority basis, as lack of an educated workforce could put current diversification efforts at risk. For the same reasons, the country will have to increase efforts to promote innovation and tertiary education and combat red tape that constrains competition on markets for goods and services.

Qatar ranks 32nd in the group of 40 most advanced economies. In regional comparison, it shows a relatively good track record with respect to education at all levels, yet for the country to move ahead, a higher turnout of university graduates will be necessary. Qatar's ranking among the 128 countries on this category is only 77th. Macroeconomic management has been good so far and current public investments appear to be made in the right areas, for example for improving transport infrastructure, which lags behind other countries in the region. Going forward, the capacity for innovation in the public and private sectors will have to be upgraded.

Kuwait occupies the 37th place out of 40 countries in this group. The macroeconomic environment has markedly improved in the past few years and the country ranks first within the group on this indicator. It equally boasts a very good financial infrastructure. At the same time, improvements to the country's higher education institutions and an enhanced innovation capacity would benefit the country's business sector. The business community also highlighted pervasive red tape and the relatively closed nature of the economy as areas of competitive weakness - entrepreneurs find it difficult to set up shop and the country foregoes the benefits of intense competition for goods and services.

Bahrain is ranked 39th out of 40 countries in this group and displays a number of notable strengths and weaknesses. One particular area of strength is the excellent performance on health indicators and primary education. Yet, schools could improve the preparation of graduates for positions in the private sector as well as establishing a strong foundation for innovation. Further increases in competitiveness could be achieved through leveraging the good technological capacity of the country and its well developed financial markets.

Tunisia is at 3rd place the highest ranking Arab economy among the 40 countries in the middle stage of development. Tunisia's good results are based on strengths in the area of education, where quality is assessed as very good and universal primary education has been reached. The country also benefits from stable and efficient public institutions and shows further strengths in innovation and business sophistication. Yet a high budget deficit and public debt coupled with weak infrastructure and a low level of sophistication of financial markets prevent the country from reaping the full benefits of a more competitive economy.

Oman is the second best ranked Arab country in the group of countries in the middle stage of development, coming in 8th. The country's solid outcomes on macroeconomic indicators, its well developed institutions and high level of efficiency of labor markets contribute to this good result. The country's competitive position is weakened by low levels of education and technological readiness as well as weak business sophistication and low capacity for innovation.

Jordan ranks 13th among the 40 countries in the middle stage of development and the third best Arab economy in this group. Its strong performance is linked to transparent public institutions and business-friendly regulations that are easy to comply with. Moreover, the Jordanian economy is fairly open to trade and foreign participation. Yet the macroeconomic environment remains fragile, labor markets over-regulated and latest technologies largely unused by consumers and business.

Libya, at its first inclusion in this report, comes in at rank 26 in the group of countries in the middle stage of development. Thanks to the recent oil boom, the country excels on macroeconomic indicators, with one of the highest budgetary surpluses and one of the lowest government debt levels worldwide. Libya has only recently embarked on the process of economic reform and the list of challenges to be addressed is long. Underdeveloped physical infrastructure, weak public institutions and low penetration of latest technologies are the most pertinent among them. But to improve its competitiveness, the country will also have to open to international competition and improve the overall level and quality of education.

Algeria occupies the 29th rank among the 40 countries in the middle stage of development. The macroeconomic environment improved significantly with rising energy prices, public institutions are fairly sound and the population benefits from good health services and education. Making the country more competitive will require a number of basic reforms, in particular with respect to opening the country to international competition, strengthening the banking system and increasing the use of advanced technologies.

Egypt is the best performing Arab country among the countries at the lowest stage of development, ranking 4th out of 48 countries. The well developed physical infrastructure serves the economy well and good progress has been achieved with respect to primary education. But to fully utilize the country's competitive potential, enhance growth and create urgently needed jobs, a number of fundamental challenges will have to be addressed, such as a soaring budget deficit, rigid labor markets and financial markets that are ill-equipped to channel financial resources into investments. Equally, the potential of latest technologies is not fully used.

Morocco occupies 7th place among the 48 economies at the lowest stage of development. Among the country's strengths are the good quality of infrastructure and the relatively solid public institutions. Although penetration rates for most advanced technologies are fairly low, companies are aggressive at absorbing technology from abroad. Although local firms are sheltered from international competition administrative barriers to setting up new businesses have been reduced. Last but not least, diversification efforts will only be successful if access to finance is facilitated and human capital advanced.

