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Top Stories

- Bank of Israel Believes Economy Back To Rapid Growth
- Microsoft Israel Has Ambitious R&D Plans in Israel
- Netanyahu Believes Growth Is Possible Without Peace
- Turkey's Ratings Stable Despite Political Confrontation
- Qatar: Highest GDP Per Capita
- Turkish Political Crisis Unlikely To Have Any Immediate Impact On Sovereign Credit Ratings

TABLE OF CONTENTS:

Back to top

Back to top

3: REGIONAL PRIVATE SECTOR NEWS

Back to top

4: ISRAEL MACRO-DEVELOPMENTS

Back to top

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: I Hope We Will Join the OECD

On 8 May, Governor of the Bank of Israel Prof. Fischer told the Knesset Finance Committee that the Bank of Israel was making every effort for Israel to join the OECD at the organization’s upcoming meeting on new members. He predicted that the inflation target would be reached by year-end and was generally optimistic about the economy. Fischer said, “As we all know, 2006 was one of the Israeli economy’s most successful years ever. We saw high growth, falling unemployment, job creation, an impressive balance of payment surplus in the current accounts, large-scale foreign investment, and price and financial stability, achieved against the backdrop of rapid global growth and despite last year’s war.” Fischer said Israel’s growth this year was contingent on three key factors. The first was global economic development “on which we have no influence”. The second factor was Israel’s geopolitical situation “on which we have a partial influence”. The third factor was continuing the government’s economy strategy of recent years, “on which we have full control.” Concerning monetary policy and the undershooting of the inflation target, Fischer said that the Bank of Israel strove to guarantee price stability. “We’re in a good position now, with a rapidly growing economy, with very low inflation that is even below the target threshold. We’re gradually working, in measured steps, towards bringing inflation back within the inflation target by the end of 2007,” he said. Fischer noted that Israel’s economic achievements were divorced from the country’s political reality. “Every time I speak with foreign investors or analysts, they ask me the same question: ‘How is it possible that the economy is doing so well despite the problems on the political side?’ My answer is: ‘the global economy is growing impressively, the government is able to continue and keep fiscal discipline, the bank of Israel has its finger on the pulse of the economy and is trying to achieve the inflation target while contributing to economic growth and supporting financial stability. Over the past 15 years, we’ve built a much stronger and more stable economy than what was prevalent before then. In addition, the business sector has already demonstrated during last summer’s war that it can function quite well and meet domestic and foreign orders’ deadlines with little problem, thereby contributing to the market’s stamina’.” (Globes 09.05)

Back to Table of Contents

1.2 Bank of Israel Believes Economy Back To Rapid Growth

The Bank of Israel noted in its Recent Economic Developments for October 2006-March 2007 that expansion in real activity in Israel's economy is continuing. This is demonstrated by the 3.3% rise in the State of the Economy Index and the persistent rapid rise in tax revenues. The Bank of Israel also noted that the positive National Accounts data of Q4/06 and the latest indicators of Q1/07 point to a return to the path of rapid growth after the Second Lebanon War. The GDP rose in Q4/06 at an annual rate of 7.3%, with a 10.2% surge in business sector product, compared with a drop in Q3/06, reflecting also compensation due to the reduction caused by the war. The forces that led to the positive economic turnaround in H2/03, including the calm security situation and the rise in world demand, reappeared in the period reviewed and resulted in the continuation of the growth trend that has characterized the economy in the last few years. The recovery in the construction industry - the first signs of which were detected at the beginning of 2006 - continued in the period reviewed; and the tourist industry too continued its recovery following the Second Lebanon War. As the shekel strengthened against the dollar, so the consumer price index fell in the period reviewed by 1.1%. This development was principally a result of the dollar's global weakening. The labor market continued to improve in Q4/06, when labor input increased and the unemployment rate reached its lowest level since the beginning of the decade: 7.7%. (BoI02.05)

Back to Table of Contents

1.3 Jerusalem to Subsidize Amman & Cairo Flights

Jerusalem has decided to subsidize El Al Israel Airlines and Arkia Airlines flights to Amman and Cairo. The cabinet made the decision at the request of the Ministry of Transport. A joint team from the Prime Minister’s Office and the Ministries of Finance and Transport will determine the amount of the subsidies. The subsidies will be conditional on the airlines making regular scheduled flights to these destinations at least as often as set in Israel’s aviation agreements with Jordan and Egypt. Minister of Transport Mofaz said it politically important for Israeli airlines to continue operating flights to Jordan and Egypt. He emphasized that Israel’s aviation agreements with these countries, which are part of the peace treaties, mandate the operation of civil aviation links and that halting flights could be interpreted as a violation of the peace treaties. He said that Israel’s economic ties with both Egypt and Jordan have been growing stronger in recent years, and that continuing civil aviation links were important for ensuring the development of economic relations. A few months ago, El Al said that it would discontinue its route to Cairo, as well as flights to Turkey, because of their high security costs. The Ministry of Transport promised to subsidize the flights so that El Al would reverse its decision. (Globes 09.05)

Back to Table of Contents

1.4 Knesset Extends Maternity Leave - Cabinet Approves it For Fathers

Israel’s Knesset decided to extend paid maternity leave for mothers on 8 May. A new law allows fathers to take off as well. The length of the paid leave was extended from 12 to 14 weeks. This motion was supported by 95 MKs, with no negative votes, though it was opposed by the Finance Ministry. The law also extends leave from 14 to 17 weeks for multiple births. An average of 139,000 mothers receive paid maternity leave each year. Likud MK Sa’ar, one of the bill’s sponsors, said that when the maternity leave law was passed in 1954, Israel was one of the leaders worldwide in maternity legislation, but has now begun to lag behind. He cited the 14-week minimum in the European Union and the 26-week leave granted in England. Sa’ar said the Olmert government pressured him to postpone the date at which the law would come into effect to 2008, but he refused, and it went into effect the following day. On 6 May, the Cabinet approved a draft-measure granting paternity leave to men. The bill would allow a husband to replace his wife six weeks after birth in order to care for the infant at home. The law will be reviewed and then presented to the Knesset. (INN09.05)

Back to Table of Contents

2: ISRAEL MARKET & BUSINESS NEWS

2.1 Microsoft Israel Has Ambitious R&D Plans in Israel

In a vigorous recruiting campaign in Israel, Microsoft Corp. plans to hire 150 people, most of them R&D specialists. Microsoft corporate VP Israel Research & Development Lichtman said that last year the company doubled the manpower at its R&D centers in Israel (from 200 to 400 people), largely as a result of the three companies it recently acquired (Whale Communications, Gteko, and Secure Dimensions). He claimed that the company spent $200m on the new R&D activity last year, a statement that provides an official basis for the estimates relating to the sizes of the acquisitions (Whale Communications was reportedly acquired for $76m, Gteko for $120m and Secured Dimensions for a few million dollars). Microsoft is focusing its new R&D activity on three key areas: security - which is based on Whale; telecommunications products and support - which is based on Gteko. The company's Israeli R&D activity will be classed under "incubation", the term used by Microsoft to describe its start-up activity. Of the three areas of activity, telecommunications is the one that will probably be the most interesting, with Microsoft planning to supply infrastructures to telecommunications service providers, for increasing added value from customers in the era of IP-based services. Microsoft plans to launch the first version of a product in the telecommunications field by the end of 2007. Microsoft plans to concentrate all its Israeli development activities Herzliya. At present they work at various sites, including in Rosh Ha'Ayin and Ra'anana. (Globes 03.05)

Back to Table of Contents

2.2 Intel Capital Kicks Off Annual CEO Summit With Israel Investments

Intel Capital, the venture capital arm of Intel Corporation, launched its eighth annual CEO Summit on 9 May with the announcement of three Israel investments. The details on the new investments include:

Aternity (Israel): Intel Capital led a Series B investment in Hod HaSharon's Aternity (http://www.aternity.com), a supplier of application management software for enterprise IT. The funds raised will be used to support market segment penetration and extend the company's product line. In parallel with the funding, a marketing cooperation agreement has been signed between Intel Corporation and Aternity, under which Aternity's unique application management solution will include support for Intel vPro technology.

Ceedo (Israel): Intel Capital led a private financing round in Petah Tikva's Ceedo Technologies (http://www.ceedo.com), a consumer software company. Ceedo will use the capital to further establish its position as a leader in personal working environment software for consumer portable storage devices, and accelerate its growth into the corporate and business market segments. Ceedo's virtualization technology enables running Windows applications from external physical or network drives without requiring installation on the host PC.

Jajah (United States/Israel): Intel Capital led a Series C investment round in Jajah (http://www.jajah.com), a global communications company with its development center in Ra'anana, Israel. Funds from the full round of $15 million will be used to accelerate the development of next-generation communication solutions on a global scale. Jajah and Intel also entered into a business agreement that includes business and marketing components. Intel will provide Jajah access to its extensive community of product dealers, OEM customers and developers to further Jajah's reach into global development communities. Jajah technology allows users to make free and low-cost calls by using their existing landline or mobile phone.

Intel Capital, Intel's venture capital organization, makes equity investments in innovative technology start-ups and companies worldwide. Intel Capital invests in a broad range of companies offering hardware, software, and services targeting enterprise, home, mobility, health, consumer Internet, semiconductor manufacturing, and clean tech. Intel, the world leader in silicon innovation, develops technologies, products and initiatives to continually advance how people work and live. (Intel09.05)

Back to Table of Contents

2.3 Solel Announces Major Expansion of Manufacturing Capacity for Green Energy

Solel Solar Systems is commencing a massive increase in its manufacturing capacity. The new facility, in which the company will invest $25m, comes in response to significant increases in orders for Solel's renewable, clean solar energy systems and recent agreements by Solel to build solar thermal power plants in Spain. The new facility, to be built near Solel's Beit Shemesh, Israel headquarters, will triple Solel's capacity for manufacturing its patented solar thermal receiver systems. These advanced receivers, the heart of the solar power plant, offer market-leading thermal efficiencies and increased annual electrical outputs, and will be employed by Solel in power plants currently under development. In addition, in 2006-2007 Solel has received orders for over 100,000 receivers from power plant operators and developers in the United States and Spain, including orders for 10,000 receivers from the developers of Nevada Solar One, the solar thermal power plant scheduled to go on-line sometime this year. Beit Shemesh, Israel's Solel Solar Systems (http://www.solel.com) is the world leader in solar thermal technology for solar systems and central power plants for clean electricity. Its unrivalled solutions have set the global standard for utility solar plants as well as high temperature collectors. The Solel parabolic trough thermal technology has proven itself in California's Mojave Desert with the continuous production of 354 MW of utility scale power, helping California consumers reduce their annual oil consumption by two million barrels. (Solel 08.05)

Back to Table of Contents

2.4 Silicom Announces $17.9 Million Private Placement of Ordinary Shares

Silicom has entered into definitive agreements with accredited investors for the private placement of 875,000 ordinary shares at a purchase price of $20.50 per share and warrants to purchase 218,750 ordinary shares at an exercise price of $28.25 per share. The warrants will expire three years from the date of effectiveness of the below mentioned registration statement. Gross proceeds from the private placement will be approximately $17.9m. The Company intends to use the proceeds from the placement for general working capital purposes. Cowen and Company and W.R. Hambrecht + Co. acted as exclusive placement agents for the offering. Kfar Sava, Israel 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. (Silicom04.05)

Back to Table of Contents

2.5 Broadcom to Acquire Octalica for Technologies Enabling Advanced Home Networking

Irvine, California's Broadcom Corporation, a global leader in semiconductors for wired and wireless communications, today announced that it has signed a definitive agreement to acquire Octalica. Octalica is a privately-held fabless semiconductor company that specializes in the design and development of networking technologies based on the MoCA (Multimedia over Coax Alliance) standard, which enables distribution of high quality digital multimedia content throughout the home over existing coaxial cable. Octalica is headquartered in Newton Centre, Massachusetts, with a highly experienced design team in Tel Aviv, Israel, with the company consisting of 27 employees overall. MoCA has emerged as a popular method for in-home multimedia distribution among cable, satellite and telecommunications service providers in the U.S., making Octalica's product portfolio a strong complement to Broadcom's industry leading set-top box and broadband access technologies. In connection with the acquisition, Broadcom expects to pay approximately $31m in cash in exchange for all of the outstanding shares of Octalica's capital stock and other rights of Octalica. (Broadcom 03.05)

Back to Table of Contents

2.6 Hi-G-Tek Delivers Asset Visibility and Savings to Paz Energy in Israel

Rockville, Maryland's Hi-G-Tek, a leading developer and provider of Highly Intelligent RFID (Radio Frequency ID) sense and control solutions for high-value assets and sensitive materials, has delivered its leading-edge technology to Paz, a vertical energy and fuel distribution company in Tel Aviv, Israel. The technology, developed by Hi-G-Tek, will enable tracking and control of fuel tankers from the loading of fuel at the refinery to the final opening of the valve during unloading at the consumer fuel stations. Paz is the first Israeli fuel company to embrace advanced technology to deal with real-time visibility and dilution of fuel. The company has invested significant resources by developing automated control methods and by supporting new technologies. This guarantees consumers the highest quality products that are marketed at its fuel stations. (Hi-G-Tek03.05)

Back to Table of Contents

2.7 Finance Ministry Equalizes Tax On Local And Imported Beer

The Ministry of Finance has changed the tax method on domestic beer, equalizing it with imported beer. Prime Minister and acting Minister of Finance Olmert signed the amendment to the customs rate and purchase tax ordnance. All beer will now be taxed at $0.44 per liter. The Israel Tax Authority says that the new method establishes fairer competitive terms, and simplified supervision and enforcement of the beer market. The new tax method conforms to the methods employed in most developed countries, including the tariff level. The change in tax method is not expected to affect tax revenues collected on beer, or the price consumers pay. The Tax Authority is examining changing taxes on hard liquor to be based on the alcohol content rather than the price. (Globes 07.05)

Back to Table of Contents

2.8 TASE Joined International Organization of Securities Commissions (IOSCO) as an Affiliate Member

The Tel Aviv Stock Exchange (TASE) has become an affiliate member of IOSCO, International Organization of Securities Commissions. In recent years, IOSCO has had an increasing impact on financial legislation and regulation throughout its members' nations – especially developed countries – the European Union, North America and the Far East. The organization's headquarter is located in Madrid; its membership includes representatives of 110 securities commissions, 11 associate members and 80 affiliate members. The Israel Securities Authority has increased its involvement in IOSCO and is scheduled to host the organization's annual conference in May 2009 in Israel with the TASE's assistance. The Tel-Aviv Stock Exchange (http://www.tase.co.il), founded in 1953, is owned by its 28 member firms and is regulated by the Israel Securities Authority. The TASE offers international investors a combination of attractive investment opportunities and a full complement of market services. The exchange trades shares, fixed-income instruments, and derivatives on a single, fully automated trading platform. Clearing and settlement of all trades are executed in-house, through the TASE's wholly owned clearing house, which also serves as Israel's central securities depository. (TASE09.05)

Back to Table of Contents

2.9 El Al Passenger Traffic Down 6.5%

El Al Israel Airlines is losing passengers, carrying 7% fewer passengers in April 2007 than in April 2006 and 6.5% fewer passengers in January-April than during the corresponding period last year. These statistics were furnished by the Israel Airports Authority. In contrast to El Al, foreign airlines have had an increase in passenger traffic on their Israel routes. In January-April, Lufthansa carried 9.4% more passengers compared with the corresponding period of last year, Continental Airlines carried 9.8% more, Royal Jordanian 5.9% more, mostly for follow-on flights to the Far East, and Turkish Airways 21%. Airlines reported a 10% increase in business passenger traffic in January-April, compared with the corresponding period. Aviation sources attributed the fall in El Al’s passenger traffic to its policy of reducing the frequency of some routes and eliminating others in order to cut costs, even as foreign airlines were expanding their capacity to Israel. The sources said that this was a mistake, because the policy was strengthening foreign airlines. Turkish Airlines, for example, has picked up the slack caused by El Al canceling its Turkish routes. The sources advise El Al to switch to a policy of expansion and add point-to-point flights. The Airports Authority said passenger traffic to the US was 8.8% higher in January-April than during the corresponding period of last year, which it attributed to the shekel’s appreciation against the dollar and an increase in business passengers. Domestic passenger traffic was 8.1% higher in January-April compared with the corresponding period of last year. (Globes 13.05)

Back to Table of Contents

2.10 Orbotech Acquires New Inkjet Printing Technology for PCBS

Orbotech signed a definitive agreement to purchase Italy's New System Srl, a privately held company that develops and markets inkjet printing solutions for the bare printed circuit board (PCB) industry. Orbotech will pay €5.75m to the stockholders of New System for the acquisition of all of the outstanding shares of New System. In addition, New System will have approximately €4m in net liabilities immediately following the acquisition, including approximately €1m in stockholder loans which will be repaid following the closing. For Orbotech, this acquisition is another step in the implementation of its ongoing strategy of growth and diversification by investing in synergistic areas that leverage its core technologies and expertise. By entering into the growing area of inkjet imaging, Orbotech will be able to take advantage of the increasing opportunities that this technology presents. The Company believes that this transaction has the potential to generate approximately $20m in annual revenues in the mid-term, based on New System's current product offering and its short term research and development plan. Following completion of the transaction, New System will be fully integrated into Orbotech’s PCB Division. Yavne, Israel's Orbotech (http://www.orbotech.com) is a world leader in providing yield-enhancing, production support solutions for specialized applications in the supply chain of the electronics industry, principally for printed circuit boards (PCBs) and flat panel displays (FPDs). Orbotech designs, develops, manufactures, markets and services automated optical inspection (AOI) systems for bare and assembled PCBs and for FPDs, and imaging solutions for PCB production. (Orbotech14.05)

Back to Table of Contents

3: REGIONAL PRIVATE SECTOR NEWS

3.1 Gulf Air Goes Bahrain

Bahrain has regained 100% ownership of Gulf Air after 33 years, the airline announced on 5 May. The Vice-Chairman of Gulf Air said after an extraordinary general assembly that it was unanimously decided that the Kingdom would take an over 20% stake from the Omani side, making Gulf Air a 100% Bahraini-owned airline. The move, according to experts, will help the Kingdom redefine its priorities to establish itself as a tourism destination while using Gulf Air as a catalyst to achieve targets in the tourism, sports and leisure sectors. Earlier, Gulf Air unveiled a blueprint aimed at cutting losses drastically and revamping the carrier at a time when it is losing $1m a day. The move will see the airline cut routes and jobs as it concentrates on the more profitable parts of its business and a restructuring to improve facilities and concentrate on economically viable destinations. According to the new plan, the airline’s network will be reshaped and customer service will be improved through higher punctuality, better reliability and lower connection times. This will require investments in aircraft and ground facilities. The initiative needs an injection of $825m. Also, to achieve its financial and operational goals, Gulf Air will downsize its fleet from 34 to 28 aircraft. In line with its goal to radically simplify the business, the company will move to an all-Airbus fleet. In parallel, the network will be fundamentally restructured. Under the first part of the $319m program, Gulf Air will undergo a major restructuring of its operations. (BT06.05)