Mauritania, the country with the lowest per capita income in the Arab world, is 38th out of the 48 countries. The recent discovery of off-shore petroleum fields will bring strong growth over the next years and make funds available for investment in competitiveness-enhancing reforms. Mauritania suffers from a low assessment on virtually all pillars of the Index. On a positive note, public institutions are assessed as fairly well functioning given the country's level of development with an independent judicial system in place and low distortion resulting from government regulation. Flexible labor markets complement this positive picture. The newly elected government will have to focus on stabilizing the macroeconomic environment and upgrading infrastructure, education and health. To boost productivity and create jobs, any future reform program should include a significant liberalization of foreign trade. (WEF10.04)

Back to Table of Contents

11.5 Kuwait: The New Silk Road

The Oxford business Group observed that Kuwait and South Korea have seen bilateral trade between the two countries skyrocket since 2002, almost quadrupling from $2.4b to $8.8b. Kuwait is currently South Korea's third largest oil supplier, providing 12% of the Asian nation's total oil imports, and one of its largest gas suppliers, with 15% of Seoul's natural gas imports. South Korea receives 80% of its oil from the Gulf region and ranks as Kuwait's second biggest crude destination.

Underlining the significance of the growing trade and investment flows between the Gulf states and Asia, South Korean President Roh Moo-Hyun recently visited Kuwait as part of a tour of Gulf Cooperation Council (GCC) states. During his two-day stop - the first visit by a South Korean head of state since diplomatic relations were established in 1979 - Roh and Kuwait's Emir Sheikh Sabah Al Ahmad Al Jaber Al Sabah focused on expanding bilateral engagement and cooperation. The two leaders inked several memoranda of understanding (MOUs) and cooperation agreements, including accords on construction and energy projects, information technology and a two-way extradition treaty.

Seoul's energy, petrochemical and engineering companies are involved in a number of major projects in Kuwait worth several billion dollars. South Korean companies were among those participating in last year's bid for Kuwait National Petroleum Company's 615,000 barrel per day (bpd) Al-Zour refinery. Following high cost estimates, the bid will be re-tendered in May and South Korean companies have said they will participate once again.

Earlier this year, Kuwait signed a $550m order for seven oil tankers from Seoul. Kuwait Oil Company also announced last month that South Korea's SK Engineering and Construction (SKE&C) had been awarded a $624m contract to construct a 165,000 bpd crude oil gathering facility in the northern Sabriyah field over the next four years. SKE&C has worked on nine major projects in Kuwait during the past decade, at a value of $3.2b.

Hyundai Motors, one of South Korea's largest companies, is hoping to dramatically increase its presence in the GCC and in Kuwait in particular. Sales in the region doubled over the past year and, according to Hyundai's president, J Choi, they are expected to double again this year. Five years ago, Hyundai ranked fifteenth in the Kuwaiti automotive market; they have since jumped to fifth and are hoping to edge out Toyota to climb into fourth place by 2008.

Similarly, Seoul-based LG Electronics is preparing to sponsor its second annual regional video-gaming competition in Kuwait City, while Samsung has been working closely with Kuwait's Mobile Telecommunications Company across the GCC region. Several Korean firms are looking to expand their participation in Kuwait's infrastructure development as Kuwait looks to upgrade and expand its power plants, road networks and hospitals. The massive government expansion program, which is due for completion in the next three years, will see the construction of over 700 new facilities at a cost of around $68b.

The relationship is by no means one-sided. Kuwait has been dramatically increasing its investment and trade presence in Asia. Last year, the emirate signed a pilot project with Seoul to store 2m barrels of crude in South Korea, making it the first OPEC member to sign such an agreement. South Korea currently holds over 20m barrels of oil for secure storage for international oil companies and is in discussion with the government of Kuwait to double the amount stored under the terms of the pilot project.

The booming trade and investment between Kuwait and South Korea is indicative of a broader trend of closer integration and engagement between the GCC and Asia, popularly known as the New Silk Road. Capital and money flows between the two emerging regions have increased four-fold over the past ten years and, with the high liquidity in the Gulf and continued growth of China and India, it is projected to grow stay on the up. Dubai's ruler, Sheikh Mohammed bin Rashid Maktoum recently signed a $20b real estate project in India, while the Kuwait Investment Authority last year finalized the acquisition of $720m worth of shares in one of China's largest banks, the Industrial and Commercial Bank of China.

Although its relations with Gulf countries are growing dramatically, South Korea has historically lagged behind fellow Asian powerhouses Japan and China in its engagement with the GCC. According to the Korean ministry of foreign affairs and trade, it has one-third the diplomatic presence of Japan and China in the Middle East; at present, less than 1000 South Koreans live in Kuwait. (OBG16.04)

Back to Table of Contents

11.6 Kuwait: Building Up Capacity

According to oil industry officials, Kuwait National Petroleum Company (KNPC) plans on re-introducing its cancelled tender for a proposed fourth refinery sometime next month, with additional options being considered to ensure a feasible selection of bids. The initial round of bids, received in October 2006, came in on average at over twice the expected cost of $6.3b. Nine companies, from Italy, South Korea and the US, submitted bids valued at nearly $15b for the four main projects included in the tender.

However, Oil Minister Sheikh Ali Al Jarrah Al Sabah told journalists at an OPEC meeting last month in Vienna that the bids were quite high. "We will reconsider the project but there is no question that we need a fourth refinery, the minister said. The prices we received were unbelievable," he added.

Still, the minister said KNPC would continue searching for a feasible proposal. According to KNPC Chairman Sami al-Rushaid, "among the options being discussed are a cost-plus basis tender or a scaled-down version of the existing proposal." The tender is expected to be re-issued in May, pending government approval.

The refinery, as currently proposed, will be located near the Al-Zour port facilities south of Kuwait City, and has been in the pipeline for over two years. Originally scheduled for completion in 2010, the Al-Zour refinery, as it will be known, will eventually provide electricity generation and desalination capabilities for the domestic sector. It will also produce petroleum products in accordance with international environmental standards. The refinery has a planned capacity of 615,000 barrels-per-day (bpd), which would make it the largest refinery in Kuwait and one of the largest in the world. KNPC's largest refinery at the moment is its Mina Al-Ahmadi facility, which processes around 442,000 bpd.

The proposed refinery is part of a larger plan that includes boosting the country's oil production from 2.4m bpd to 4m bpd by 2020. Although a number of options are being considered - such as the massive Project Kuwait, a development scheme for Kuwait's northern oilfields - it has become clear that, to ensure the sustainability of the value chain, an increase in crude output must be complemented by a substantial increase in downstream capacity. Currently, Kuwait processes around 940,000 bpd with plans to increase capacity to 1.5m bpd. Additional downstream projects include a proposed 20,000 bpd jet fuel plant at Mina Al-Ahmadi and a number of technical enhancements for the existing refineries.

In conversations with OBG, oil sector experts said that the higher-than-expected costs are due in large part to the recent global infrastructure boom in the energy sector, which is putting enormous strains on existing project capacity. As oil revenues rocket, governments are spending record amounts on strengthening and expanding their industrial and energy sectors, which increases pressure on contractors, labor, equipment and materials.

Earlier this year, Qatar Petroleum and ExxonMobil dropped plans for a gas conversion plant due to cost inflation, while Russia's Lukoil and Austria's OMV scaled back their plans for refineries in Turkey. The cancellations and delays follow years of rebounding refinery profit margins driven by accelerating transport fuel demand in countries such as China and the US. That strained refiners' capacity to supply sufficient volumes of oil products such as diesel, gasoline and jet fuel, prompting a wave of expansion plans to meet the shortfall. (OBG10.04)

Back to Table of Contents

11.7 Qatar: Budget Bonanza

At $18.1b, the Qatar 2007-2008 budget, published this April, is the largest in the Gulf state's history. As oil prices remain high and the country's foreign debt declines, Doha is able to significantly increase spending on public projects. According to the Ministry of Finance, Qatar is expecting a budget surplus of $1.8b from the 2006-2007 fiscal year, which ended on March 31. The government originally estimated the surplus would be $632m. Revenues are estimated to be $19.9b for the just-ended fiscal year, an increase of 27% over the previous year. OPEC data indicate Qatar's crude oil production is about 766,000 barrels per day.