Back to Table of Contents

3.2 Electronic Sensor Technology Receives Initial Order from Petroleum Services Co. at Qatar

Newbury Park, California's Electronic Sensor Technology (EST), a leading provider of innovative homeland security and environmental solutions, announced the receipt of an initial order for a Model 4300 zNose instrument to be delivered to the Petroleum Services Co. at Qatar for their use in quality control and homeland security applications. It is anticipated that this initial order is a precursor to additional follow on orders. Founded in 1995, Electronic Sensor Technology has developed and patented a chemical vapor analysis process. The Company's product line is positioned to provide a very fast quality assurance of the products and also to homeland security market, specifically in maritime port, airport and border security applications. (EST08.05)

Back to Table of Contents

3.3 MDI Receives Initial Order for $400,000 from Almana Networks in Qatar

San Antonio, Texas' MDI, the leading provider of Unified Technology solutions for the security industry, announced that it has received an order from Almana Networks to provide security products as part of an initial integrated security surveillance project across two building locations, for a major petroleum and natural gas producer’s holdings in Qatar. The amount of the order is $400,000 and products are scheduled to be delivered to the client site in August of this year. As part of the project, MDI will design and develop a complete IP based video surveillance management solution over a TCP/IP network that will provide digital video recording and management within a client-server architecture, allowing for efficient monitoring and recording in a pre-emptive security control environment. The MDI surveillance management solution will include functionality that extends beyond traditional physical security applications by providing real-time risk mitigation and operations management for the client, which is a global leader in the petroleum and natural gas industry. (MDI04.05)

Back to Table of Contents

3.4 Emirates to Buy More A380s

On 7 May, Dubai-based Emirates airline said it would buy four more Airbus A380s and had reached a compensation deal with Airbus on the delayed delivery of 43 super-jumbos it had ordered in 2003. Officials, however, denied the order was linked to compensation. Emirates, the world's eighth largest carrier by passenger traffic, now has 47 A380s on order, the much-publicized double-decker plane that will be able to carry 555 passengers in three classes. At a list price of between $296m and $316m per plane, depending on equipment installed, the deal is valued at about $1.2b, although carriers typically receive large discounts for bulk purchases. Earlier, Emirates also finalized the terms of its compensation by Airbus for the 22-month delay in delivering A380s. The deal was welcome news for Airbus, which needs to retain its current orders and convert purchasing options into solid orders after the delays tarnished the A380's image. Since 2001, Emirates has regarded the A380 as its core aircraft to help it achieve expansion goals, especially on high-value, long-haul flights to the United States and Australia. Originally slated for delivery in October 2006, the first A380 is now scheduled to arrive in August 2008 after wiring problems bogged down production schedules. The Emirates order book now stands at 105 aircraft, worth approximately $30b at list prices. In 2006, the airline's net profit rose to $844m, surpassing the previous year's $674m after carrying 17.5 million passengers, a jump of three million from 2005. (GN08.05)

Back to Table of Contents

3.5 US & Oman Firms in Medical Joint Venture

A US-based firm and an Omani firm are to set up a medical manufacturing centre in Salalah. The Ascent Medical Technology Fund II, LP has entered into a joint venture with Salalah Medical Supplies Manufacturing Company (SMSMCo) of Oman to open the centre. The JV company will bring the capability to manufacture therapeutic devices and to develop prototypes for new device concepts to the Middle East. This is a first in the region, said an official spokesman. The joint venture company created by SMSMCo and the Fund, to be called Salalah Medical Device Manufacturing Co, aims to build a fully integrated medical manufacturing capability in Salalah, Oman. It will begin operations with the product development and manufacture of guide wire products and surgical kits. Its primary aim is to build value-added medical device products for the US, European and GCC markets. In 2005, Ascent launched the $100m Ascent Medical Technology Fund II, a private equity vehicle to promote the development of the medical technology industry in the Middle East. It is this fund that is spearheading the Omani manufacturing unit. The Fund was set up to provide venture capital in the region, as well as advance medical innovation and tap invention, manufacturing and clinical strengths in the Middle East, which is recognized as one of the leading emerging research markets in the world. The lead investor is the International Finance Corporation (IFC), a member of the World Bank Group. Production at the unit is scheduled to being in early 2008. (TradeArabia 13.05)

Back to Table of Contents

3.6 Redback Expands into Saudi Arabia with Zajil Telecom

San Jose, California's Redback Networks, an Ericsson company that makes video-centric routers for 75% of the world's triple-play networks, announced it has expanded its presence in the Middle East with the addition of Zajil Telecom, one of the largest and foremost service providers in Saudi Arabia. Zajil Telecom will use the SmartEdge 400 Multi-Service Edge Routers to deliver high-speed internet services to a growing network of business and residential customers. To meet the demands of tens of thousands of residential and business subscribers in Saudi Arabia, Zajil Telecom will power its service with multiple SmartEdge 400 Multi-Service Edge Routers and Redback’s NetOp Policy Manager, a dynamic policy management system for implementing and managing subscriber services. Zajil International Telecom is the foremost carrier of data telecommunication services and Internet traffic in Saudi Arabia. Zajil Telecom uses its own state-of-the-art network which provides connectivity to any point on the Internet or private networks, ZAJIL as a Brand stands for Excellence, Quality and Cutting Edge Technology. (Redback 15.05)

Back to Table of Contents

3.7 eBay Acquires Stake in Turkey’s GittiGidiyor.com

eBay announced that it has acquired a minority stake in GittiGidiyor.com, one of the leading online marketplaces in Turkey. The strategic relationship with eBay will allow GittiGidiyor.com to further expand its online trading platform and offer a broader range of e-commerce services to Turkish buyers and sellers. With more than 17 million internet users – or one quarter of Turkey’s total population – and a strong affinity for online commerce, the Turkish e-commerce sector is a highly attractive market for eBay. The investment makes Turkey the 37th market where eBay has a local presence. Terms of the agreement were not disclosed. Founded in 1995, eBay Inc. connects hundreds of millions of people around the world every day, empowering them to explore new opportunities and innovate together. eBay Inc. does this by providing the Internet platforms of choice for global commerce, payments and communications. eBay Inc. is headquartered in San Jose, California. (eBay03.05)

Back to Table of Contents

3.8 Turkey's Leading Specialty Coffee Roaster Selects Hawaii's Cafemakers for Consulting Services

John's Coffee, Turkey's leading specialty coffee roaster and retailer, has contracted Kamuela, Hawaii's coffee consultancy Cafemakers for guidance with strategic growth and quality assurance initiatives. Under terms of the agreement, Cafemakers will provide retail-consulting services, retail staff training, strategic planning for wholesale coffee roasting capacity increases and wholesale coffee roasting quality control processes. John's Coffee is Turkey's largest specialty coffee roaster, an ISO9001 certified company with wholesale distribution and retail outlets in the Middle East and Eastern Europe. Based on the island of Hawaii, Cafemakers provide strategic planning and quality control services for retail and wholesale specialty coffee businesses worldwide. (Cafemakers 04.05)

Back to Table of Contents

3.9 Turkey & US Sign Agreement for Sale of Additional Lockheed Martin F-16 Aircraft

The governments of Turkey and the United States have signed a Letter of Offer and Acceptance (LOA) for the sale of 30 additional Lockheed Martin Advanced F-16 Block 50 aircraft to Turkey. The new aircraft will supplement the Turkish Air Force's (TUAF) existing fleet of F-16s and contribute to the upgrade and modernization of the TUAF. The new aircraft include the same advanced systems being installed on Turkey's existing F-16 fleet as part of an on-going upgrade program. At the conclusion of these two programs all Turkish F-16s will be in a common, state-of-the-art configuration. The total LOA value for the 30 aircraft and equipment is approximately $1.8b. Lockheed Martin and its supplier base will receive approximately $1.1b of this amount. Final assembly and delivery of the aircraft will be performed at TUSAS Aerospace Industries (TAI) in Turkey, furthering the longstanding business relationship between Lockheed Martin and TAI. TAI, Turkey's national aerospace company, has delivered more than 200 F-16 aircraft from its factory near Ankara under previous orders. The firm has produced several other types of aircraft also, extending the original capability established for the F-16 program. (Lockheed Martin 11.05)

Back to Table of Contents

3.10 Greece Selects Trimble to Build Nationwide GNSS Infrastructure Network

Sunnyvale, California's Trimble has been selected by the Greek National Cadastre, KTIMATOLOGIO S.A., to supply Trimble VRS network hardware and software to establish a nationwide Global Navigation Satellite System (GNSS) infrastructure network for the country of Greece. Trimble will also provide complete network set up, deployment and operation during the initial start-up period. The Trimble VRS network will provide a fixed geospatial infrastructure for surveying, engineering and Geographic Information System (GIS) professionals that enables high accuracy real-time kinematic (RTK) GNSS positioning, significantly increasing efficiency and productivity. Known as HEPOS (Hellenic Positioning System), the GNSS network will consist of approximately 100 Trimble NetRS GPS Receivers and 100 Trimble Zephyr Geodetic Antennas, as well as Trimble GPSNet and RTKNet software to achieve full Trimble VRS functionality. Covering approximately 132,000 square kilometers (50,965 square miles) of mainland and islands, the HEPOS network is expected to be one of the largest GNSS networks in the world. Designed to cover the needs of the Greek National Cadastre far into the future, the HEPOS network will provide accurate and reliable centimeter-level surveying measurements to be taken faster and more cost-effectively throughout Greece. (Trimble10.05)

Back to Table of Contents

4: ISRAEL MACRO-DEVELOPMENTS

4.1 Netanyahu Believes Growth Is Possible Without Peace

Likud chairman MK Benjamin Netanyahu stated at the “Globes” Capital Market Conference that Israel's growth will continue despite diversity. “How is it possible that we have all this growth now despite all the government’s troubles? It’s not a coincidence. It’s happening because we severed economy from the government. Growth engines are the managers and entrepreneurs, not the government,” he said. “Why does Israel have rapid growth regardless of the stormy events? This question also came up four years ago. At the time, I thought it necessary to emerge from the crisis and change direction to achieve 6% annual growth. I was told that this was impossible, because it’s impossible to achieve this rate without peace. Although that’s our wish, there’s a difference between peace and treaties. I’ve seen in the world that it’s possible to achieve growth without peace and vice-versa, such as South Korea - they’ve had growth. “The determining factor for growth isn’t peace. We’ve been trapped in a mistaken concept of peace. Achieving peace is an important goal that will contribute, but what raises the economy is entrepreneurship and freedom.

Netanyahu continued, "During my term in office, we believed it necessary to reduce the public sector and make it more efficient. We also believed in reducing the tax burden, and chose to enable entrepreneurship and competition by lifting market barriers. One of the great changes was in the capital market. The government vacuumed up credit. We therefore quickly instituted pension reform just before the system collapsed. We’ve created a sophisticated capital market with available credit. That was impossible before, because there was no competition. Credit was created, pensions were saved, and most importantly, privatization has created investment opportunities. These are engines for multi-year growth. Netanyahu concluded his remarks by noting he was able to carry out 40 reforms, while 40 more are still left to do, beginning with real estate. (Globes 03.05)

Back to Table of Contents

4.2 Haifa Chemicals to Build $150-200 Million Power Plant

Haifa Chemicals plans to become a private electricity producer. Globes reported that the company is in advanced negotiations with Edeltech Holdings on the construction of a private power station at the company’s facility at Mishor Rotem in the Negev. The power station would use natural gas to generate 200 megawatts (MW), and would cost $150-200m to build. Haifa Chemicals board must approve any deal, and is due to meet soon to discuss it. Other companies planning to build and operate natural gas-driven power stations include American Israeli Paper Mills, Israel Chemicals subsidiary Dead Sea Works, Solbar Industries, Dalia Power Energies and Israel Power. Edeltech has already signed contracts to build 50-MW power stations with Solbar and Makhteshim Agan Industries subsidiary Agan Chemical Works at a cost of over $100m. Edeltech is collaborating with Turkey’s Zorlu Industrial and Powerplants Construction Co. Inc. in building the power stations. Private electricity generation is expected to expand rapidly when the natural gas pipeline reaches the Negev in 2008, after completion of the pipeline from Kiryat Gat to the Dead Sea. The Public Utilities Authority (Electricity) has already approved production licenses for private parties for the production of 2,000 MW, amounting to a fifth of Israel’s electricity production. (Globes 07.05)

Back to Table of Contents

4.3 Veolia to Invest $1 Billion in Israel by 2013

Globes reported that Paris France's Veolia Environnement plans to invest $1b in Israel. This means that the company will double its investment in Israel. Veolia Environnement Israel will be organized into four units: water, environmental quality services, energy, and public transports (Connex Israel). The company’s workforce would expand from the current 1,700 to 8,000 by 2013. Veolia plans to invest in the construction and running of natural gas-driven power stations, land decontamination and water purification facilities, light railways, privatized water and sewage systems, and other environmental projects. Veolia Environnement Israel and Israel Electric Corporation (IEC) recently signed a cooperation agreement to jointly bid in the Israel Railways $300 million electrification tender. Veolia will also build a hot water supply system for the Ashdod desalination facility and run it for 23 years. Veolia has already made a number of investments in Israel. It is a partner in the Ashkelon desalination facility, a light railway project, Connex Israel operates bus lines in Ashdod, Yavne and Tiberias, and it operates several biogas facilities. (Globes 08.05)

Back to Table of Contents

5: ARAB STATE & PAKISTANI DEVELOPMENTS

5.1 World Economic Forum Returns to Jordan in May

The World Economic Forum on the Middle East will convene at the Dead Sea from 18 - 20 May where 1,000 participants will listen to King Abdullah II opening address on their role in supporting conflict resolution, economic cooperation and development. The three day forum will be held under the title "Putting Diversity to Work,” which will spotlight efforts to accelerate economic diversification in a time of regional prosperity, while emphasizing the urgency of promoting peace and understanding in a region of great religious and ethnic diversity. Sessions will include discussions on industries of the future to broaden understanding of new industries that are playing a role in reshaping the region’s economies; on stability, peace and international relations, featuring a debate among key political leaders on the path to peace and security in the Middle East; and on society and change, addressing the prerequisites for successfully facing challenges in a time of transformation. King Abdullah has worked hard to bring the forum to the region because of the opportunities it provides for leaders from the world of business, politics and civil society. He added that the Dead Sea is the main headquarters for convening the World Economic Forum on the Middle East even if some of its meetings were held sometimes in other countries. Jordan succeeded in both bringing the forum from Davos to Jordan for the first time in 2003 and in allocating an extraordinary annual session for the Middle East. Jordan is expected to sign various agreements on the sidelines of the Forum. (Petra07.05)

Back to Table of Contents

5.2 Iraqi PM Urges All Nations to Forgive Iraq's Foreign Debts

On 3 May, Iraqi Prime Minister Nouri al-Maliki called on all countries to forgive his country's foreign debts on the opening day of the Iraq conference. In his speech opening the conference, al-Maliki also pledged to institute reforms that the US and Sunni Arab governments have repeatedly called for, including bringing more Sunni Arabs into the Iraqi political process. Iraq owes some $50b, notably to Saudi Arabia, Kuwait, Russia and China. Another $100b has already been written off by the Paris Club of lender nations. Al-Maliki said forgiving Iraq of its debts was the only way the country could embark on much needed reconstruction projects. Egypt has agreed to forgive all Iraqi debts to Cairo, amounting to $800m. Three Eastern European countries: Slovenia, Bulgaria and Poland, also agreed to forgive 80% of the Iraqi debt. Iraq has declared unacceptable an offer from Russia to forgive the debt it is owed by Baghdad in return for access to a major Iraqi oilfield. But Iraq has accepted an Egyptian offer to forgive $800m in debt, Iraqi Finance Minister Jabor said on 3 May. The world's top oil companies have been maneuvering to win a stake in oilfields in Iraq, which holds the world's third biggest reserves. They are awaiting passage of its oil law, expected within weeks, but would also require a fundamental return of law and order. The North and South Rumaila oilfields in the south make up the bulk of Iraq's crude exports, which run at about 1.5 million barrels per day (bpd). Iraq's oilfields are suffering from decades of wars and sanctions, but the Rumaila fields could sustain production of around 1 million barrels per day with the help of foreign investment, analysts said. (WB03.05)

Back to Table of Contents

5.3 Minister Claims GCC Sticking To 2010 Monetary Union Deadline

Saudi Finance Minister Al Assaf has said that the Gulf Cooperation Council (GCC) states are still aiming for the 2010 deadline for monetary union and a single currency. Speaking at the 73rd session of the GCC finance ministers, held in Riyadh on 12 May, Al Assaf said the GCC states have finished an important phase in establishing the GCC common market, which will be ready this year. He added that the customs union committee made great effort to reach agreement on the final phase of the customs union. The committee has resolved a number of issues, according to Al Assaf, including the classification of protected commodities, how to deal with unilateral agreements between GCC countries and other nations and the amendment of trade agencies regulations, in addition to the role of inter-state custom centers. Meanwhile, Al Assaf said the GCC states had completed a critical phase in negotiations to reach a free trade agreement with the European Union. He noted the positive results of the GCC-EU ministerial meeting held in Riyadh last week, but added there were some points still to be reviewed in the ongoing finance ministers' meeting in order to reach a solution. GCC secretary general Al Attiya said the ministers will discuss a number of topics, including the obstacles blocking the implementation of the customs union and facilitation of the movement of commodities between GCC states. (TA13.05)

Back to Table of Contents

5.4 British Exports To Persian Gulf Exceed $19 Billion

Britain's exports to the Middle East were worth more than £10b (about $19.756b) in 2006, according to a UK Trade & Investment statement. The country's exports to Bahrain and Qatar are up 45% and nearly 35% respectively. In addition the UK now exports more products and services to Saudi Arabia than to the whole of Latin America. Britain's exports to the UAE totaled £5.57b ($11b) in 2005, an increase of more than 100% over the previous year. Exports to Dubai accounted for 85% of the overall figure, a rise of 135% compared with 2004. The UAE is the UK's largest export market in the region and the ninth largest worldwide. (Various15.05)