However, Qatar National Bank (QNB) estimated the budget surplus for 2006-2007 might be significantly higher. Mohamad Moabi, head of economics and research at QNB, told OBG, "From the data we gathered the budget surplus can be placed anywhere between $4b and $5b. Given the average price for Qatari crude, $62 per barrel, in 2006-2007 and Qatar's oil production levels, this indicates a surplus that is much higher. QNB's findings indicate Qatari crude prices in the last fiscal budget were 71% higher than the government's nominal $36 per barrel."

Particular emphasis in the latest budget was placed on development and infrastructure projects, with continued investment in health and education. Qatar's economy has tripled in size since 1998, thanks to its burgeoning gas sales. Minister of Finance, Yousef Hussein Kamal told OBG, "The budget that I announced shows Qatar is always thinking long term. Our plans are for 2012 and beyond, in fact we have to plan for as far away as 2025."

Of the money allocated, the largest portion, $5.7b, will go to infrastructure upgrade projects such as roads, sewerage, electricity and water. Other projects include plans to improve industrial areas for the benefit of small and medium size businesses, as well as port facilities.

Qatar is continuing its policy of heavy investment in education, with the sector seeing $2.2b in investment. Part of the money will go to building new schools and educational facilities, which will consume $1.4b of the allocated funds. Last month, Qatar's public works authority awarded a contract worth $71.2m to Tadmur Contracting Company for the construction of seven schools in Doha and its suburbs. Health and social services have been allocated $1.36b. The government has set aside funds to complete the first phase and begin work on the second one at Hamad Medical City and South Hospital. Also on the agenda are the building of new health centers and projects at Hamad Medical Corporation (HMC), Rumaillah Hospital and Al-Shamal Hospital.

One of the challenges facing Qatar is the record inflation rate of 11.8% in 2006, up from 8.8% in 2005. Kamal stated inflation was a by-product of the rapid expansion the country had undergone and 2006 should be the plateau. "When you consider a growth rate of 25%, you will expect some inflation," Kamal told OBG.

According to Qatar's Planning Council, price increases were found in all categories, with rents causing the main inflationary pressures on the market. The government is working to ease housing capacity issues, with plans to build new housing in an effort to rectify the imbalance and reduce inflation. (OBG11.04)

Back to Table of Contents

11.8 Abu Dhabi: Investment in Culture

Abu Dhabi is looking to invest billions in culture as part of a $27b development on Saadiyat (Happiness) Island, a 26 sq km outcrop lying just 500 meters off the coast. The Oxford Business Group feels the latest cultural coup pulled off by Abu Dhabi was the signing of an agreement in March with the French government that will see works from France's most famous museums exhibited in a new arts centre, the Louvre Abu Dhabi, scheduled to open in 2012. Under the deal, which covers 30 years, artworks from museums such as the Louvre, the Georges Pompidou Centre, the Musée d'Orsay and Versailles will be displayed in a futuristic new purpose built gallery, designed by French architect Jean Nouvel.

However, the agreement with France comes at a price, with the cost of using the Louvre's name along being $525m, along with a $33m donation to renovate a wing of the Paris museum. Moreover, there is the $750m budgeted to bring French staff and 300 artworks to Abu Dhabi, to restore the theatre at the Chateau de Fontainebleau and to establish an art restoration centre in Paris. The overall cost of the Louvre Abu Dhabi, has been put at somewhere near $2b. However, that price, and the overall cost of the project is well worth paying, according to Mohammed Bin Zayed Al Nahyan, Abu Dhabi's crown prince.

"Saadiyat Island demonstrates the vision to further establish Abu Dhabi's position as a destination of international standing," he said. "The aim of Saadiyat Island must be to create a cultural asset for the world. Saadiyat will belong to the people of the UAE, the greater Middle East and the world at large." By the time the agreement with France expires, Abu Dhabi will have built up its own collection of masterpieces to fill its galleries, though Mubarak Hamad Al Muhairi, the director general of the Abu Dhabi Tourism Authority, was careful not to disclose how much the museum intended to invest in artworks. "We'd rather not announce our collection budget," he said. "We don't want to create a disturbance in the market."

While the Louvre Abu Dhabi may be the centerpiece in the cultural revolution taking place on Saadiyat Island, it will not be a stand alone development. Last July, Abu Dhabi signed a deal with New York's Guggenheim Museum to open a branch on Saadiyat Island. The $400m museum, the Guggenheim Abu Dhabi, will cover 30,000 sq meters, making it by far the largest of the five Guggenheim centers presently in existence. The new museum will be given over to displays of modern and contemporary art.