Back to Table of Contents

5.5 IMF Urges Kuwait Not To Revalue Dinar

The International Monetary Fund urged Kuwait to resist market pressure to revalue the dinar currency. The IMF said saying any change to Kuwait’s dollar-peg risked undermining confidence in a stable exchange rate. Speculators betting on a dinar appreciation piled pressure on the exchange rate earlier this year, forcing the oil exporter's central bank to cut several interest rates in April. Although the pressure has eased, the bank recently cut its repurchase rate for the second time in six weeks. (Reuters13.05)

Back to Table of Contents

5.6 UAE Non-Oil Sectors' Share in GDP Rises to 62%

The non-oil sector accounts for more than 62% of the UAE's GDP. The contribution of non-hydrocarbons in real GDP increased from 46% in 1990 to 62.5% in 2006, the Ministry of Economy noted. While the UAE economy is booming, the country made significant progress in information technology and telecommunications. However, inflation is also emerging as a major challenge in the GCC and the UAE with the rise in rents accounting for 36% of household expenditure. (TA10.05)

Back to Table of Contents

5.7 Oman Refinery Could Cost More Than $7 Billion

Oman's oil minister said a proposed refinery and petrochemical complex on Oman's south-east coast could cost more than $7b to develop. Oman is considering building the refinery, the country's third, with a capacity of 200,000 to 300,000 barrels per day. It was reported in February that the government had hired Britain-based Jacob's Engineering to advise on the project and said it could cost as much as $7b to develop. Oman currently has two state-owned refineries -- Oman Refinery Company with a capacity of 106,000 barrels per day and Sohar Refinery Company with 116,400 barrels per day capacity. (Reuters07.05)

Back to Table of Contents

5.8 Saudi Arabia Steps Up Gas Exploration

Saudi Arabia is stepping up exploration to boost its gas reserves by around 40% in the next 10 years as it plans to expand its industry and manufacturing. Saudi Oil Minister Al Naimi said the nation faces increasing demand for gas from its rapidly growing population of 24 million, including seven million foreigners, and new petrochemical and industrial projects. The Saudis would like to add 100 trillion cubic feet over the next 10 years to their current reserves of gas. The kingdom holds the world's fourth largest natural gas reserves at 252 trillion cubic feet. Al Naimi said the gas expansion would be an integral part of a National Project to Develop Industrial Areas. Domestic gas sales were expected to rise by 40% through 2012 from the current level of around seven billion cubic feet per day. The kingdom plans to drill 186 exploration wells for gas and 332 development wells by 2012, Al Naimi said. That was higher than the 70 gas exploration wells cited by an Aramco executive last November. (TA10.05)

Back to Table of Contents

5.9 Libya To Take Live Australian Animals

Australia's live animal trade has been expanded to Libya after the signing of an agreement between the two governments. The controversial practice of exporting livestock will now spread to eight Middle East nations. Australian Agriculture Minister McGauran said the agreement contained conditions ensuring the animals will be treated humanely. Estimates predict the agreement could lead to a $40 million annual industry in livestock trade between the two countries. (AAP09.05)

Back to Table of Contents

6: TURKISH & CYPRIOT DEVELOPMENTS:

6.1 Turkey's Ratings Stable Despite Political Confrontation

Moody's recently reported that the recent political turbulence in Turkey is not likely to derail fundamentally the country's current ratings, nor its ongoing progress toward economic and political modernization, although considerable uncertainty remains about how the situation will play out. Despite tensions over the selection of the next president due to the military's objections to the ruling party candidate, the government's Ba3 ratings as well as the Ba1 foreign-currency country ceiling are sufficiently capable of absorbing such volatility. Moody's continues to expect that Turkey's impressive positive turnaround during the past six years will remain largely intact, mitigating the risks posed by the country's heavy public and external indebtedness. Although recent difficulties have understandably shaken the confidence of financial markets and have raised additional concerns about Turkey's European Union membership prospects, the most likely outcome to the political crisis will be a new civilian government committed to ongoing reform. Politics might become more complex should a new parliament comprised of more political parties replace the current alignment in the upcoming elections, as now seems likely, said Moody's. (Moody's09.05)

Back to Table of Contents

6.2 Turkey Adopts Legislation On Planned Nuclear Power Plants

On 8 May, the Turkish parliament adopted a law setting a legal framework for the construction of the country's first nuclear power plants. The legislation authorizes the energy ministry to run and finalize the tender for the construction of the plants and also to decide on their capacity and location. It says public institutions will be allowed to construct the plants if there is no interest from the private sector. The law adds that firms licensed to sell electricity will be able to purchase the power generated by the plants through 15-year agreements. The Turkish government has said that it plans to build three nuclear power plants with a total capacity of about 5,000 mega watts to become operational in 2012 in a bid to prevent a possible energy shortage and reduce dependence on foreign energy supplies. But the plan and the possible site of the reactor - Sinop, a coastal city on the Black Sea, 435 kilometers (270 miles) northeast of Ankara - have triggered protests from residents and environmentalists. Turkey had abandoned earlier plans to build a nuclear power plant in July 2000 amid financial difficulties and protests from environmentalists in Turkey and neighboring Greece and Cyprus. Opponents argued that the proposed site - Akkuyu, on the Mediterranean coast - was only 25 kilometers (15 miles) from a seismic fault line. (Anatolia05.08)

Back to Table of Contents

6.3 EU & Turkey Negotiators Aim To Step Up Turkish EU Entry Talks Before July 1

The European Union and Turkey aim to open three new areas of negotiation on Turkish entry to the EU in the next month or two. Olli Rehn, the EU expansion affairs commissioner, and Ali Babacan, Turkey's top EU negotiator, said they agreed at a meeting that their goal was still to open three new "negotiating chapters," either this month or next. The EU confirmed the objective to open three chapters by July 1. On that date, Portugal assumes the EU's rotating presidency from Germany. The three subject areas most ready for negotiations with Turkey were economic and monetary affairs, statistics and financial control issues. Current talks cover only two areas: science and research and industrial affairs. EU entry talks normally cover 33-odd negotiating areas. The announcement came two days after the election of Nicolas Sarkozy, who opposes Turkish EU membership, as French president. Sarkozy has said he prefers a "Mediterranean Union" that would include Turkey and other Muslim countries. Rehn had reiterated to Babacan the EU's concern over political turmoil in Turkey about the election of a president. Turkey is the EU's most problematic candidate. It opened entry talks in October, 2005, but the EU virtually halted these last December because of Ankara's refusal to recognize EU member Cyprus. The slowdown in the negotiations stems from the EU's view that Turkey's commitment to political reform has waned in recent years, putting in doubt its commitment to democracy. (AP08.05)

Back to Table of Contents

6.4 Cyprus Inflation Climbs In April

Cyprus' national consumer price index rose by 1.77% over the year-earlier period in April, compared with 1.49% in March, recording its highest rate of increase since September. The main reason for the increase was a 6.56% year-on-year spike in the price of food. This is a heavily weighted category and also recorded a sharp increase compared with the previous month, of 1.16%. Healthcare products also rose sharply, by 2.64% compared with April 2006. It seems that retailers are now clawing back the government-imposed cut in prices in March 2005 that also led to a strong increase in demand. The Statistical Service also reported that the prices of petroleum products rose. This will have affected the price of transport, which rose by 1.71% year on year in April according to the index. After falling in late 2006, international oil prices have started to climb again. When the EU authorities make their assessment about whether Cyprus has met the inflation criterion for adopting the euro, they will use a different inflation rate, the EU-harmonized consumer price index (HICP). This increased slightly to 1.4% in March (latest figures) but was still within the euro target. (FN03.05)

Back to Table of Contents

6.5 Malta To Adopt Euro Next January

Malta's Sunday Times has reported that the European Commission is expected to recommend that Malta joins the euro at the start of 2008. The newspaper said it had access to a draft Commission report which it quoted as saying that Malta has sufficiently converged towards EU levels and the criteria set in the EU Treaty to adopt the euro on January 1, 2008. The newspaper also quoted Commission sources in Brussels saying that after careful examination of Malta's economic and financial progress over the past three years it is evident that Malta has come a long way and that it is now fit to join the euro club. Malta's structural deficit which in 2004 was 10% of the gross domestic product was brought down to 2.6% by the end of 2006 and is projected to decline to 2.1% this year. Inflation is under control and is expected to slow further while the national debt which last year was 66.5% of GDP is expected to slide to 65.9% this year. Following the Commission report which is expected to be released on Wednesday the final decision will be taken by EU finance ministers in July. Malta was the smallest member to join the European Union in May 2004. It joined the Exchange Rate Mechanism II (ERM II) on April 2005, and the exchange rate at the time was set at one euro to 0.42930 Maltese liras. (AFP13.05)

Back to Table of Contents

7: GENERAL NEWS AND INTEREST

*ISRAEL:

7.1 Shavuot Holiday Falls on 22/23 May

Shavuot is a Jewish holiday that occurs on the sixth day of the Hebrew month of Sivan, which this year falls on the evening of 22 May. It marks the conclusion of the Counting of the Omer and the day the Torah was given at Mount Sinai. It is one of the three Biblical pilgrimage festivals mandated by the Torah. Unlike the other two pilgrimage festivals, Passover and Sukkot, the date of Shavuot is not explicitly mentioned in the Torah. Rather, its occurrence is directly linked to the date of Passover. The Torah mandates the seven-week Counting of the Omer, beginning on the second day of Passover and culminating on the 50th day, Shavuot. This counting of days and weeks expresses anticipation and desire for the Giving of the Torah. At Passover, the Jewish people were freed from being slaves to Pharaoh; at Shavuot they accepted the Torah and became a nation committed to serving G-d. Shavuot has many aspects and as a consequence is called by several names. In Israel, Shavuot is celebrated for one day. In the Jewish Diaspora outside Israel, the holiday is celebrated for two days, on the sixth and seventh days of Sivan.

Work is not permitted during Shavuot. For many, it is customary to stay up the entire first night of Shavuot and study Torah, then pray as early as possible in the morning. It is customary to eat a dairy meal at least once during Shavuot. There are varying opinions as to why this is done. Some say it is a reminder of the promise regarding the land of Israel, a land flowing with "milk and honey." According to another view, it is because our ancestors had just received the Torah (and the dietary laws therein), and did not have both meat and dairy dishes available. The book of Ruth is read at this time. Since it is the story of a convert to Judaism, it echoes the personal acceptance of the Torah and a Jewish way of life.

Back to Table of Contents

*REGIONAL:

7.2 Jordan Celebrates Independence Day on 25 May

On 25 May, Jordan will marks the 61st anniversary of its independence. The late King Abdullah I established the Kingdom in 1921. His efforts to achieve internal security and a national unity won the newly established Transjordan recognition from Great Britain in 1923. The Hashemite Kingdom of Jordan won its formal independence from Britain on May 25, 1946, following the end of the British mandate. On the occasion, His Majesty King Abdullah II will receive cables of good wishes from Arab and foreign heads of state, crown princes and senior officials. Activities are planned and held around the country to celebrate the national holiday.

Back to Table of Contents

7.3 Turkish Parliament Sets Snap Elections For July

On 3 May, Turkey's parliament overwhelmingly approved a ruling party call for snap general elections in a bid to resolve a damaging crisis sparked by secularist objections to having a former Islamist as president. The proposal to hold early polls on July 22 was approved by all of the 458 lawmakers present in the televised session in the 550-seat parliament. Prime Minister Erdogan's Justice and Development Party (AKP) has a majority of 351 seats in the house and had the support of the opposition to bring the elections forwards from November 4. Erdogan gave in to mounting pressure to call early polls after Turkey's top court annulled a first-round parliamentary vote to elect the next president, in which Foreign Minister Gul is the sole candidate. Gul was once a member of an Islamist party that was the main precursor of the AKP and was banned for anti-secular activities. His wife wears the headscarf, seen by secularists as a symbol of political Islam. The prospect of having a former Islamist as president has divided an already polarized society, sparked mass secularist demonstrations and triggered a strong warning from the army that it will intervene to protect the secular regime if need be. Many remain unconvinced by AKP arguments that it has disavowed its Islamist past and suspect the party of having a secret agenda that will erode the strict separation of state and religion. They fear that, with Gul as president, the party will have a free hand to implement Islamist policies without an effective control mechanism. The outgoing President Sezer is a staunch secularist who blocked many government proposals he deemed violated the secular constitution. The presidency in Turkey is largely ceremonial, but highly symbolic. The country's first president was Mustafa Kemal Ataturk, who founded the secular republic in 1923. The president is responsible for approving legislation and appointing key officials. He is also the commander-in-chief of the Turkish army. (AFP03.05)

Back to Table of Contents

7.4 Turkish People Satisfied With Life but Key Differences Remain

Turkish people report overall satisfaction with their quality of life despite the fact that that there are major differences when it comes to education, employment, healthcare and public services, according to the results of Eurofound's latest report on Quality of life in Turkey. The majority of Turkish people are satisfied with their life in areas most important to them as individuals, for example, family life. However, in areas for which the state is directly responsible, such as education and the standard of living, opinions are vastly different. Also, the distribution of income between households varies considerably and almost half the population reports that they have had trouble paying for at least one household necessity during the year.

Turkey is a young society, with almost a third (29%) of its population is under the age of 15. The number of children owes more to improved public health than to family size, for two children is now the average. Its population may exceed 90 million by 2023 and 100 million by 2050, surpassing Germany's - currently the highest in the European Union - in just over a decade. Its income per head is lower than any EU Member State. Turkish GDP per capita is far below the EU average, although the annual growth rate of Turkish GDP is much greater than the average for EU15 countries. The biggest demographic challenge facing Turkish policymakers is increasing the supply of jobs. Although attitudes to work are positive, Turkey has a much lower proportion of adults participate in the labor force than is common in EU countries. The majority are employed in unstable daily-paid work or self-employed. As a consequence, almost every second Turk report having had trouble paying for at least one household necessity during the previous 12 months. Gender differences are also significant: more than five times as many men as women are in paid employment, with women twice as likely to be unpaid family workers. (Eurofound14.05)

Back to Table of Contents

8: ISRAEL LIFE SCIENCE NEWS

8.1 EZsurgical Raises $1.3 Million

EZsurgical has raised $1.3m in a follow-on round led by Ofer Hi Tech and a group of private investors. The company’s first product is designed to manipulate and separate soft tissue during surgery, in order to prevent it from interfering with the tissue being treated and prevent damage during the procedure. The company’s flagship product is designed to separate tissues during laparoscopic surgical procedures of the abdomen, which involve small incisions through which the surgical tools are inserted. The device is inserted through the incision and acts as a kind of wall separating the healthy tissue from the subject of the procedure. The product is still under development, but the company has already obtained US FDA approval for a different product for separating tissues during open surgery on limbs, based on the same technology. Yokneam, Israel's EZsurgical (http://www.ezsurgical.com) is developing the InXs, an innovative surgical device aiming to answer to some of the Minimally Invasive Surgery (MIS) market major restrains by assuring a defined, safe and convenient surgical space within the body. EZSurgical has a pipeline of products in development, generated internally and in-licensed. The company plans to launch the first product in the US during 2007. (Various03.05)

Back to Table of Contents

8.2 UltraShape Granted Health Canada License to Sell CONTOUR I System

UltraShape has been granted a medical device license to sell the UltraShape CONTOUR I system for non-invasive fat emulsification for the purpose of aesthetic body contouring in accordance with Health Canada’s medical device regulations. UltraShape is the first clinically proven non-invasive solution for body contouring based on focused ultrasound technology. It has been demonstrated to deliver durable and measurable circumference and fat thickness reduction in a single treatment and incremental reduction with multiple treatments. The UltraShape CONTOUR I system, based on patented focused ultrasound technology, is the first clinically proven non-invasive body contouring solution for both men and women. It is designed to target and disrupt fat, leaving surrounding structures such as skin, blood vessels, and nerves intact. The UltraShape procedure is guided by proprietary real-time tracking and guidance software designed to deliver smooth, uniform body contouring results. The software guarantees adherence to a pre-determined treatment algorithm, minimizing the risk of contour irregularities, a common side effect of liposuction which is a highly technique-sensitive surgical procedure. Yokneam, Israel UltraShape (http://www.ultrashape.com), founded in 2000, is a privately held and venture backed company that develops, manufactures and markets innovative, non-invasive solutions for the aesthetic medical field. The UltraShape expert team is dedicated to the development of cutting-edge body-contouring technology in a mission to enhance patients’ self-image and sense of well-being. The UltraShape CONTOUR I, the first clinically proven non-invasive body contouring solution based on focused ultrasound technology, received the CE Mark in June 2005 and is currently distributed in 45 countries outside the United States. (UltraShape 04.05)

Back to Table of Contents

8.3 Impliant TOPS System Demonstrates Positive Outcomes at Two-Year Follow-up

Impliant (http://www.impliant.com), a developer of novel spine arthroplasty alternatives to fusion surgery, reported positive results on a series of 32 TOPS System patients with the longest follow-up to date of two years. The TOPS System is a total posterior arthroplasty device for patients suffering from debilitating leg and back pain stemming from spinal stenosis, a common back condition that may also be accompanied by degenerative spondylolisthesis and facet arthrosis. Impliant is applying cutting-edge materials and biomechanical engineering techniques to develop a new class of spine arthroplasty devices that target the more than 400,000 patients worldwide who undergo fusion surgery each year and could benefit from a total posterior arthroplasty solution. Impliant's TOPS System is a mobile posterior device designed to stabilize but not fuse the affected vertebral levels to alleviate pain stemming from spinal stenosis, which is the narrowing of the spinal canal and the impingment of nerve roots. The disease may be accompanied by degenerative facet arthrosis-where the joints becomes inflamed and worn-and by spondylolisthesis, or the pain-inducing slip of one vertebral body forward relative to the adjacent vertebrae. Following a decompression of the lamina and medial facets to remove the bone elements pressing on nerves, the device is affixed to the spine via four pedicle screws using a standard posterior surgical approach. Impliant believes that the TOPS System could benefit patients worldwide undergoing spinal fusion surgery each year. The TOPS System is in a pivotal US clinical trial and is not approved for sale in the United States. Impliant is a privately held company engaged in the development of novel spine arthroplasty solutions for motion preservation. The company is currently developing the TOPS System, which is designed to alleviate pain resulting from degenerative facet arthrosis, spondylolisthesis and spinal stenosis by stabilizing but not fusing the affected vertebral level. Impliant is headquartered in Princeton, NJ with research facilities located in Ramat Poleg, Israel. (Impliant 07.05)

Back to Table of Contents

8.4 Oramed Pharmaceuticals Begins Phase 1 Human Clinical Trials

After much anticipation, Oramed Pharmaceuticals announced the official commencement of Phase I Clinical Trials in Jerusalem, Israel. The U.S. FDA recognizes clinical trials carried out in Israeli hospitals, such as Hadassah, making Israel a powerful hub for biotech companies. For the first time, a small group of healthy human volunteers will orally ingest the Oramed Insulin Capsule in order to evaluate safety studies. The studies are expected to last from 8 to 12 months. The productions of the capsules have been provided by Swiss Caps, one of the global leaders in the production of gel capsules. To date there has not been a successful oral administration of the drug to mimic the physiological delivery of insulin to the liver, (organ responsible for releasing the proper dosage of insulin into the bloodstream). All existing insulin products to date are directly administered into the bloodstream, increasing the need to monitor blood sugar levels regularly and closely monitor the doses of insulin by the patient. Oramed Pharmaceuticals (http://www.oramedpharma.com) is a Jerusalem, Israel based company focused on the development of oral delivery solutions based on proprietary technology. Diabetes is one of the most rapidly growing diseases in the world and is one that requires constant and often unpleasant monitoring and drug therapy regimen. Oramed is currently developing an orally ingestible soft gel insulin capsule for the treatment of diabetes. The Company is also pursuing the development of oral delivery solutions for other drugs and vaccines. (Oramed 08.05)

Back to Table of Contents

8.5 NovaThera & Gamida Cell Collaborate on Development of Cell Therapeutics for Lung Disease

Cambridge, England's NovaThera and Gamida Cell announced a collaboration agreement aimed at developing cell therapeutic treatments for lung repair and regeneration. Under the terms of the agreement, NovaThera and Gamida Cell will pool technology and expertise and work together with the clinical team at Papworth Hospital in the U.K. towards advancing cell therapy approaches for treating lung disease. NovaThera specializes in pioneering applications of biomaterials and stem cell biology for regenerative medicine and tissue engineering to provide innovative therapeutic solutions. Jerusalem, Israel's Gamida Cell (http://www.gamida-cell.com) is developing a line of cell therapy products for the treatment of debilitating and fatal diseases with unmet clinical needs. The Company is dedicated to making a significant difference in the clinical practice of modern medicine by first expanding, then tapping into the regeneration power of an ample body of therapeutic stem cells. Gamida Cell’s technologies are simple, reversible, do not involve genetic interference, and are easily scalable. In 2007, Gamida Cell will commence an international, multi-center, pivotal registration study of its lead product, StemEx for the treatment of leukemia and lymphoma patients. (Gamida Cell 09.05)

Back to Table of Contents

8.6 Pluristem Shares Commence Trading on Frankfurt Stock Exchange

Pluristem Life Systems' shares have begun trading on Europe’s Frankfurt Stock Exchange, under the symbol PJT. The International Security Identification Number (ISIN/CUSIP) is US72940P1066 and German Security Code is 813519. This new listing on the Frankfurt Stock Exchange gives Pluristem more market exposure and provides its stock higher liquidity in two major equity markets. Pluristem also believes it will enhance cooperation with European scientific companies and institutions in the development of its product portfolio. The Frankfurt listing allows European investors and shareholders to trade Pluristem’s shares in their time zone and currency. Located in Frankfurt, Germany, the Frankfurt Stock Exchange is a leading international stock exchange. Haifa, Israel's Pluristem Life Systems (http://www.pluristem.com) is a Company dedicated to the commercialization of non-personalized (allogeneic) stem cell therapy products for the treatment of numerous severe degenerative, malignant and autoimmune disorders. The

Company's first planned product, PLX-I, targets a $2b market and is intended to resolve the global shortfall of matched tissue for bone marrow transplantation (BMT) by improving the engraftment of hematopoietic stem cells (HSCs) contained in umbilical cord blood (CB). Pluristem's products are derived from mesenchymal stem cells (MSCs) obtained from the placenta and expanded in the Company's proprietary PluriX 3D bioreactor that imitates the natural microstructure of bone marrow and does not require supplemental growth factors, cytokines or other exogenous materials. Pluristem believes the resultant expanded cells, termed PLX cells, are multipotent and able to differentiate into a variety of cell types as well as being immune-privileged to protect the recipient from immunological reactions that often accompanies transplantation. Pluristem believes their future products will participate in the approximate $30 billion therapeutic and regenerative cellular market. (Pluristem 09.05)

Back to Table of Contents

9: ISRAEL PRODUCT & TECHNOLOGY NEWS

9.1 FAA Awards NICE an IDIQ Seven-Year Contract

NICE Systems announced that the Federal Aviation Administration (FAA) has awarded NICE with a seven-year, IDIQ (Indefinite Delivery, Indefinite Quantity) contract with a potential value up to $69m. NICE has already received an initial order of $2.7m under this award. NICE Inform and other NICE solutions have been selected to enhance air traffic recording capability at up to 850 FAA and Department of Defense (DOD) sites. NICE, the prime contractor, will be partnering with Raytheon Company, which will be deploying the NICE solutions and providing training to FAA personnel. The FAA awarded the contract to NICE under the FAA’s VRRP (Voice Recorder Replacement Program) which is part of a larger initiative to modernize the nation’s air traffic control (ATC) system to meet future air traffic safety, capacity, and efficiency needs for more than one billion passengers by 2015. The FAA will be replacing its existing digital voice recording systems with the NICE Inform multimedia incident information management solution which will enable rapid and thorough review of incidents to enhance air traffic safety. NICE Systems (http://www.nice.com) is the leading provider of Insight from Interactions solutions and value-added services, powered by advanced analytics of unstructured multimedia content – from telephony, web, radio and video communications. NICE’s solutions address the needs of the enterprise and security markets, enabling organizations to operate in an insightful and proactive manner, and take immediate action to improve business and operational performance and ensure safety and security. (NICE03.05)

Back to Table of Contents

9.2 Nauka Svyaz Selects VocalTec for Their VoIP Network Build Out

VocalTec Communications announced that Nauka Svyaz, a universal Telecom Carrier providing telephony and data communications to carriers and corporate clients in Russia , has selected VocalTec’s Essentra VoIP technology for the build out of its National/International NGN network. Nauka-Svyaz, a licensed service provider, will deploy VocalTec’s Essentra CX Trunking solution, as part of its program for regional development and expansion. The VocalTec solution will enable Nauka-Svyaz to offer its Telco and ISP customers seamless connectivity to PSTN/SS7 services, while reducing service costs, enhancing service flexibility and enabling the rapid addition of new services and applications. The deployment also includes the Essentra EX Peering Manager, enabling secure IP-to-IP routing and service mediation, the Essentra OSS, Operational Support Server, a centralized, web-based management system, enabling remote element management, service configuration, monitoring and provisioning. In addition, the Essentra BAX, application server is being evaluated by Nauka -Svyaz as part of its plan to offer local telephony services to its customers. Herzliya, 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

Back to Table of Contents

9.3 AudioCodes Expands Product Portfolio With nCite 1000 and nCite 4000 Session Border Controllers

AudioCodes announced an important step in broadening its Session Border Controller (SBC) product portfolio to meet the scalability, cost, feature and interoperability needs of large enterprises and service providers. The nCite 1000 product is targeted towards smaller VoIP service providers that require a platform which supports up to 4000 concurrent sessions and the nCite 4000 is targeted towards larger carriers that require a scalable platform well beyond 20,000 concurrent calls. With the release of the nCite 1000 Session Border Controller, AudioCodes expands its SBC product portfolio to deliver the same functionality, reliability and performance that carriers have come to expect from AudioCodes SBC products but in a low cost, small footprint (1U) form factor. The nCite 1000 product is targeted for markets where service providers are looking for an SBC that scales from 100 concurrent sessions to 4000 concurrent sessions. This Session Border Controller addresses both peering and hosted VoIP applications and services. The nCite 1000 is priced to be competitive in these growing market segments.

Lod, Israel's AudioCodes (http://www.audiocodes.com) provides innovative, reliable and cost- effective Voice over IP (VoIP) technology, Voice Network Products, and Value Added Applications to Service Providers, Enterprises, OEMs, Network Equipment Providers and System Integrators worldwide. AudioCodes provides a diverse range of flexible, comprehensive media gateway, and media processing enabling technologies based on VoIPerfect - AudioCodes' underlying, best-of-breed, core media architecture. The company is a market leader in VoIP equipment, focused on VoIP Media Gateway, Media Server, Session Border Controllers (SBC), Security Gateways and Value Added Application network products. (AudioCodes 02.05)

Back to Table of Contents

9.4 ECI Telecom Chosen for Expansion of TelicPhil’s National Digital Transmission Network

ECI Telecom announced that the Telecoms Infrastructure Corporation of the Philippines (TelicPhil), a consortium of seven franchised telecom operators, has again selected ECI’s optical solution to expand the National Digital Transmission Network (NDTN). This third phase of the network expansion includes a 16-channel, 10Gb/s DWDM backbone that will enable TelicPhil to cost-effectively deliver increased capacity for bandwidth-intensive voice, data and video services to business and residential users across the southern Philippines. ECI has been involved in all three phases of expansion. TelicPhil will deploy ECI’s XDM Converged Multi-Service Provision Platform (MSPP) and All-Range ROADM for this network expansion. Previously, the network connecting the Mindanao islands had a transmission capacity of only 2.5Gb/s, rendering the network unable to meet the increasing user demands for high-bandwidth services. The XDM network utilizes various state-of-the-art DWDM technologies, including high power EDFA and Raman amplifiers and advanced signal modulation and coding techniques, in order to cost-effectively bridge long distances including island hopping. Petah Tikva, Israel's ECI Telecom (http://www.ecitele.com) delivers innovative communications platforms to carriers and service providers worldwide. ECI provides efficient platforms and solutions that enable customers to rapidly deploy cost-effective, revenue-generating services. Founded in 1961, Israel-based ECI has consistently delivered customer-focused networking solutions to the world’s largest carriers. (ECI07.05)

Back to Table of Contents

9.5 Retalix Launches QSR for Supermarkets

Retalix announced the release of Retalix StoreLine QSR. As an add- on module to the company's industry leading point-of-sale (POS) application, Retalix StoreLine, the new solution allows grocers to incorporate functionality to manage deli-preparation operations and quick service restaurants (QSR) within their stores. Retalix StoreLine QSR, with its food service menuing capabilities, is fully integrated with Retalix StoreLine POS, Retalix Front Office and Retalix Kitchen Management System (KMS). This enables retailers to manage, order and produce full-service custom food orders within any POS transaction. It also allows store associates to create orders using the same underlying business logic and system infrastructure that's available with Retalix StoreLine POS, assuring workflow and pricing consistencies between POS terminals while reducing overhead and maintenance costs. Retalix StoreLine QSR features a colorful and intuitive, touch-based graphical user interface, reducing training time and costs for store associates. The system can be configured to accept payments or take orders only. In addition, grocery items can be accepted at the QSR lane and QSR items can be paid for at the front-end checkout lanes. 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. (Retalix07.05)

Back to Table of Contents

9.6 Do-Coop Technologies Reaches DMF and cGMP Milestones for Neowater

Or Yehuda, Israel's Do-Coop Technologies (http://www.docoop.com) has reached two significant milestones for Neowater, its proprietary water-based nanotechnology. A Type IV Drug Master File has been submitted to the US FDA for Neowater. In addition, the first Current Good Manufacturing Practice (cGMP) Neowater manufacturing plant is operational in Israel. Neowater is an enabling technology that is based on breakthrough water-based nanotechnology. Unlike traditional, dry nanotechnology, which focuses on a nanoparticle end product, Neowater builds upon the unique properties of nanoparticles to modify the physical properties of water molecules around them. Each nanoparticle within Neowater, with its huge surface, creates an effect known as the "surface effect," and in turn organizes the water molecules surrounding it. This is similar to the surface effect of organelles within living cells. Both the organelles and the nanoparticles use this unique mechanism to create intracellular water. While the former is within cells and organs and cannot be harnessed nor used in a lab bench, the latter one, which is branded as Neowater, can. This technology, developed in Israel, produces water whose physical properties mimic that of intracellular water using inorganic, insoluble crystals introduced in water in a patented process. Neowater, with its stable system of largely hydrated nanoparticles, like non-ionic detergent derived micelles, reduces the entropy of aqueous solutions. In addition, by design, since it exhibits both hydrophilic and hydrophobic properties it can be used as a unique solvent replacement. (Do-Coop07.05)

Back to Table of Contents

9.7 Top-Tier U.S. MSO Reaffirms Commitment to Scopus Video Networks

A top-tier U.S. multi system cable operator has reaffirmed its existing relationship with Scopus Video Networks. Scopus was chosen to provide a fully integrated system incorporating all video processing components of a digital simulcast system, including remotely monitoring and managing all the components from one User Interface. The deployment includes Scopus UE-9000 real-time encoders, IVG-7000 Intelligent Video Gateway (IVG) platforms, UID-2900 Dense Edge Decoders and NMS management software at the headends. Scopus' UE-9000 real-time encoders digitize television feeds prior to transport over an IP network to multiple headends and Scopus' IVG-7500 for Digital Program Insertion (DPI) enable insertion of local television advertisements in the digital domain. At each headend, Scopus IVG-7000s aggregate feeds and provide advanced processing capabilities such as joint transrating, grooming, and rate shaping for better channel use and bandwidth efficiency. Scopus' UID-2900s IP dense edge decoders decode the digital feeds, enabling broadcast to digital and analog subscribers simultaneously over a single IP video distribution network. The entire system is managed and monitored by Scopus' Network Management System (NMS), enabling encoder-to-edge, full system control and monitoring. The NMS monitor and manage all components from one GUI and to perform those functions remotely.

Rosh Ha'Ayin, Israel's Scopus Video Networks (http://www.scopus.net) develops, markets, and supports Digital video networking solutions that enable network operators to offer Advanced video services to their subscribers. Scopus' products support Digital television, HDTV, live event coverage, and content distribution. Scopus provides a comprehensive digital video networking solution offering, including intelligent video gateways, encoders, decoders, and network management products. Scopus' products are designed to allow network operators to increase service revenues, improve customer retention, and minimize capital and operating expenses. (Scopus 08.05)

Back to Table of Contents

9.8 Leading Russian Service Provider Chooses Shiron's InterSKY for Deployment Across Russia

Shiron's certified distributor and support center in Russia, JSC CEDICOM, has announced the signing of a contract with Elvis-Telecom Company for delivery of InterSKY DVB-S2 broadband satellite solution. Shiron's broadband satellite communication solutions will enable Elvis-Telecom to seamlessly extend the reach of its services beyond its existing network. This will make a multiservice solution available to potential customers throughout Russia. The solution includes the InterSKY HUB, which will be located at the Elvis-Telecom’s technological center, in Moscow. A distributed network of iRG-S2 VSAT terminals will be deployed at regional company offices and remote customer access points across the country. Petah Tikva, Israel's Shiron Satellite Communications (http://www.shiron.com) is one of the leading satellite equipment developers marketed under the InterSKY trademark. The InterSKY system is aimed for construction of broadband satellite VSAT-networks with digital batch communication (IP). (Shiron15.05)

Back to Table of Contents

9.9 Silicom Multi-Port Adapters Chosen for Its Security Appliances

Silicom announced that it has secured a Design Win from one of the world’s largest telecommunications equipment manufacturers for a variety of its multiport Gigabit Ethernet adapters, including several of its market leading 6-port card models. The customer will use these high-performance products to enhance the connectivity of its new security appliance product line. The customer’s security appliances are high-performance firewall based gateways, filtering all data traffic before allowing it into Enterprise networks. Silicom’s multiport adapters will be used to enable the appliances to deliver highest-possible throughput and to give them more connectivity ports per slot, thereby enhancing their flexibility and cost-effectiveness. 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, WAN Optimization and security appliances and other mission-critical gateway applications. (Silicom14.05)

Back to Table of Contents

9.10 Cameo Unveils WiMAX MIMO PCMCIA Products Based on Runcom Technologies Solutions

Cameo Communications, an international network products supplier based in Taiwan, disclosed its latest Mobile WiMAX PCMCIA products based on Wave-2 Profile MIMO 1T x 2R (MISO) solutions from Runcom Technologies. Cameo, a leading supplier for WiFi and Broadband products to worldwide brand name customers, expects to offer this Mobile MIMO WiMAX PCMCIA card in Q3 2007. With Cameo's latest MIMO PC card plugged in notebooks, subscribers can easily take advantage of the mobile internet services three to five times faster than today's cellular networks. Meanwhile it can also work with Cameo's WiMAX/3G IAD gateway acting as a wireless broadband access device to obtain WiFi, LAN, and VoIP services. Cameo also provides SISO USB adapters with which subscribers can access to WiMAX network with a normal USB cable. Rishon LeTzion, Israel's Runcom (http://www.runcom.com) is a technology company pioneering OFDMA based silicon solutions for user terminals and base stations that comply with the IEEE802.16e-2005 standard for WiBro and Mobile WiMAX applications. Runcom products include the PHY and MAC communication layers. Runcom RNA200 ASIC was the first mobile WIMAX compliant ASIC in the market. (Runcom 14.05)

Back to Table of Contents

10: ISRAEL ECONOMIC STATISTICS

10.1 Israel's April CPI Rises By 0.5%

Israel's Consumer Price Index (CPI) rose 0.5% in April 2007 to reach 99.4 points (base 100=2006), the Central Bureau of Statistics announced on 15 May. The CPI rose 0.7% in March-April, after falling 2.2% in August 2006-February 2007. Inflation in January-April was 0.3%, well below the 1 - 3% inflation target. Over the past 12 months, inflation has been negative 1.3%. During April, four items in the CPI increased: apparel +3.9%; fruits and vegetables +2.3%; transport & communications +1.1%; and culture, entertainment and education +0.9%. The Wholesale Price Index of Industrial

Output for the Domestic Market rose by 0.9% to 106.8 points, and rose 2.6% in January-April. The Price Index for Inputs for Residential Construction was unchanged in April at 117.3 points and rose 1.4% in January-April. (CBS15.05)