In announcing the tie-up in July last year, Sheikh Mohammed Bin Zayed Al Nahyan said the Guggenheim Abu Dhabi would not only help make Saadiyat Island an international cultural hub but would have broader implications. "The signing also represents a significant development in the creation and nurturing of international cultural ties which we believe will do much to forge greater understanding between all nations," he said. The complex will also include a national museum, a performing arts centre with four theatres and a state of the art concert hall with a combined seating for 6,300, a maritime museum and a conference centre, all of which are intended to attract international visitors.

It is not as if Abu Dhabi's tourism industry is struggling or short of investments. International arrivals were up 12% in 2006, with a record 1.34 million foreign visitors. This increase was also reflected in hotel stays, with guests spending 3.9m nights in Abu Dhabi's resorts and hotels.

According to Al Muhairi, there is more than $54b being pumped into tourism projects such as the Al Saadiyat Island development across the Emirate, much of it due to the government's pro-investment stance. "The open-door policy adopted has reflected positively on the private sector's contribution to the tourist development projects, including the Al Saadiyat Island project, reckoned to be one of the largest tourist development projects region-wide," he said on March 28 when announcing the 2006 tourism figures. Though the focus of the Saadiyat Island development will be its world-class arts centers, these will be complemented by 29 hotels, three marinas and luxury residential complexes. When all the facilities are completed in 2018, Abu Dhabi officials predict the galleries, museums and theatres will attract 3 million visitors a year. (OBG13.04)

Back to Table of Contents

11.9 Oman: FTA With the USA

Oman's long-running saga over its free trade agreement (FTA) with the United States looks set for a happy ending, with the finishing touches being put on the laws needed to comply with the terms of the deal. According to Said Amer al-Riyami, a senior official with Oman's Ministry of Commerce and Industry and one of the lead negotiators on the sultanate's FTA team, the final requirements set out under the US pact will be finished in the next several months and the agreement will come into force by July, at the latest. "We have to introduce certain legislation in compliance with the agreement," he said in an April interview with the local press. "For instance, we have to issue new laws related to intellectual property rights and tendering."

If the final requirements for compliance are met by the middle of the year, it will mark the end of a two and a half year journey for Oman and the beginning of a new one stretching into the future that will see bilateral trade soar from its current level of $1b annually. However, while the negotiations for Oman's FTA with the US were completed in record time, and with just four sessions of talks required to hammer out all of the details, the process has not been one of completely smooth sailing.

Even the projected July launch date is some months behind the timetable laid out by Oman's Ministry of Commerce and Industry. The approval for the agreement by the US Congress also took some time and, though passed, the bill met with less than wholehearted support from American lawmakers.

While the then-Republican-controlled Senate passed the Oman FTA by a clear 63-31 majority, the bill got a lukewarm reception in the US House of Representatives, which only approved the agreement last July with a vote of 221 in favor to 205 against. By contrast, the FTA with Bahrain was approved by the house in December 2005 with a vote of 327-95. Part of the lack of enthusiasm for the Oman FTA came from the belief held by many US legislators that such deals had greatly contributed to the emirate's massive and increasing trade deficit. There was also opposition from some Democrats who claimed that the Oman FTA didn't contain strong enough labor protection provisions.

The most vocal opposition was based on the belief the pact would threaten US security, with Democrats raising the specter of an Omani company buying a controlling interest in US port operations. This alone should defeat this trade agreement, Democrat Senator Byron Dorgan said during the deliberations on the bill. Coming hard on the heels of the controversy generated in the US over Dubai Ports World's buyout of some US port management activities, and the subsequent pressure for the Dubai company to sell them, such allegations struck a note with lawmakers and weakened support for the Oman FTA.

One US politician who was positive about the Oman FTA was President George W Bush. "This agreement will level the playing field for US workers and businesses, provide additional access to US goods, and help Oman's leaders develop long-term opportunities for their people," he said when ratifying the legislation on September 26.