Back to Table of Contents

10.2 Israel's Trade Deficit Grows By 91% As Imports Climb To $1.04 Billion

On 13 May, the Central Bureau of Statistics announced that Israel's trade deficit grew by 91% in April from the same month a year earlier, reaching it largest monthly level since August. The April deficit, excluding diamonds, ships and aircraft, grew to a seasonally adjusted $1.04b, from $545.2m. Exports rose by 5.2% to $2.58b, while imports climbed by 20.8% to $3.62b, the bureau said. The economy is marking its fifth consecutive year of growth, driven by exports from hi-technology companies and foreign investment in Israeli start-ups. The Finance Ministry last month raised its forecast for economic growth this year to 5% from 3.8%, after rapid growth in January and February. Imports grew an annualized 11.8% in the February to April period, down from 16.3% in the previous three months, according to the bureau. Imports of investment goods, which made up 14% of all imports, rose an annualized 21%, after rising 40.9% in the previous three months. Raw material imports, which account for over 40% of all imports, rose 10.9% in annualized terms in the three months, after rising 12.2% in the previous three months. Imports of consumer goods rose an annualized 3.7% in the three months, after rising 2.8% between November and January. Exports grew an annualized 4.9% in the three months through April, slowing from 10.9% in the previous three months. Hi-tech exports, which make up almost half of non-diamond industrial sales abroad, rose 10% in the three months to April, after rising 8.3% in the previous three months. (CBS13.05)

Back to Table of Contents

10.3 Net Foreign Investment Drops to $338 Million In April

On 14 May, the Bank of Israel announced that net foreign investment in Israel fell to $338m in April, the lowest since August, as interest rate cuts led to the sale of government bonds, offsetting an increase in direct foreign investment. Foreigners sold a record $374m in Tel Aviv-traded bonds in April. Direct foreign investment in companies totaled $511m, up from $350m in March, while foreign investment in Tel Aviv-traded shares rebounded to $122m. The Bank has cut its benchmark lending rate six times in the past seven months to weaken the shekel and guide inflation back to the 1% to 3% government target. The base rate is currently 3.75%, 1.5%age points below the Fed rate. Still, the shekel has strengthened 6.4% against the dollar this year. Foreign investment in Israel reached a record $22.4b in 2006. In the first four months of 2007, overseas investment totaled $3.26b. Israeli businesses were net purchasers of foreign currency in April, the central bank reported. Companies increased deposits in foreign currency accounts, both in Israel and abroad, by $305m and repaid $225m in foreign currency credit. Households continued to accumulate foreign currency deposits in banks abroad in April, and to redeem holdings in mutual funds with foreign currency risk. Alongside these redemptions, households invested in funds specializing in shares, particularly in Europe. (BoI15.05)

Back to Table of Contents

10.4 Israel Has 3.2 Million Drivers

The Central Bureau of Statistics announced on 7 May that there were 3.2 million drivers in Israel, 41% of them women, at the end of 2006. The Central Bureau of Statistics also noted that the number drivers per vehicle has fallen to 1.5, from five drivers per vehicle three decades ago, a statistic that reflects the rise in standards of living. Some 70% of the drivers in the settlement of Arara hold licenses to drive trucks, compared with the national average of 13.2%. Some 24% of drivers in Tel Aviv, Givatayim, Ramat Gan, Azur, Ramat Hasharon, Yahud and Eilat hold motorcycle licenses, compared with the national average of 13.8%. (CBS07.05)

Back to Table of Contents

10.5 Israel Rises Three Places In World Competitiveness Rankings

Israel's economy has climbed three places to 21st place in the World Competitiveness Yearbook rankings, published by the International Institute for Management Development (IMD), which is based in Lausanne, Switzerland. The survey ranks 55 countries according 323 economic criteria, and is based on data collated from business entities worldwide. Israel is ranked in 20th place for economic strength, unchanged from last year. However, it has climbed 20 places, from 45th to 25th in the ratings for international investment. The survey assesses each country's performance according to four main measures: economic efficiency, government efficiency, business efficiency, and infrastructure. Israel dropped two places to 33rd in the economic efficiency rankings. It rose two places to 25th place in the government efficiency rankings, and climbed to 16th from 24th place in the rankings for business efficiency. It rose by just one place to 14th place in the infrastructure rankings. Israel fell eight places to 26th place in the rankings of real increase in GDP. It also dropped eight places to 33rd place in the rankings of GDP per capita in dollar terms. However, it climbed 29 places to 6th place in the rankings of the proportion of direct foreign investment to GDP. The US continues to top the tables, followed in second place by Singapore and in third place by Hong Kong. China rose three places to 15th place. (Various10.05)

Back to Table of Contents

In Depth

11.1 How To Increase Competitiveness In The Arab Countries

Recently released by the World Economic Forum, the Arab World Competitiveness Report 2007 benchmarks the performance of Arab countries in terms of national competitiveness. Understanding competitiveness as the set factors, policies and institutions that enable growth, the Report looks into how to put the region on track to sustain the current growth momentum by strengthening drivers of competitiveness while removing obstacles to faster growth.

Among the findings that emerge from the report three are particularly worth highlighting. The first is that the Arab world is comprised of highly diverse economies. This difference is reflected most strikingly in the level of income per capita. GDP per capita of the wealthiest country in the Arab world, Qatar, is 73 times higher than that of the least developed, Mauritania. Apart from the pure level of income, countries also have very diverse economic structures – while some have accumulated significant wealth by extracting energy resources, others follow a more traditional, export-led development path. As a consequence, states face very different challenges in terms of their economic policy. While oil exporting countries seeking to diversify their economy will have to address what the index results highlight as one of their main weaknesses, namely putting conditions in place for a more innovative private sector, other countries will have to focus on more basic policy areas, such enhancing transport and telecommunications infrastructure and fostering the use of technology or, even more fundamental, stabilizing their macroeconomic environment.

The second key finding of the report is that on average, when benchmarked against economies with a comparable level of income, countries that do not dispose of energy resources are often significantly more competitive than their oil-exporting neighbors. All four Gulf states that fall into the highest income group rank towards the bottom of this peer group, outperformed by a significant margin by the some Asian economies that often serve as an example for the region, such as Singapore and Hong Kong. There are a number of reasons for this. Firstly, for wealthier countries innovation and sophistication of business operations are relatively more important, as otherwise they would not be able to maintain the high wage level and the oil exporters’ performance in these two areas looks back at a relatively weak track record. Secondly, the availability of natural resources ensures sustained wealth for the foreseeable future and therefore weakens incentives to implement reforms. Lastly, some countries started only recently to more actively pursue economic and political reforms with a new generation of leaders coming to power and the results become only slowly visible.

In these countries, a number of policy areas remain to be addressed. Over the past few years, many states have seen increased unemployment among nationals. Despite increasing wealth, efforts to diversify the economy and a focus on labor policies, many nationals newly entering the workforce have not been able to find jobs. Skills shortages and the lack of an education that stresses skills necessary for the private sector are usually identified as reasons for this development. Education at all levels needs to be enhanced and geared more strongly towards the needs of the private sector. At the same time, in a region with abundant liquidity, access to capital is still difficult for private business and new entrepreneurs, and the intensity of competition remains fairly low. For many countries, competitiveness is on top of their agendas and they have geared public investment towards enhancing growth and diversification and established appropriate structures, such as economic development boards, competitiveness councils, or observatories. Yet an even clearer focus on outputs and more a more supportive framework for the private sector could significantly improve the efficiency of government spending on growth enhancing measures.

In the two lower income groups, performance is more mixed. Countries that have focused policies on reform and economic growth for some time, such as Jordan or Tunisia compare relatively well to their peer income group, whereas for example Algeria and Libya, lag behind. These examples further confirm that the availability of resources weakens incentives to reform, although Libya’s low rank partly can be explained by the international isolation the country suffered from until recently.

Thirdly, and finally, the report highlights the high importance of education in all countries of the region. Although the exact recommendations differ, the business sector has in virtually all countries of the region pointed out that graduates lack appropriate skills and that innovation is often hampered by the lack of qualified scientists and engineers. More importantly, when asked to name the most serious obstacles to doing business, businesses in 7 of the 13 countries assessed “Inadequately educated workforce” as one of the three most important impediments they face. Improving education programs will require more focus on the quality of education, an overhaul of curricula, better training of teachers and more and qualitatively better vocational training programs.

Using the current benign environment to set the foundation for self-sustained growth independent of energy prices, will require strong leadership and political will. Yet, if the current opportunity is well used, the region may emerge as one of the drivers of the global economy in foreseeable future. (WEF 29.04)

Back to Table of Contents

11.2 Jordan—Aide-Memoire for the Fifth Post-Program Monitoring (PPM) Discussions

The IMF issued the following aide-memoire relating to Jordan's economic progress:

I. Recent Developments and Outlook for 2007

1. Jordan's economic performance remains strong. Real GDP grew by almost 6% last year, mainly due to robust domestic demand. Although headline inflation is high, reflecting steep fuel and food price increases last year, core inflation remains low. With strong policies and continued strong inward investment, 2007 should be another good year, with 6% growth and a modest reduction in inflation, to less than 6%. (This assumes annualized monthly inflation of about 3% for the remainder of the year.)

2. Although still high - almost 13% of GDP last year—the current account deficit has narrowed at a more rapid pace than earlier envisaged. A broad-based slowdown in import growth and strong export performance and remittances underpin this turnaround. Reflecting ample capital inflows, mainly foreign direct investment (FDI), the overall balance of payments surplus reached about $1.7b in 2006. This allowed the Central Bank of Jordan (CBJ) to increase its reserves to $6.1b at end-year, equivalent to more than five months of prospective imports. Looking ahead, the underlying current account is likely to narrow by 1% of GDP this year, but the overall deficit (including grants) is expected to remain practically unchanged—since budgetary grants intended for 2007 were received last year. Reserves should be close to $6b at year end.

3. The fiscal position is also sound. Stronger revenue performance, and the authorities' decision to raise domestic fuel prices last April, reduced the budget deficit to an estimated 4.4% of GDP, 0.9% of GDP lower than in 2005. The public debt-to-GDP ratio fell by more than 10% of GDP, to 72.7% of GDP by end-2006. Strong fiscal performance appears to have continued through the first months of this year. For 2007, the government has committed to cutting the deficit further, to 2.7% of GDP, including through spending cuts to offset the costs of the recent increase in public sector wages and pensions (0.7% of GDP in 2007).

4. Meanwhile, monetary policy remains geared towards maintaining the currency peg, by keeping interest rates in line with U.S. rates. Assuming a sound monetary policy, and the withdrawal of excess liquidity from the banking sector, broad money is expected to increase in line with nominal GDP, mainly due to net foreign asset growth, while private sector credit growth is expected to soften following large increases in recent years.

II. Policy Discussions

5. Against this positive backdrop, discussions focused on three key macroeconomic and financial challenges: (i) a large current account deficit, (ii) still-high public debt, and (iii) rapid private sector credit growth. The policy framework agreed during the recent Article IV mission remains valid, including continuing with policies that help bring public debt to below 60% of GDP by 2011, maintaining the peg (and tightening monetary policy should inflationary pressures become entrenched), and implementing policies that help narrow the current account deficit.1

Current account

6. Jordan's current account deficit is expected to narrow further as long as supportive economic policies are in place. These policies include sustained fiscal adjustment, cautious monetary policy, and supporting structural measures. The recent slowdown of imports is expected to persist (a return to normal import patterns in the wake of the sharp FDI- and fuel price-related increases in recent years), aided in part by an expected decline in international import prices forecast over the medium term. By contrast, exports should grow strongly, to be supported by large recent investments in the mining sector. On the capital account side, available information suggests that FDI inflows will continue to remain strong for the foreseeable future. These patterns support staff's view that the dinar remains fairly valued.

7. With a narrowing current account deficit and strong FDI inflows, Jordan's external debt burden could be halved in five years (to 26% of GDP) and international reserves should remain strong. Updated staff debt sustainability analysis also suggests that the external position should be robust to major shocks.

Public debt

8. Assuming prudent fiscal policies, Jordan's debt burden should fall below 60% of GDP by end-2011, the target recently announced by the government. Under current baseline projections, the target could be reached even earlier than this. The authorities intend to reach a lower-than-targeted debt ratio by 2011. However, the cushion provided for relative to the new target—projected at about 5% of GDP—offers some scope to respond to large negative shocks. The mission views the achievement of Jordan's public debt target as instrumental in supporting Jordan's macroeconomic adjustment process. Given its importance, the authorities intend to incorporate this new target in a revised Public Debt Management Law soon after the new parliament convenes, following the November parliamentary elections. A medium-term path for the primary balance excluding grants will be set (including as part of the annual budget law) in line with reaching this debt target.

9. The amended 2007 budget, which targets an overall deficit of 2% of GDP, is in line with the new limit, although downside risks remain. In the absence of a fully automatic price adjustment formula for all fuel products, Jordan's budget outcome will be highly sensitive to oil price developments (these prices have increased since the budget was formulated). (Staff calculates that an oil price increase of $5 a barrel adds about 1% of GDP to the budget deficit on an annualized basis, in the absence of corresponding domestic fuel price increases.) Higher food prices may further add to these risks, as most of the budgeted food subsidy has already been disbursed in the first quarter of 2007. Also, spending pressures may increase in an election year.

10. These short-term risks could be mitigated in a variety of ways. One step would be to introduce soon an automatic formula-based fuel price adjustment mechanism. While this may not be possible in the next few months, as a stop gap measure, consideration should be given to setting in advance a specific oil price trigger, beyond which, compensatory domestic fuel prices would be increased (the 2007 budget provides for fuel price-related social safety transfers). The mission also recommends that a set of further specific contingency measures be identified, and that these be applied as soon as the budget target appears in danger of being breached. These measures might include pre-specified cuts in transfers, and non-priority current and capital spending. At the same time, any over performance of revenue, including as a result of expected transfer of own-budget agencies' surpluses to the treasury as mandated by a recent law, should be saved.

11. Looking to the medium term, containing spending is key to supporting the fiscal adjustment process. Total government spending is targeted to fall by 4% of GDP over 2006-11. A comprehensive set of expenditure measures will be adopted to help support the debt and spending targets. Supporting structural measures, including on public financial management and improving efficiency of spending should also be put in place as soon as possible. At the same time, revenue could be enhanced by introducing petroleum product taxation, reforming the income tax regime, and further strengthening revenue administration.

12. With domestic financing requirements set to increase (winding down of Paris Club rescheduling and privatization) the authorities could expand their set of debt instruments. In particular, consideration should be given to issuing a JD-denominated international bond (including in sukuk form). Given Jordan's favorable economic circumstances and ample regional liquidity, demand for such an instrument could be high. Such a move would widen the investor base and help minimize private sector crowding out. If launched successfully, it would also mark the first domestic currency international bond issued in the region. Consideration could also be given to issuing domestic sukuks, which would likely lower funding costs. Finally, the yield curve should be extended beyond five years should conditions permit, to reducer rollover requirements and establish longer-term benchmarks for the financial sector. The Fund is willing to provide technical assistance as needed to help with the debt management process.

13. Finally, the CBJ and the Ministry of Finance (MoF) should continue to coordinate closely. In particular, the full and early disclosure of government debt instrument issuance would assist the CBJ with liquidity management and in the conduct of monetary policy more generally. The mission welcomes the ongoing discussion on issuing long-term government securities to address CBJ balance sheet weaknesses. This action will maintain the CBJ independence and credibility. Following this, and in line with the practice of most independent central banks, a clear prohibition on further government borrowing from the CBJ should be enshrined in law.

Private Sector Credit Growth

14. While bank prudential indicators remain sound, despite last year's stock market sell off, Jordan's rapid private sector credit growth in recent years, from an already high base, calls for continued vigilance. Particular care is required with new forms of lending, which carry greater risks, such as margin and non-collateralized loans, which have been growing rapidly. Also, since the rapid lending increase of recent years has taken place during robust economic conditions, banking profitability and other indicators have yet to be tested in an economic downturn.

15. To this end, the CBJ should continue to build on the major progress it has already made in improving the supervisory framework. The measures that have already been taken by the CBJ on this front include stepped up on- and off-site supervision, and the introduction of an early warning system and a prompt corrective action framework. Banks have also been required to strengthen their risk management systems and stricter provisioning rules have been introduced.

Looking ahead, the planned introduction of electronic checking clearance will help strengthen the payments system. To complement these actions, it is important that the new Credit Bureau and Anti-Money Laundering legislation be adopted as soon as possible. To help build on this progress, the authorities could request soon a focused Financial Sector Assessment Program (FSAP) update for the second half of the year.

16. On a related issue, the mission welcomes the CBJ's plans to simplify the interest rate structure and thus enhance the conduct of monetary policy. For a start, the mission supports the CBJ intention to narrow its interest rate corridor (which could help stabilize interbank interest rate volatility and allow for stronger monetary signals), and suggests to bring the repo rate slightly below the discount rate to reflect differences in maturity. Clear communication to the public, commercial banks, and other market players that this does not represent an easing of monetary conditions is critical. The use of collateralized, as opposed to unsecured (using the Master Repurchase Agreement), together with continued removal of excess liquidity by the CBJ through the issuance of certificates of deposit, would help promote a deep interbank market.

Other

17. Decisive steps are needed to accelerate public financial management reforms. For a start, and following the initial progress made, the remaining steps for establishing a Treasury Single Account should be completed soon. Budget coverage and classification could also be improved to make the budget a more comprehensive tool for macro-fiscal management. Other outstanding reforms include fully operationalizing macro-fiscal function at the MoF, developing medium-term expenditure framework, and implementing a government financial management information system (GFMIS). Finally, in view of the potential private sector involvement in new infrastructure projects, the primary focus should be on strengthening public investment planning, creating appropriate legal and institutional framework with proper accounting and transparent disclosure of fiscal risks, as well as a strong role for the MoF in safeguarding public finances. (IMF07.05)

Back to Table of Contents

11.3 Kuwait: Aviation Takes Off

Kuwait's fasten seat belt sign is still lit, as the country's aviation sector continues its ascent toward higher growth and bigger profits. The emirate is at the leading edge of the world's fastest growing regional aviation market, and while it is experiencing some turbulence, the planned multi-billion dollar expansion of its international airport and the dramatic growth of Jazeera Airways suggest that it is still climbing to its cruising altitude.

The center piece of Kuwait's expansion plan is a $2.1b upgrade of Kuwait International Airport. An integral part of the government's drive to establish the country as a regional financial and trade hub, the project will expand the airport's existing two runways and build a third, as well as increasing fuel storage facilities. A private aviation terminal and a VIP lounge are also expected to be completed soon. Altogether, the projects will double the airport's capacity from 5 million passengers to nearly 10 million.

While the airport expansion is the focus of the government's bid to boost the emirate's aviation industry, the Directorate General of Civil Aviation has begun pursuing an increasing number of bi-lateral open skies agreements to bolster the international travel and tourism market. Last month, Kuwait concluded a new memorandum of understanding (MOU) with Turkish civil aviation authorities. The MOU increases the number of flights between the two countries and follows on the heels of an open skies treaty signed last year with the US.

Kuwait is also home to the Middle East's first wholly private commercial air carrier, Jazeera Airways, which recently finished its first full financial year of operation, registering a profit of $8.7m and revenues of over $74.5m. Unlike most of the older regional carriers, Jazeera, which was established in 2004, is neither owned nor subsidized by any national government. It has evolved over the past two years from a small start-up with a fleet of two aircraft servicing five destinations, to a recognizable brand covering 20 destinations with a fleet that will soon include ten Airbus A320s. Says Marwan Marzouq Boodai, CEO of Jazeera Airways, "We are committed to raising the bar and heralding the future of the aviation industry in the Middle East as it moves into the private sector."

According to Ahmad Alzabin, chairman and CEO of Kuwait-based Aviation Leasing and Finance Company, "Airlines like Jazeera have been creating their own markets rather than poaching passengers from other airlines, and this has stimulated increases in passenger traffic at Kuwait Airport."

Indeed, Jazeera is by no means the only airline to take advantage of the increasing privatization of the region's carriers. If everything goes according to plan, another private no-frills carrier, Wataniya Airways, should make its debut in Kuwait later this year. Wataniya, which was founded in 2005 by a consortium of Kuwaiti shareholders, will eventually begin operations to regional destinations.

The outlook is not all rosy for the Kuwait's carriers, however. Kuwait Airways Corporation, the parent company of Kuwait's national carrier, posted a loss of over $80m last year, for the 15th time in the past 16 years. Its losses since the 1990 invasion of Kuwait (when it lost most of its fleet and suffered a sharp drop in revenue) total nearly $1.8b. Kuwait Airways has been scheduled for privatization for over a year now, with some sources estimating a 70% stake will eventually be floated, but delays appear to have stalled the project for the time being.

The Arab region has shown some of the fastest traffic growth in the world. Six of the world's top 20 growth markets for the aviation sector are located in the Middle East and in 2006, for the fourth year in a row, the Middle East led the world's traffic growth, reaching nearly 13% in inter-regional traffic and 6% for intra-regional traffic. Although cargo traffic slowed somewhat, passenger traffic in the Gulf Co-operation Council (GCC) region grew by over 8% in the first quarter of 2007 compared to the first quarter of 2006; between the GCC and other regions, traffic grew by 11.3% over 2006. Arab airlines purchased over 38 new aircraft this year, 80% of which were aimed at international or long-haul routes. By 2025, there will be an estimated 1100 aircraft based in the region. The fast pace of expansion means that the region's carriers have one of the youngest fleets in the world. According to the Arab Air Carriers Organization, the average age of aircraft in the region is 9.08 years.

The region's high market growth does not appear to be a statistical anomaly. Given the GCC's rapidly-expanding tourism sector, its high liquidity and economic boom, its lack of viable transportation alternatives and its fast rate of population growth, the gains made by the aviation sector look to be sustainable. According to Global Futures and Foresight, a London-based think tank, with the over $25b governments are pouring into their airport expansion projects, capacity in the region is expected to reach over 300m passengers by 2025. (OBG11.05)

Back to Table of Contents

11.4 Kuwait: Mall Mania

It is appropriate that the world's largest billboard is announcing Kuwait's largest mall in one of the world's fastest-growing retail markets. Almost 1 km in length, the billboard advertised the first phase opening of The Avenues, a $2b mall and the newest entry into Kuwait's rapidly expanding retail real estate sector.

Oxford Business Group observed that with its local population growing by over 7% a year, and the expatriate population growing by over 10%, consumer spending in Kuwait is set to increase dramatically in the near future. Record oil prices have boosted both GDP and liquidity and while retail spending generally follows GDP growth, the additional social benefits of oil revenue spending in Kuwait have sent consumer incomes skyrocketing.

Speaking with OBG, Raghu Sarma, senior financial analyst at Kuwaiti investment bank Global Investment House, said, "In keeping with the high rate of growth throughout the Gulf Cooperation Council, retail demand in Kuwait too is very high. There is a lot of activity heating up the market, as evidenced by the recent opening of The Avenues Mall. With the diverse array of franchises and brands, the new shopping centre is bringing to Kuwait, consumers will be exposed to a new retail environment, which in turn will impact the local retail market."

When it is completed in 2010, The Avenues will eventually comprise over 140,000 sqm of retail space, including the largest IKEA store in the region, 10 cinemas, an entertainment complex, 39 restaurants, four-star hotels, a business and convention centre, office space and a 15,000 vehicle parking structure - all in a former industrial zone. The sheer size of the development, in a market where 20,000 sqm shopping centers are common, is a clear indication of the growing attention on retail mega-projects within Kuwait. The real estate company behind The Avenues, Mabanee, is planning on pursuing similar projects in the future, according to CEO Fatma al-Bader. While only the first phase has been completed, Mabanee still has over 700 applications from potential tenants for the next three phases. Demand was such that an additional 10% worth of retail area had to be added during construction.

The Avenues will soon see new competition however, as further retail developments come online. Tamdeen Real Estate, for example, is planning a pair of large new entries into the market. The first is 360° Kuwait, a mall with 75,000 sqm of retail space and three anchor stores. The second will be the Mall of Kuwait, which will have several anchor stores and over 150,000 sqm of retail area.

The rapid growth the retail real estate sector is seeing is by no means limited to Kuwait. The turnover for the retail sector in the GCC exceeds $100b each year. Ensuring there is sufficient space for the booming industry has made the retail real estate market one of the fastest growing in the world. In the 1990s, shopping centers in the GCC offered around 1m sqm of retail area, with only 20 international brands present. Since then, floor space has grown to over 5.3m sqm and over 500 global brands. Furthermore, with the large population growth and the increasingly active tourism industry, the GCC retail area is expected to increase three-fold to over 16m sqm by 2010 - an increase of over 565% since 2000. In Dubai alone, there is an additional 4.6m sqm of new shopping space planned over the next four years.

By 2010, according to global real estate firm Colliers International, although Kuwait will still be behind the UAE and Saudi Arabia in terms of overall space, providing only 10% of the supply, it is expected to see a rise of 233% to 1.2m sqm.

All of this expansion, however, has put a strain on the supplies of land, building materials and labor. With real estate development also booming in the residential and office sectors, courtesy of the region-wide budget surpluses and high revenues, costs of construction have shot up dramatically. The cost of land in Kuwait, for example, has in some cases increased five-fold over 2003 prices, while materials have risen by over 20%. (OBG04.05)

Back to Table of Contents

11.5 Bahrain: Continued Industrial Progress

Bahrain's flourishing industrial sector continues to be at the heart of the kingdom's successful drive to diversify its economy. The country's industrial champion, Aluminum Bahrain (Alba), has been the subject of much of the recent good news. Recently, the company's chairman, Esam Fakhro, said the government is planning to sell up to 40% of Alba in an initial public offering (IPO). Such a move would further confirm the seriousness of Bahrain's privatization drive, which was recently bolstered by the government's IPO of Seef Properties, owner of the kingdom's largest mall.

While there may be changes to the organization's ownership, Alba's CEO Ahmed al-Noaimi, recently said the company is expecting this year will set new records. In 2006, Alba had its highest metal production of 872,000 metric tons (mt), in addition to selling off around 10,000 mt of inventory metal, to set a new sales record of more than 883,000 mt last year.

Alba also unveiled its $13.2m closed storage facility for petroleum coke at the company's calciner plant. The facility is expected to contain the carbon dust and particles produced during unloading and extraction, which should help protect the environment inside and around the plant.

Bahrain-based United Stainless Steel Company (USCO) recently opened for business, sending its first delivery of steel worth $115,000 to a company in Riyadh. Established in Bahrain in 2005, USCO is the first within the Gulf region to manufacture and provide high-quality stainless steel flat products. The steel segment of the industrial sector received a further boost when it was revealed that Saudi Arabia's Al-Tuwairqi Group plans to build a steel plant in Bahrain that will have an annual production of approximately 1m tons of steel rebar.

These latest industrial developments have continued the sector's growing prominence. Bahrain's Minister of Industry and Commerce Hassan Fakhro recently said that $1.6b worth of industrial projects were licensed to operate in Bahrain last year, compared to $884m worth in 2005. Fakhro added that Bahrainis are likely to benefit from the employment opportunities on offer, claiming that out of 5,931 jobs promised by the industries licensed last year, 2,855 Bahrainis are expected to be employed.

As more companies set up their operations in Bahrain, the kingdom has witnessed high demand for its industrial space. As recently as last week, it was announced that 40% of the $1.3bn Bahrain Investment Wharf (BIW) has already been reserved. A joint venture between Al Khaleej Development Company (Tameer) and the ministry of industry and commerce, BIW contains an 800,000sqm industrial park that will accommodate small- and medium-sized industries.

However, Bahrain's continued industrial progress is not satisfying everyone. Rehan Ahmed, senior environmental specialist within the public commission for the protection of marine resources, environment and wildlife, recently urged Bahrain's industries to minimize the amount of waste they generate. Ahmed said that around 380 tons of industrial waste per day is being generated in Bahrain due to industrial activities and rapid development.

Privatization still remains a hot topic. Alba's proposed IPO was recently criticized by its trade union president, Ali bin Ali. Besides citing a fear of job losses, Ali said that Alba's workforce should receive a percentage of the shares instead of the IPO being solely focused on private sector investment. (OBG08.05)

Back to Table of Contents

11.6 Bahrain: Consolidating for Growth

Bahrain recently gained full ownership of Gulf Air after 33 years of partnering with other Gulf States. The kingdom will take over Oman's remaining 20% stake in the airline. The Oxford Business Group reviewed the move, which is expected to help Bahrain achieve its aim of being a tourism destination.

The airline is clearly important to the kingdom's economy. Gulf Air is responsible for 70% of the aviation traffic at Bahrain International Airport. Moreover, at least a quarter of its 6000 strong workforce is Bahraini nationals. The airline states it contributes at least $770m to the country's GDP, a significant sum when compared to the country's nominal GDP of $13b.

This recent development followed last month's announcement of Gulf Air's new Get Well strategy under its recently installed CEO, Andre Dose. The $825m program is aimed at making the airline profitable as it currently reports losses of $1m a day. One key component entails reducing the airline's fleet from 34 to 28 aircraft, with all of its fleet coming from a single company, thus reducing maintenance costs. Other key pillars of the plan include renovating existing aircraft and ground facilities as well as improving customer service through higher punctuality, better reliability and lower connection times.

Six loss-making long-haul routes will also close by July 1 - Dublin, Johannesburg, Singapore, Sydney, Jakarta and Hong Kong. According to Dose, this move will allow Gulf Air to re-allocate its assets more effectively as it will strengthen the airline's network in specific areas either by increasing flight frequencies to other key destinations or by assigning the aircraft for service on high demand sectors.

Gulf Air's cause is also likely to be helped by the aviation sector's growing prominence in Bahrain. The number of passengers traveling through Bahrain International Airport rose to 7 million in 2006, up from 5.7 million in 2005. The growth in passenger and cargo traffic has been fuelled by the increase in Arab, regional and international flights and the establishment of new airlines. Moreover, the Middle East Business Aviation Association (MEBAA) said it expects Bahrain to play a major role in the growth of the business aviation industry in the Middle East, which is expected to double in the next five years.

These recent developments have been welcome news in Bahrain. In October 2005, the government of Abu Dhabi withdrew its involvement in Gulf Air, prompting fears the airline would become a victim of the region's increasingly competitive airline industry. This is especially pertinent with the global expansion of the United Arab Emirates' carriers - Dubai-based Emirates Airline and Abu Dhabi-based Etihad Airways - as well as Qatar's Doha-based Qatar Airways.

Industry observers have recently questioned whether Gulf Co-operation Council airlines could continue to find enough passengers to fill their planes as investment has been running ahead of revenues. However, as more regional and international airlines are increasing the number of flights they make to Bahrain, the need for additional airport capacity is growing. Combined with concerns that Bahrain's national airport is not capable of handling the expected increase in passenger traffic and aircraft, Bahrain has been quick to address the issue with plans to expand its airport over the long term. The first phase, which is due to be completed by 2010, is expected to bring capacity up to 15m passengers a year. Future phases will bring capacity up to 45m passengers a year, but are not envisaged until far into the future. (OBG15.05)

Back to Table of Contents

11.7 Qatar: Standing Out From The Crowd

With the third-largest gas reserves in the world, a robust and fast-growing economy defined by economic diversification and increased liberalization, foreigners have reason to eye Qatar as an investment destination. The Oxford Business Group feels that while investment legislation has been streamlined to encourage business over recent years, investors still face some hurdles in setting up shop locally. Comparisons with neighboring states in the Gulf Cooperation Council (GCC) region are instructive, illustrating how Qatar measures up to its neighbors.

Qatar is taking active steps to make itself more investor friendly. Measures to reverse previous restrictions upon foreign ownership of businesses are notable. In accordance with the Foreign Investment Law -Law No. 13 of 2000, Qatar allows full foreign ownership of enterprises operating in a number of sectors subject to approval from the ministry of economy and commerce.

The question is how Qatar can now close the gap on some of the competitive advantages enjoyed by neighboring states. Reducing the time to set up and register a business is a key consideration. While it takes three to four weeks to set up a business in Qatar, four days are required to set up a business in Saudi Arabia, six days in the United Arab Emirates (UAE) and a comparatively lengthy 55 in Kuwait. Compared to the four procedures required to set up a business in Saudi Arabia, a total of eight are required in Kuwait, compared to three in the UAE. Just four steps are required in Qatar.

Allowing 100% foreign ownership for a number of select industries marks some increase from the 49% restriction of old in Qatar. This is not to deny that the 49% ownership rule still applies to a number of national industries, as practiced elsewhere in the Gulf region. Like in Qatar, non-GCC nationals are allowed to own 49% of companies in Bahrain, with no exchange controls, and free repatriation of capital. Full ownership by foreign firms is also permitted in certain industries, such as those related to technology (cable and telecoms), tourism, health care, education and vocational training. The same rule applies in the UAE, where a firm must have one or more national partners whose share can not be less than 51% of capital. The UAE of course rides on the pulling power of its free trade zones (FTZs), which allow 100% foreign ownership. In this respect, Qatar's legal framework governing ownership now differs little from that of Bahrain or the UAE.

Apart from removing ownership restriction in industry, Qatar has provided a range of incentives for foreigners looking to set up shop. As elsewhere, the government encourages joint ventures, knowing that Qatari industry will benefit through equity participation while gaining the know-how of foreign players. From a much longer list, foreign investors may benefit from attractive rental rates, such as industrial land at QR1 per sq meter per year, exemptions on customs duties on imported machinery, spare parts and other intermediary goods, not to mention reduced energy and water costs. Equally, the government may provide tax exemptions for up to 10 years for major projects.

However, most other GCC states are offering similar incentives. Kuwait's 2001 Foreign Direct Investment Law also focuses on absorbing the benefits of advanced technology and know-how of foreign multinationals. A 10-year, extendable tax holiday is also on offer. Like Qatar, the government must grant prior approval for investors to qualify. Bahrain in the meantime has developed a reputation for a flexible investment climate and its tax-free status. The only corporate income tax in Bahrain is levied on oil and gas companies at a rate of 46%. While the maximum levy on oil producers is 55% in the UAE, in practice, most other industries (apart from such sectors as banking and courier services) do not currently pay corporate tax. Of course, the UAE's large number of FTZs offer an even broader range of investment incentives.

Qatar's own FTZs are something of an exception to national structures. The Qatar Science & Technology Park (QSTP) and Qatar Financial Centre (QFC), both allow 100% foreign ownership, streamlined registration systems and favorable tax regimes. The QSTP was established for research and commercialization, targeting technological start ups. As an onshore financial and business centre, the QFC caters towards financial service companies. The separate legal environment of the QFC - designed to best facilitate business for financial service companies - epitomizes the extent to which FTZs serve as an internal enclave within the state for business.

Though Qatar's FTZs provide clear advantages for financial and technological companies, the country is introducing FTZs more selectively than in the UAE. Consider the number of industries targeted by the UAE's Saadiyat, Jebel Ali Free Zone, Dubai Technology & Media Free Zone, Dubai Car & Automotive Zone, Dubai Health Care City, Dubai Silicon Oasis and Hamriyah Free Zone, to name but a few. Qatar's FTZs nonetheless enjoy the important advantages of being onshore, enabling them to conduct business directly with other entities in the country. Still in their infancy, the real pulling power of the QFC and QSTP are yet to be realized.

Meanwhile, Qataris are aware that a shift in the speed of conducting business-related activities will take time. One Doha-based lawyer from an international law firm compares Qatar to Dubai 10 years ago in terms of the pace of business. Things tend to be more relaxed than in the UAE, though insiders say the government needs to be more proactive with the business community. A plan to lift restrictions on foreign ownership of companies by autumn 2006 has yet to materialize. While foreign companies presently pay up to 35% income tax, Qatari companies pay nothing, though there have been tentative plans to address this.

Yet, looking at Qatar as a member of the GCC, the country is hardly lagging behind in terms of its investment climate. The 2007 index of economic freedoms, provided by the Heritage Foundation, is instructive. While Qatar was placed in 72nd position, the UAE was in 74th place, Saudi Arabia trailed in 85th and Kuwait notched an impressive 57th internationally. The enactment of legislation intended to increase Qatar's attractiveness as a business and investment destination has been notable over recent years. Now the challenge is to continue to push and match Qatar's impressive economic credentials with an even better investment climate. (OBG02.05)

Back to Table of Contents

11.8 Qatar: Highest GDP Per Capita

Qatar's GDP rose to a record high of $52.7b in 2006, registering a nominal growth of 24.2% over the previous year while its GDP per capita rose to a record level of $62,914, giving Qatar the highest GDP per capita in the Middle East and among the wealthiest countries in the world.

The Oxford Business Group noted that due to strong hydrocarbons exports, Qatar has enjoyed a healthy trade surplus for the past few years. According to the ministry of finance, Qatar is expecting the budget surplus to reach $1.8b for the 2006-2007 fiscal year, significantly above its initial forecast of $632m. Revenues were estimated at $19.9b for the fiscal year completed at the end of March, an increase of 27% year-on-year. Behind this unparalleled growth lie proactive macroeconomic initiatives and ongoing reforms by the government, designed to develop both the financial sector and capital market.

To this end, Qatar Financial Centre (QFC) was established in Doha in May 2005 with the aim of attracting international financial institutions and multi-national companies. Through the QFC, a new benchmark and independent legal infrastructure was set up. "Here at the QFC we want to attract quality, not quantity. International institutions are attracted here because we are providing a fair and transparent system that offers the standard of any major financial centre anywhere in the world," Stuart Pearce, chief executive of the QFC Authority, told OBG. Another step was taken in July 2005 to allow companies to buy back 10% of their own shares to improve share prices.