The Oman FTA was the fourth such agreement Washington has struck with an Arab nation, following those reached with Jordan, Morocco and Bahrain. It is also part of a wider US program to create a regional free trade area in the Middle East by 2013. Among the terms of the agreement, bi-lateral trade in agricultural products will be nearly duty free from the day the FTA comes into effect and completely free within 10 years. Other provisions allow for an immediate lifting of all tariffs on consumer and industrial products.

Beneficiaries will be Oman's textile sector, which will be allowed to export up to 50 million sq m of textiles to the US without meeting the rules of origin, and Omani consumers, who will be offered a wider range of goods at lower prices. While the lowering of trade barriers with the US may herald a flood of cheaper imports to Oman and indeed put some pressure on local and regional producers, the FTA is also expected to usher in a further spurt of investment and boost Oman's non-energy exports. If the experience of Jordan, which in the six years since it signed an FTA with the US has seen bilateral trade go from $300m a year to $2b with the balance much in its favor, Oman has much to gain from its deal with Washington. (OBG10.04)

Back to Table of Contents

11.10 Saudi Arabia: Minerals On Track

Saudi Arabia's industrial transport infrastructure received a welcome boost on April 3 when a $1.9b railway development project was signed in Riyadh, creating 1,765 km of new railroad. Ibrahim al-Assaf, the minister of finance and chairman of the Public Investment Fund (PIF) responsible for the project, signed various agreements with a consortium of three international and national companies. The rail network is primarily designed to serve the growing number of mineral extraction projects underway in the eastern and northern areas of the kingdom.

Saudi Binladin Group (SBG), in alliance with two German companies and Mohammed Al-Swailem Co., in partnership with a German company, won the $600m contract for the construction of a 576 km-long track linking the Ras Al-Zour fertilizer complex on the eastern coast with the Al-Zubaira mining area.

The second contract was bagged by a joint venture between local Al-Suwaiket Group of Companies and Chinese state-owned China Railway 18th Bureau Group (CR18G). The contract, valued at $500m, involved laying a 440 km stretch of track between the Al-Zubaira mine and the Al-Nafoud desert, including bridges and tunnels. A third contract, worth $750m, was awarded to Australian firm Barclay Mowlem Co, Japan's Mitsui & Co. and local Al-Rashed Co. and covers 750 km of track from Al-Nafoud to Al-Haditha, Hazm Al-Jalamid and Al-Basita.

To oversee this large-scale project, the PIF has created a holding company, which will be known as the Saudi Company for Railways (Saar). In line with an increasingly common trend for new-start entities in the kingdom, part of the equity is to be raised through an initial public offering (IPO). The project will enable the transportation of feedstock and materials for the kingdom's multibillion downstream energy and industrial projects in the eastern province, namely a fertilizer plant and an aluminum smelter to be developed at Ras Al-Zour by Saudi Arabian Mining Company (Ma'aden). As Ma'aden is seeking to rapidly develop its phosphate and bauxite extraction, al-Assaf explained that transporting both minerals was the primary goal of the project. The international companies involved in the project are expected to bring in management expertise in terms of cost and time.

The formation of joint-ventures and partnerships is proving to be increasingly common in Saudi Arabia, as international firms look to enter the market and as the scale and number of projects is beginning to require foreign investment. Al-Assaf went on to explain the new railway would also carry passengers, though it was first and foremost an industrial facility. The railway is expected to be able to transport 4m tons of minerals and other manufacturing materials along with 2m passengers annually. Al-Assaf added the project would take 42 months to complete.

The kingdom has so far invested a total of $3.5b in downstream oil and gas projects. Industrial development is an important part of the broader economic diversification objectives being pursued by the kingdom as it looks to create new income streams and reduce its reliance on oil. In 2005 oil contributed between 70- 80% of Saudi Arabia's total revenues, equating to 40% of gross domestic product (GDP). The project also comes in line with the Saudi Railways Expansion program, including the Riyadh Light Railway project, which aims at decongesting the capital, and the Landbridge project, which will link the Arabian peninsular from the Gulf in the east to the Read Sea in the west. The high-speed passenger link between the two holy cities of Mecca and Medina is due to reduce transit times for pilgrims. (OBG12.04)

Back to Table of Contents

11.11 Yemen Politics: Mr Clean

The Economist reported that Ali Mohammed Mujawer, the newly appointed prime minister of Yemen, won a reputation as an effective opponent of corruption in his previous post as electricity minister. His clean-up efforts are reported to have included cutting off the power supply to a regional office of the ruling General People's Congress (GPC) for failing to pay its electricity bills for the past five years. The choice of Mr Mujawer reflects the concern of the Yemeni president, Ali Abdullah Saleh, to convince international donors of the government's serious intent to press ahead with economic reforms and to combat waste and corruption. It also entails a division of labor between the roles of economic management, party politics - which will be the preserve of the outgoing prime minister, Abdelqader Ba Jammal - and security, which falls under Mr Saleh's remit.