On April 4, 2005, Qatar officially allowed non-Qatari investors to purchase shares on the DSM. They were allowed up to 25% of the equity of listed companies. In 2005, the DSM had a market capitalization of $87.1b, a rise of 115.5%. Since then it has been falling at rates of 30.1% in 2006 and 9.9% in the first quarter of 2007. However, foreign investors are not allowed to participate in any Initial Public Offering (IPO) while Gulf Cooperation Council citizens have that privilege on some occasions.

Further reforms in 2006 led to significant changes in the capital market, with the Doha Securities Market (DSM) creating a securities market regulatory authority called the Qatar Financial Market Authority (QFMA). The newly established QFMA started its activities on April 1 and absorbed the DSM in late April. The aim is to form an impartial body that contributes to the development of a sound financial system.

Nasser al-Shaibi, the deputy chief executive of QFMA, commented, "Qatar's economy has grown tremendously over the past few years and has drawn a great deal of financial interest from local, regional and international investors. This interest and resulting increase in activity has led to the need for some controls to be put in place to provide a level of security to investors. We are confident that the regulatory authority structure we have put in place and the competent management team will help to raise investor awareness and will provide them with the protection they enjoy elsewhere in the world".

Thanks to Qatar's new regulatory framework, foreign investors are increasingly looking at Qatar's opportunities, which has been reflected in the amount of foreign direct investment (FDI) flowing into the country. According to the United Nations World Investment Report 2006, Qatar attracted nearly $1.5b of foreign investment and ranked third among GCC states concerning levels of FDI. Strong fiscal performance and ongoing reforms have also been acknowledged by Standard & Poor's Rating Services which upgraded Qatar's sovereign rating to 'AA-' from 'A+'. (OBG02.05)

Back to Table of Contents

11.9 Dubai: The Biggest of Them Mall

On May 5, government-owned Dubai Holding announced that it has been instructed by the country's ruler, Sheikh Mohammad bin Rashid Al Maktoum, to start work on the world's largest shopping zone as the centre piece of the Bawadi development, part of the $63.4b Dubailand project. The project is to bring together a vast network of shopping malls, boutique arcades, streets lined with outlets and an underground retail complex in one enormous development.

When completed in 2016, Bawadi, a $27.25b hospitality and leisure zone within the Dubailand project, will have 3.6m sq meters of retail space and is intended to be a focal attraction for the country's tourism industry in which Dubai is investing heavily as part of its program to diversify its economy. With its recreational facilities including theme parks, museums and cultural attractions, combined with a wide range of accommodation and vast shopping options, the aim is for Dubailand to draw in some 15 million visitors annually by the middle of the next decade.

"Bawadi will serve as a major boost to the overall Dubailand development," said Saeed al-Muntafiq, executive chairman of Tatweer, the part of Dubai Holding that is conducting the project. "It will, undoubtedly, accelerate our drive to develop a world-class hospitality and tourism project in Dubai and the region," he said on May 4.

In total, the new shopping area's gross leaseable area (GLA) will be four times the size of the yet to be completed Dubai Mall and 17 times larger than the Mall of the Emirates, which currently holds the title of being the biggest retail complex in the emirate. Apart from the immense shopping boulevard, Bawadi will have hotels with a capacity for 29,000, entertainment and convention centers and an upmarket residential component.

While the Bawadi development will be the largest retail centre in the emirate and the world, it certainly will not lack for competition. Even before the Bawadi development was announced, Dubai was in the midst of a massive retail space construction boom, with a 209% increase in retail space tipped by the end of 2010, bringing the total GLA to 4.25m sq meters. Only days before the release of the detailed plans for the Bawadi project, local developer MAF Shopping Malls announced it was to spend $700m on a shopping complex on the Emirates Road. The mall, to be known as the Mirdif City Centre, is to cover 183,400 sq meters and house more than 430 retail outlets.

However, unlike the Bawadi development, which targets the tourist trade, MAF's new mall has local residents in mind as its client base. MAF's chief executive officer, Graham Drevermen, said the site of the new mall was in the middle of the fastest-growing area of Dubai, one that has been earmarked for major residential developments in the next five years. "By 2010, the population of the center's trade area is estimated to grow to over 530,000, with an anticipated 15.6% a year growth rate and a matching retail spending forecast of over $2.43b," he said in a May 1 interview with the local press.

However, there have been a few notes of warning sounded on the mushrooming of malls and retail space across the emirate, with some concerns as to whether the economy can sustain such an expansion. A recent report from real estate firm Colliers International said that per capita retail spending in Dubai will have to more than double the present $3,500 to $8,400 by 2010 to keep all of the retailers occupying this vast network of outlets in the black.

If all goes according to plan, this should not be a problem. In the Dubai Strategic Plan, set out by Sheikh Mohammad in February, Dubai's economy is projected to expand by 11% annually, with the country having a gross domestic product of $108b by 2015 and per capita income of $44,000, enough to sustain the increased retail space. Drevermen also rejected any suggestion the emirate would be oversupplied with shopping space. "The United Arab Emirates' per capita GLA is one square meter compared to three square meters in the US and two square meters in Europe," he said. "This means, even at the current population size, there is room for more shopping malls." (OBG08.05)

Back to Table of Contents

11.10 Northern Emirates: Energy Quest

While the United Arab Emirates (UAE) is credited with oil reserves of 97.9 billion barrels and 214.4 trillion cubic feet (tcf) of natural gas - in both cases the fifth largest reserves in the world - the Northern Emirates' combined reserves account for only 1.6% of the federation's oil and about 5.5% of its gas. Of all, Sharjah is the best-endowed, with reserves of 1.5 billion barrels of oil and 10.7tcf of gas.

But in a world of soaring oil prices, growing demand and dwindling reserves, smaller fields in more remote locations are no longer deterring energy companies. As such, the long-overlooked Northern Emirates' energy sector is heating up, with these emirates embarking on ambitious plans to raise their profile in the global energy race and secure enough supplies for their own soaring energy consumption.

Sharjah, Ajman and Umm al-Quwain have joined forces to develop two offshore gas fields. The areas - Umm al-Quwain-3 in the eponymous emirate, and Al Zora sitting on the Sharjah-Ajman border - would produce 150 million cubic feet (mcf) per day initially, and up to 300mcf per day in the more distant future.

The Al Zora field, the larger of the two with recoverable reserves of 317 billion cubic feet (bcf), was initially discovered by Sharjah's Crescent Petroleum Company, which will co-develop it in partnership with Atlantis Holdings. Atlantis Holdings and Abu-Dhabi based UAE Offset Group will develop the Umm al-Quwain field, with an estimated 300bcf of recoverable reserves.

The acquisition of Atlantis Holdings by Chinese state-owned giant Sinochem in 2003, shortly after it had announced it would co-develop the two fields, is a strong sign of renewed international interest in previously overlooked regions, such as the Northern Emirates: high oil prices, combined with new recovery techniques such as horizontal drilling, mean that small and technically challenging assets can now be profitable.

Ras al-Khaimah (RAK), meanwhile, has adopted a different strategy. Cognizant of the fact that it has little oil and gas resources of its own, the emirate created RAK Petroleum in 2005, aiming to develop it into an international player. The company rapidly went on a shopping spree, acquiring all of Indago Petroleum's production assets (and 50% of its exploration assets) in March of 2007, a move followed by the buyout of London-based Gulf Keystone.

Indago Petroleum's assets are located in RAK and in Oman. Among them, the West Bukha-2 field, located off the coast of RAK, seems to be the most promising, with tested flows of 12,750 barrels per day (bpd) of oil and 26mcf/day of gas. Exploration wells are also being drilled on the Jebel Hafit prospect onshore Oman. Similarly, the acquisition of Gulf Keystone has given RAK Petroleum access to that company's assets in Algeria, where it is developing several hydrocarbons fields. Finally, RAK Petroleum signed a memorandum of understanding with Australia's Anzon Energy that will increase both companies' co-operation in the Middle East.

Fujairah's oil sector is also in for a boost, in a different fashion. Fujairah's unique location overlooking the Indian Ocean has allowed it to become the third bunkering port in the world, a position it secured during the Iran-Iraq conflict: war operations blocked the Strait of Hormuz, and dropping anchor at Fujairah soon became an attractive alternative for tankers.

History may be repeating: Abu Dhabi-based International Petroleum Investment Company (IPIC) recently announced plans to build a pipeline from Abu Dhabi's oilfields to Fujairah as soon as 2008. This decision is nothing short of strategic, and is mostly driven by the fear that tensions between Iran and the US might escalate into a full-scale conflict, once again leading to the closure of the Strait. This pipeline would have a capacity of 1.5m bpd, allowing roughly 50% of the UAE's exports to bypass the Strait completely.

IPIC is also planning to build a 500,000 bpd capacity refinery and has announced it would go ahead with the plan even if its partner, US-based ConocoPhillips, who is reportedly unhappy with delays and rising costs, steps out. The government of Fujairah announced recently the sale of its stakes in the existing Fujairah refinery to Swiss group VITOL. That refinery, which was put on hold in 2003 due to poor profitability, has a capacity of 82,000 bpd. These two developments would transform Fujairah into a significant refining hub for the region, putting it at the forefront of the Northern Emirates' - and the region's - oil industry. (OBG10.05)

Back to Table of Contents

11.11 Northern Emirates: Expanding Road Transport

Easy and fast transportation are crucial assets for the Northern Emirates, observes the Oxford Business Group, which rely on the proximity of more populous Dubai to attract residents and businesses, and whose industrial development depends on the existence of a modern transport infrastructure.

Virtually all transportation between members of the United Arab Emirates (UAE) is road-based. The most vital link connecting the Northern Emirates with the rest of the region is a highway known as Emirates Road. But the highway's capacity is increasingly being put to the test by ever-growing inter-emirates traffic. To cope with the upsurge, several projects are underway to improve the road. The emirate of Ajman, for instance, is pushing a new connection that would allow future large-scale residential areas (such as the Al-Zora project) to be directly connected to the Emirates Road. A third lane will also be added soon on the Dubai-Fujairah portion of the road, at an announced cost of $68m. Other improvements are in the pipeline.

Sharjah, directly neighboring Dubai, must also tackle what has become a now intractable commuting problem. Every day, tens of thousands of Sharjah residents drive to Dubai for work and back - creating what has become the federation's worst traffic jam at the border between the two emirates. Fortunately, work is set to begin soon on the main road that links the two cities: the Al-Ittihad road is set to become an expressway, according to a recently unveiled government plan. At an estimated cost of $226m, the new infrastructure will be 16-lanes wide on some stretches and include several over- and under-passes. Since the proposed improvements are located on the other side of the border, Dubai's Roads and Transport Authority (RTA) will be in charge of the project. Belhasa Road Constructing Company and National Wheel J&P Company were awarded contracts on the project.

Another portion of the planned road upgrades is Sharjah's Al-Wahda Street, which will be transformed into a double-decker expressway. Work has already begun on the project, which is estimated to cost $130m and to be completed in three years.

However, the main causes of congestion - an ever-increasing number of cars and a virtually non-existent public transport network - are not being addressed. Inadequate synchronization between Dubai and Sharjah, and lack of information about up-and-coming projects, are also complicating matters. For instance, while Dubai's authorities have stated that the future Dubai Metro - which is presently under construction and should start operating in late 2009 - will eventually be extended to the border of Sharjah, there are no known plans to extend it beyond that point. Instead, bus routes would depart from Sharjah and drop passengers at the Dubai metro station. To address the whole issue, Sharjah Public Transport Corporation has commissioned a comprehensive public transport study, but no details have emerged, other than that it encompasses public buses and metro line plans.

But the authorities are beginning to realize the potential of public transportation infrastructures. Dubai's RTA recently announced that the fleet of inter-city buses that connect Dubai with each of the Northern Emirates' main towns will be expanded from 110 to 280 buses early next year.

But an even more attractive solution to interconnect the emirates - and, in the longer run, other countries in the region -

could emerge in the shape of a train network. In late 2005, the federal government commissioned German transport consultancy Dornier to launch a feasibility study for the construction of a freight and passenger train network. The railroad would connect the seven emirates - from Al Ruwais in the west to Ras al-Khaimah in the north and Fujairah and Khor Fakkan on the East Coast. The railroad would primarily be dedicated to freight, but would also carry passengers. Preliminary findings of the study estimated the construction cost at $3.8b. The whole network would be 700 to 1000 km long, would not be electrified, and would allow 100 conventional trains to operate each day.

The government has declared it would look into public-private partnership scenarios to implement the initiative. No further details have emerged since these first announcements. However, the recent signature of a $1.9b contract by the Saudi government to build a 2400km railway for industrial and passenger uses, might entice the UAE government to speed up its own railroad network plans. (OBG03.05)

Back to Table of Contents

11.12 Saudi Arabia: All-Round Reassurance

On the back of foiled terrorist plots against Saudi Arabia's oil installations on 27 April, Minister of Petroleum and Mineral Resources Ali al-Naimi sought to reassure the key Asian market that supply would remain uninterrupted. "Saudi Arabia's record of fighting terror...is outstanding and very effective," he told a gathering of Asian oil importers and key exporters in Riyadh. He was speaking at the Second Asian Ministerial Roundtable, organized by the Riyadh-based International Energy Agency (IEA). The Saudi security forces recently arrested 172 Islamic militants accused of plotting various terrorist acts including high-level assassinations, airborne atrocities and attacks against the kingdom's oil installations.

Despite the government's concerted effort to diversify the economy away from its reliance of hydrocarbons, record high oil prices - in part due to Middle Eastern instability - has meant that the treasury is enjoying bumper revenues. Figures from the Saudi Arabian Monetary Authority (SAMA - equivalent of the central bank) show oil export revenues stood at $191b for 2006, an 18% increase on 2005 levels.

Reports that plans seized and information gleaned from the security forces' various raids indicated that attacks were in advanced stages of preparations will do little to reassure traders long-term. Prices reflected this going into the week of the Asian roundtable. The fact they were averted before disaster struck gave the market some relief but underscored the vulnerability of supply. As trading re-started on 30 April, prices for sweet crude on the New York Mercantile Exchange for June delivery fell by 18 cents to $66.28. Across the Atlantic Brent Crude in London trading on the ICE Futures Exchange dropped the same amount to finish at $68.28 a barrel.

Prices have steadily risen since the most recent low of $50 a barrel back in January; analysts were quick to point out that the downward trend experienced immediately after the arrests was likely to be short-lived following reports from the US that gasoline reserves were worryingly low going into the summer motoring season. Recently released figures from the US Department of Energy showed that held gasoline reserves had fallen by 2.8 million barrels. In addition the apparent continued deterioration of the situation in Iraq and the ongoing standoff between the West and Iran regarding its nuclear aspirations mean it likely prices are likely to remain high.

"I'm afraid security issues are a consistent factor in our [oil] exporting, and therefore a factor in pricing," one Riyadh-based economist told OBG. So, as the delegations of Asia's largest oil consumers gathered in Riyadh, it was no surprise that al-Naimi sought to reassure them. "About 55% of the Middle East's oil exports go to the Asian market and demand is expected to grow in coming years as economies such as China and India boom. I would like to assure you that the importing Asian nations can depend on West Asia [Middle East] for future security and reliability of oil supply, he said."

Securing the confidence of Asian markets is of huge importance to Saudi Arabia as much of the kingdom's social and economic reform is set to be fuelled by sustainable oil revenues. It appears to be a situation of mutual dependence - al-Naimi predicted that the Asian market would account for 70% of future oil demand growth. Al-Naimi told reporters at the conference that despite this growth in demand, there were no plans at present to increase Saudi output beyond the stated goal of 12.5m barrels per day (bpd) by 2009. He said that the increase will give us a spare capacity of 1.5m to 2m bpd, and in the light of other exporters also aiming to increase their production, it was better to wait and assess the market at that time to determine whether further increases are necessary.

One oil analyst at the conference told OBG he was surprised that high prices for these importing nations have not been more of an issue. He said that the assumption had to be that Asian consumers, although clearly wishing the prices were lower, were able to pay in the $60 range for their crude without harming economic growth. Still, Claude Mandil, head of the IEA, told the press, "Oil stocks are not growing as much as they should at the moment, so there is not enough oil in the market.... It is no secret we think the price is too high."

Mandil did not however explicitly call for Organization of the Petroleum Exporting Countries (OPEC) to increase production. Last year, OPEC cut 1.7m bpd after prices tumbled from record highs in the summer. Saudi Arabia is a key member of OPEC and its swing producer, able to increase or decrease capacity to maintain stable oil prices. The organization's member states, and in particular the kingdom, have frequently referred to the importance of maintaining sensible pricing, recognizing that inflated prices are damaging to both importers and exporters alike.

The conference concluded with a ten-point statement that touched on co-operation, sustainability, predictability and greater efficiencies between Asian consumers and exporters. Producers, who are starting to struggle keep up with domestic energy demand, have come to realize that their oil will need to be complemented by alternative energy sources and other energy policies in the future. Oil will still make up the majority of energy consumption, but with demand expected to continue to stretch supply, producers and suppliers are in agreement about the importance of non-hydrocarbon solutions to keep oil prices stable over the long-term. (OBG08.05)

Back to Table of Contents

11.13 Saudi Arabia: Mine To Metal

Saudi Arabia's National Mining Company (Ma'aden) and Canada's Alcan signed a $7b joint venture agreement in Riyadh on Monday, which will hopefully enable the kingdom to develop a world-scale aluminum plant by 2011. As reported by the Oxford Business Group, the deal paves the way for a partnership between the two companies to develop what Ali al-Naimi, the minister of petroleum and mineral resources, described at the ceremony as "one of the largest, vertically integrated operations of its type in the world". It will include every aspect of the process from the mining of the raw material to alumina refining, power generation and finally aluminum smelting.

Michel Jacques, the president and chief executive officer of Alcan Primary Metal Group, told OBG he hoped the details of the joint-venture agreement would be completed by 2008 and that they were looking for construction to start early 2009 with the first metal being produced in 2009.

Ma'aden was created as a 100% government-owned joint-stock company in 1997 and charged with developing the kingdom's non-oil mineral resources. At that time, most of the country had not been surveyed for mineral deposits. Bauxite reserves were subsequently found in the northern region at Az-Zabirah, with proven reserves of some 90 million tons, equating to about 30 years of supply, according to Ma'aden.

The agreement builds on these identified bauxite reserves, and comes at a time when the company is embarking on a major development project in its other core area of operations, phosphates - Ma'aden recently signing a $3.4b partnership with Saudi Arabian Basic Industries Company (SABIC) to develop a world-scale fertilizer complex at Ras Az-Zour on the Gulf coast, where the aluminum project will also be located. Both will be part of the Minerals Industrial City inaugurated by al-Naimi last year.