Payback

Last November, following Mr Saleh's re-election, the government received pledges of $4.7b in aid over four years at a donor conference in London. One reason for the donors' munificence was the assurances from the government that procedures were being put in place to guarantee that aid would be effectively monitored and that funds would not disappear into the bureaucracy and informal economy, as has happened with previous such initiatives. The lion's share of the aid pledges came in the form of grants from Gulf Arab states, which not only have cash to spare as a result of the long oil boom but also have a vital interest in staving off economic collapse in their poor and populous Arabian neighbor. One of the least developed countries in the world--electricity coverage is only 30%, and 64% of the population do not have access to safe drinking water--Yemen is in dire need of external financial support.

Mr Mujawar, a French-trained economist, is expected to promote a number of younger technocrats to his cabinet. Donors will be watching closely to see what post (if any) is given to Abdel Karim al-Arhabi, who, as planning and international co-operation minister in the previous government, played a critical role in the success of the London conference.

The prime minister will take over stewardship of a five-year plan (2006-10), which aims to achieve average real GDP growth of over 7%, primarily through boosting capital expenditure and trimming current outlays. In order to achieve this, the government must make concerted efforts to eliminate subsidies, reduce the wage bill and contain defense outlays. However, it clearly still has a long way to go. According to the 2007 budget, the amount allotted solely to the oil products subsidy is greater than the total capital projects budget, despite the government's pledge in its five-year plan to cease all subsidies by 2010.

The Ministry of Finance has kept to its pledge not to include the London donor funds in its budgetary accounts. Its promise to keep the aid monies outside its Treasury accounts helped to assuage concerns among foreign donors that their contributions might not be directed into capital projects as intended, but instead be used to postpone much-need fiscal reform, or, more seriously, be lost to corruption. This has, however, caused the government to come in for sustained criticism from the parliamentary opposition, which has accused it of failing to tackle seriously the country's high poverty levels. It will be up to Mr Mujawar to address these concerns.

Huthi Rebellion

In announcing the new appointment, Mr Saleh made clear that he wished the outgoing prime minister, Mr Ba Jammal, to focus on his job as secretary-general of the GPC, with parliamentary elections on the horizon in 2008 or 2009. Of more immediate concern for the country's political leaders is the continuing rebellion in the north-western Saada province by radical members of the Zaydi sect, a branch of Shia Islam that is prevalent in this part of the Arabian peninsula. The revolt started in September 2004 when members of a Shia sub-sect led by Hussein Badr al-Din al-Huthi, the Believing Youth, began to sow dissent in protest against the government's co-operation with the US in its "war on terror". After sporadic clashes and a series of short-lived truces, heavy fighting between government forces and the Huthis broke out in January 2007, as Mr Saleh announced his intention of eradicating the group after it had killed several soldiers in a surprise raid on their military base. The anti-Huthi campaign has continued over the past two months, with heavy casualties reported on both sides, as well as among the civilian population.

Iranian Role?

The government claims that the Huthis have benefited from external support, but has stopped short of making any specific accusations. The combination of Shia militancy and a strong anti-US stance suggests that the Huthis might see Iran as potential ally. The Yemeni foreign minister, Abu Bakr Abdullah al-Qirbi, said, after a recent visit to Tehran, that there was no evidence that the Iranian government was backing the Huthi rebels, but he added that the rebels had received support from "Shia religious circles", according to Al-Waset, a local weekly newspaper. There have also been reports that Yemeni security forces recently shot down a pilotless reconnaissance drone with Iranian markings in the Hadhramaut area of south Yemen. However, the government has made no statement on the affair. (EIU02.04)

Back to Table of Contents

11.12 Turkey: The Litmus Test for Liberal Democracy

Morgan Stanley's Serhan Cevik commented that the election of a new president in Turkey will not lead to political paralysis, in our view. Every presidential election in Turkey's history - from Kemal Ataturk to the current president - has been difficult and even controversial for one reason or another. Although the presidency is a symbolic institution, it has retained a crucial position in the state hierarchy and certain powers (like appointing the top echelons of the government bureaucracy and heading the National Security Council). From a historical point of view, as coalition governments failed to deal with pressing economic and political problems, the political system reached its first nadir in 1979 - among many to follow in the following decades - when the fragmented parliament could not agree on a presidential nominee. That unfortunately turned out to be a critical juncture in the events leading to the military coup in 1980. Since then, every election (presidential or parliamentary) has become a source of uncertainty and speculation. No wonder, as we approach this year's elections, some observers have pointed out the possibility of military intervention, even attaching no less than 50% probability. But putting out a number or drawing probability trees does not make such claims more credible than those you could hear everyday in coffee shops across the country. In our view, there is no ground for a traditional or post-modern coup in Turkey, and here is why.

Turkish society stands against a change in the country's secular regime and orientation. Political tradition suggests that Prime Minister Tayyip Erdogan as the head of the largest parliamentary group would become the next president. However, even though the ruling party has enough votes to do so, there is a resistance to Mr. Erdogan's candidacy in certain circles, arguing that it would threaten the basic principles of the republic. This line of reasoning stems from a theory that Mr. Erdogan's Justice and Development Party (AKP) has a "hidden agenda" to get rid of secularism and to establish a state based on religious principles, like Iran. Beyond the obvious implications, such a development would destabilize Turkey's economic and institutional progress and hurt international sentiment towards Turkey.

Hence, we need a proper analysis, supported by facts not ideological arguments, to assess the risk. Let's assume, for argument's sake, the AKP has such a "hidden agenda" and there are no institutional safeguards against attempts to alter democratic principles. Even so, the question we need to focus on is whether Turkish society is interested in a fundamental change in the country's secular regime and orientation. Thanks to the excellent fieldwork of the Turkish Economic and Social Studies Foundation, we have the answer in details. The number of Turks who identify themselves as Muslims increased from 35.7% in 1999 to 44.6% last year. But this is not enough to conclude that secularism is under threat. A comparison with international surveys reveals that a stronger sense of religious identity is a global phenomenon, and most likely the result of geopolitical developments around the world. Therefore, focusing on this figure alone, as many observers apparently do, could lead to erroneous conclusions. In our view, the strengthening of Muslim identity is not a sign of religious fundamentalism or the rejection of secular principles, at least in the Turkish case.

Indeed, the number of Turks in favor of a state based on Sharia law declined from 27% in 1996 and 21% in 1999 to 9% last year. Put differently, the number of Turks opposing a religious state increased steadily from 58% in 1996 to 76% last year. Even among those who identify themselves as 'Islamist', 68% stand against a Sharia-based state structure.

Turkey shares with European countries a similar attitude towards liberal democracy. In our view, Turkey is not on the verge of a shift away from secular principles and will remain on its path towards a truly liberal democratic system. But, just like in many other countries, economic and political reforms lead to a clash between the status quo standing against institutional modernization and the EU accession process driving the country towards liberal democracy. In this environment, some observers give a special importance to the Turkish military's position (which partly reflects its historical involvement in the establishment of the republic and the influence of the constitution written by the military regime after the 1980 coup). However, the great majority of Turks no longer wants to see the armed forces involved in politics, especially after witnessing a series of military interventions that failed to solve real problems and had unintended consequences. Furthermore, contrary to the conventional wisdom, Turkey already shares with European countries a similar attitude towards liberal democracy (see Jeffrey Dixon, A Clash of Civilizations, or Differences in Economic Modernization? Examining Liberal-Democratic Values in Turkey and the European Union, TUSIAD, September 2005), which supports institutional reforms demilitarizing the political landscape, bringing civilian control over the military, and empowering the rule of law and democratic processes. Therefore, we expect no political dislocation and care about Mr. Erdogan's decision on the presidency only to the extent it affects general elections later this year. (MS09.04)

Back to Table of Contents

- Israeli Shekel conversions done at a rate of NIS 4.10 = $1.00

- Turkish Lira conversions done at a rate of NTL 1.5 = $1.00

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

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

- UAE Dirham conversions done at a rate of Dh 3.70 = $1.00

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

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