In reference to the scale of recently announced projects and financing, Abdullah al-Dabbagh, the president and chief executive officer of Ma'aden, said capital was being raised via partnerships and conventional borrowing. He added that the proposed initial public offering (IPO) scheduled for 2006, which would see a portion of the company's stock listed on the Saudi stock exchange, "was unlikely to take place before the end of the year".

Alcan, which will own a 49% stake in the project, brings in significant experience, particularly in terms of its renowned AP36 pot-line technology. Jacques, explained that this major investment "validates Alcan's growing position" in the region, which is strategically positioned, with good proximity to export markets, but also has considerable advantages in terms of competitive prices and readily available energy. Alcan signed a partnership with Sohar Aluminum Smelter in 2005.

Aluminum production, both in terms of the refining process and the smelting process that turns it into aluminum, requires high levels of energy. Asked whether Ma'aden had come to an agreement with Saudi Aramco in terms of pricing, al-Dabbagh said the government obliged them to use crude oil at a price set centrally, rather than gas. The kingdom somewhat lags behind other Gulf countries in developing natural and related gas production, and industry insiders have for some time expressed concern regarding future allocations. It is therefore not surprising that the proposed generator will be fuelled by crude-oil, something the kingdom has in abundance.

The site will be powered by a 1400 MW electricity and desalination plant. Al-Dabbagh told OBG that while the different aspects of the proposed Minerals Industry City - the fertilizers complex and aluminum plant - will be financially independent, they were looking to create an infrastructure company to provide water and power services. He said there was capacity for "supply to other projects coming into the area. Ras A-Zour is suitable to other related industries...(it) has a large space suitable for downstream companies that have synergies up or downstream".

He commented that there were already "a large number of people from the Gulf and internationally who are interested in becoming partners". Richard Evans, CEO of Alcan, said global demand for aluminum was growing at approximately 5.5% per annum, much of it from the East, where the kingdom is developing strong commercial ties. Demand from booming China grew by 25% alone last year - topping the United States at 22%. (OBG03.05)

Back to Table of Contents

11.14 Egypt: Building Car Sales

While sales of automobiles with engines smaller than 1.6 liters are booming in Egypt, luxury car manufacturers are also moving production into the country. Last year total car sales reached 133,591 units, a 40% increase on 2005. The biggest rises have been in imported Completely Built Up (CBU) cars, which arrive fully assembled, with engine sizes of under 1.6 liters. Car sales continued to rise in 2007 with 23,921 vehicles sold in the first two months of 2007 compared to 17,159 units sold in the corresponding period last year.

The growth in sales of imported cars follows the government's decision to slash import duties on cars in the 1.6 liter or smaller category to a unified rate of 40%. Previously, cars in the 1.0 - 1.5 liter range had been subject to a 55% import tax and those with slightly larger engines had an even higher tax rate. Don Butler, chairman and managing director of General Motors (GM) Egypt, said he believes that the tariff reductions, combined with the increased purchasing power of the Egyptian population, have made small and low-medium cars affordable.

However, the remaining high tariffs on vehicles with larger engines, which stands at 135%, has led to a growing market in Egypt for Completely Knocked Down (CKD) vehicles, cars that are locally assembled from local and imported parts. Butler said, "The bulk of GM's work is in the production of CKDs for business-to-business vehicles such as pick-up trucks and medium-duty commercial vehicles."

The figure for completely locally manufactured vehicles in Egypt, which includes trucks, buses and minivans, in addition to cars, was 87,000 units in 2006, up from 72,000 in 2005.

Luxury cars are beginning CKD production in Egypt. Bavarian Auto Group, which holds the rights of assembly, import and distribution of BMW and Rolls Royce vehicles, also performed well in 2006 with both the number of employees and turnover rising. In addition to these high-end cars, Bavarian Auto introduced the Galena Brilliance, a luxury car from China, to the Egyptian market. In December 2006 Daimler Chrysler began constructing the Mercedes S-Class on a Semi Knocked Down basis to complement their existing C-Class and E-Class CKD vehicles.

John Stech, CEO and managing director of Daimler Chrysler Egypt, said that the continued success of the business lies in the government's Customs policy. He told OBG, "A complete reduction of import tariffs on cars would make the Egyptian CKD business obsolete as it will always be cheaper to import from foreign high-volume production plants."

Stech said he anticipates import tariffs will drop but is concerned by the lack of transparency in government policy. "We need to know the long-term plans for Customs reduction in order to make long-term projections, especially in calculating how much time we have to recover our investments in CKD production."

Others in the industry, however, have said that investment in CKDs is both risky and short sighted. Ahmed Sharafeldin is CEO of Egyptian International Motors, which imports and distributes Renault CBU passenger cars. While Sharafeldin said his company had considered entering the CKD market, he believes it has little future. He told OBG, "For me, any business that is based on protection is ill-conceived. Egypt should focus on feeding the industry and not on assembly." Sharafeldin told OBG, "The lack of a clear plan has the effect of stalling the industry as consumers hold off purchasing a CBU in the hope of further tariff cuts and cheaper prices in the near future."

The government is also taking steps to increase the volume of exported Egyptian auto parts. There are 375 companies that manufacture automobile components in Egypt worth $351m. The ministry of trade and industry announced in early April that licenses of car manufacturers would be revoked if they did not use a minimum of 45% local materials or export local components to make up any deficit in meeting this requirement.

At the same time, the ministry has launched a number of incentives aiming at encouraging the local vehicle parts industry and promoting its exports. These incentives will be implemented in specialized industrial zones that will be established during the current year in cooperation with Russia, Germany and China. These are expected to attract investments amounting to $1bn and exporting products amounting to $1.5b during the next five years.

According to the ministry of trade and industry, additional incentives include providing a long-term land lease of up to 40 years while the Centre for Modernizing Industry will contribute to the cost of training workers by 80%. Moreover, the Export Support Fund will support the vehicles industry for 5 years with subsidies amounting to 10% of the value of these exports during the first two years. These will gradually be reduced to 8% in the third year and one percent less in each of the following three years.

Despite this new focus on automobile parts for export and the commitment to free market economics enshrined in recent constitutional amendments, the CKD business remains strong in Egypt. While many industry insiders anticipate import taxes on foreign cars will drop in the long term, few expect this drop to happen very soon. What most in the car industry agree upon is that a clear timescale for customs reductions from the government is essential. (OBG04.05)

Back to Table of Contents

11.15 Egypt: Mobiles, Three's a Crowd?

On May 1, Etisalat, the holder of the third mobile phone license in Egypt, officially launched its service in the country. Etisalat's entrance represents a major new challenge to the existing Mobinil and Vodafone duopoly and a major opportunity for the growth of the Egyptian mobile telecommunications sector. In recent weeks, new bright green and white shop fronts and billboards have been erected across Cairo as the telecoms company from the United Arab Emirates (UAE) seeks to make its presence felt. Last week's introduction was a soft launch as a deal on national roaming, which will allow Etisalat to use the networks of the incumbent mobile phone operators, will be finalized in the coming two to three weeks.

In mid 2006, a consortium including Etisalat Emirates (66%), Egypt Post (20%) and the National Bank of Egypt (10%) paid $2.9bn for the rights to become the third mobile phone provider. While many analysts were surprised by the heavy price tag, Mohammad Hassan Omran, chairman of Etisalat, said, "Egypt is a huge market with a population of 70 million, but mobile penetration is still below 20%. This presents tremendous potential and we expect mobile penetration to go up to 50% over [the next] three to five years."

The company has set a target of attracting 10m subscribers before the end of 2010. While many in the industry agree that the potential growth in the number of Egyptian mobile phone users is huge, the profitability of these new users is subject to doubt.

Ian Gray is CEO and managing director of Vodafone Egypt, which holds a 47% share of the mobile phone subscribers market. He told OBG, "In recent years, the cost of mobile phone handsets and calls has come down considerably and made mobile [phone] ownership possible to a wide number of people in the lower income brackets. However, many of these customers spend less that $20 a year on their phones. Our priority is not to maximize our customer numbers but to provide excellent service and a one-stop-shop for the telecommunications needs of Egyptian businesses."

Last year, Vodafone contributed 1.5% of Egypt's GDP and, despite having fewer users than Mobinil, achieved a 55% share of revenue income, suggesting that they currently attract more of the high spending subscribers. Currently, approximately 92% of the Egyptian mobile market is made up of pre-paid subscribers but it is the post-paid customers who spend the most.

Alex Shalaby, CEO of Mobinil, takes a different approach. He told OBG, "At Mobinil, our philosophy is to achieve maximum market share in terms of customer numbers. We believe that in the long term, the increase in consumer spending power will pay back this investment."

In March 2006, Mobinil celebrated its 10 millionth customer by staging a Shakira concert in front of the Giza pyramids. Shalaby said he is confident his company's customers will stay loyal to the network. One step the company took to ensure that loyalty, quickly imitated by both Vodafone and Etisalat, was to provide lifetime validity of prepaid services. In the past, prepaid credit had a limited lifespan. He said he believes that the identification of Mobinil as truly Egyptian network will appeal to new users. Mobinil's recent regional tariff, which targeted users outside of Cairo and Alexandria, actually boosted revenue by encouraging more usage with cheaper rates.

Etisalat's announcement that the price of calls will range from £E0.35 to £E 0.45 per minute, which compares with the rates for Mobinil and Vodafone service, have allayed fears that the new operator will launch a price war. Gray and Shalaby agree that future competition will be based on the quality of service. Shalaby told OBG, "In 2006 we made significant investments in preparation for the new competition. We are working to improve voice quality within the confines of our license and enhance customer service. It is also likely that we will buy a 3G license in the near future."

At the moment Mobinil works on a 2.5G license, Etisalat is set to use a 3.5G technology and Vodafone will launch its 3G service soon. While 3G technology offers cutting edge transfer of videos and other media, its real advantage to the operators is increasing the volume of data that can be transferred on the network. Gray added, The advanced features of the 3G service will be popular with the enterprise sector by allowing them to take their office with them but in reality, 3G is all about maximizing capacity.

What seems sure is that while the entrance of Etisalat will affect the incumbents' market share, it will galvanize the continued spread of mobile phone usage across the country. Shalaby said, "The market is set to grow faster than ever as each company makes attractive offers to first-time users. Penetration rates could reach 40% in the not-too-distant future."

While the true battle for customers will not really begin until the issues of national roaming and number portability are resolved, the main players seem set for the ensuing competition. Both Mobinil and Vodafone have lost a number of employees to aggressive Etisalat recruiting strategies in the last year, but they seem ready for the challenge. "The market is set to become more complex," said Gray. "We will tap into our previous experience and we intend to win." (OBG09.05)

Back to Table of Contents

11.16 Fitch Revises Turkey's Outlook to Stable on Political Risks

Fitch Ratings (http://www.fitchratings.com) has revised the Outlooks on the Republic of Turkey's foreign currency and local currency Issuer Default ratings ("IDR") to Stable from Positive, owing to heightened political risks. At the same time, the agency has affirmed the IDRs at 'BB-' (BB minus), the Short-term foreign currency rating at 'B' and the Country Ceiling at 'BB'.

"Although Turkey's current prudent fiscal policy stance, impressive growth performance and strong FDI inflows are consistent with improving macroeconomic fundamentals, negative political shocks have raised event risk and clouded the credit outlook," says Edward Parker, Head of Emerging Europe sovereigns at Fitch.

Presidential elections have sparked an escalation in political risk in Turkey, in Fitch's view. The military's threat to intervene and the subsequent judgment by the Constitutional Court prevented Foreign Minister Abdullah Gul of the ruling Justice and Development Party, which has its roots in political Islam, from being elected president. Parliamentary elections will now be brought forward to July from November and may result in a weaker coalition government. The constitution may not provide a clear road map for choosing a new president, while elevated tensions between the secular establishment and political Islam may persist. EU accession, an important policy anchor, may be more problematic than before.

Meanwhile Turkey's economy is generally performing well. Real GDP growth was 6.1% in 2006, despite market turbulence in the spring that triggered a rise in interest rates to 17.5%. It has averaged 7.2% over the past five years - the best performance since at least the 1960s. The consolidated budget deficit narrowed to just 0.7% of GDP in 2006 from 16% in 2001, helping to reduce government debt to 61% of GDP at end-2006 from over 100% in 2001, though above the 'BB' range median of 40%. Public debt dynamics should remain favorable, though are vulnerable to interest and exchange rate risk, as well as a potential loosening in post-election fiscal policy.

Nevertheless, inflation remains stubbornly high at 10.7% in April and will overshoot the Central Bank's end-2007 target of 4% by a substantial margin, for the second year running. This will reduce the scope for further monetary policy easing so that the risk of a sharper than expected slowdown of the economy cannot be wholly discounted. The current account deficit widened to 8% of GDP in 2006 from 6.4% in 2005, and Fitch forecasts 7.2% in 2007, albeit half financed by net FDI. Nevertheless, Turkey's external debt ratios are well above 'BB' range peers and its gross external financing needs are the largest of any emerging market in USD terms, rendering the economy vulnerable to adverse shifts in global investor sentiment as well as domestic shocks. Official foreign reserves have risen to around $70bn from $37bn at end-2004, albeit partly reflecting "hot money" inflows such as non-resident purchases of local equities and domestic debt; while Turkish residents have increased foreign currency bank deposits by $27bn since April 2006. (Fitch10.04)

Back to Table of Contents

11.17 Turkish Political Crisis Unlikely To Have Any Immediate Impact On Sovereign Credit Ratings

Standard & Poor's Ratings Services (http://www.standardandpoors.com) said on 1 May that the escalation in political tensions over the past week are unlikely to have any immediate impact on the sovereign credit ratings on the Republic of Turkey (foreign currency BB-/Stable/B; local currency BB/Stable/B).

"Turkey's creditworthiness is underpinned primarily by the improvements in economic management witnessed over the past six years," said Standard & Poor's credit analyst Farouk Soussa. "Consequently, the ratings are unlikely to be affected by near-term financial market volatility alone. The current political crisis may have longer-term implications for Turkey's creditworthiness, however, in the event that it results in an interruption in, or reversal of, prudent economic policy."

Over the past week, political tensions in Turkey have been ratcheted up over the question of who will stand as a candidate for the country's next president. In recent years, the presidency has been seen as providing a secular counterbalance to the Islamist tendencies of the Justice and Development Party (AKP) parliamentary majority. On April 24, Prime Minister Recep Tayyip Erdogan put an end to speculation that he would run for the presidency himself, by announcing the nomination of foreign minister Abdullah Gul, a well-respected and popular politician both within Turkey and internationally. Nevertheless, expectations that this would diffuse a looming crisis were soon thwarted when opposition parties pulled out of the parliamentary voting process, challenging the legality of the vote in the constitutional court on the basis of what constitutes a parliamentary quorum.

In a widely criticized and retrograde step for Turkish democracy, the military also issued a strongly worded statement expressing concern over the alleged de-secularization of politics and reminding the government of its readiness to uphold the republic's founding secularist principles. Street demonstrations by pro-secular groups have added to the tensions in what has become a stand-off between the government and the military. Uncertainty regarding how this stand-off will be resolved is causing anxiety among the investment community, although the constitutional court decision, expected ahead of the second round of voting on Wednesday, may help provide some clarity.

Turkish financial markets are vulnerable to swings in investor confidence arising from political volatility, and the Istanbul stock exchange and the new Turkish lira have both been adversely affected in recent days. In the past, Standard and Poor's has commented particularly on Turkey's external vulnerability, arguing that while the long-term fundamentals remain sound, near-term volatility in the exchange rate is to be expected due to the preponderance of leveraged transactions (such as the carry trade) that seek to take advantage of the high real interest rates on offer in Turkey.

Turkey's fundamental creditworthiness, however, is largely unaffected by near-term volatility in financial markets. Strong fiscal consolidation over the past six years, vastly improved monetary policy and stability, wide-ranging reform in the banking sector, and a surge in investment, productivity, and economic growth, are all factors that have helped underpin the robustness of the Turkish economy. This was demonstrated in May and June of 2006, when a 25% depreciation in the currency over the space of a few weeks had limited impact on the real economy, save through a rise in inflation expectations and a subsequent hike in interest rates by the central bank. (RatingsDirect01.05)

Back to Table of Contents

11.18 Turkey: Twilight Zone

Serhan Cevik of Morgan Stanley (http://www.morganstanley.com) commented that in his view, "Turkey has suffered a major blow to institutional credibility. One of the most important aspects of normalization is institutional development away from changes out of the blue. Unfortunately, the Turkish military’s unexpected venture into politics has altered the country’s political and institutional landscapes so that no one really knows what is going to happen next. Take, for example, the presidential election process. The Constitutional Court annulled the first round of the presidential election and imposed a new quorum requirement that is almost impossible to meet under the current conditions. Indeed, with 352 seats out of 550, the ruling AK Party could not elect the president on its own, and its candidate, Abdullah Gul, has (unofficially) withdrawn from the election process. Under normal circumstances, this would lead to the immediate dissolution of parliament and early general elections. However, parliament has also voted for holding the elections on July 22 and ratified a series of constitutional amendments (including the public vote on presidency) that would radically change Turkey’s political system. Of course, perhaps unsurprisingly, there is yet another debate on whether a parliament that is about to dissolve itself can approve such a complex amendment to the constitution and whether the outgoing president would approve these changes. In other words, there could be a new legal battle staged at the Constitutional Court and even a public referendum on constitutional amendments before or after the elections. The situation is now full of institutional and political uncertainties."

"It seems that market participants do not care much about deteriorating institutional predictability. Some of the key assumptions market participants have had about Turkey’s future direction are now, to say the least, weaker and questionable. But asset prices reflect no change after recent events: the lira is as strong as ever and interest rates are back to the level before the political turmoil. It seems that strong global appetite for ‘risky’ assets is the driving factor for the time being. Even though I still believe in the fundamental strength of the Turkish economy, it would be imprudent to ignore the blow to institutional credibility and deepening political uncertainties. I have always argued that bringing elections forward would help to shorten the period of ambiguity and thereby support a stronger economic performance. However, the risks Turkey now faces are no longer simply related to domestic politics within the realm of democratic institutions. We do not know how the voters will react to all these peculiar developments and, more importantly, how the European Union will treat the fragility of Turkey’s democratic regime. Needless to say, we need to better understand the reasons behind the political turmoil in order to assess the fallout on multiple fronts ranging from the voting behavior to the future of accession negotiations with the EU."

"Secularism is not under threat, but a deep-rooted fear is still prevailing in certain circles. It is easy — and even appealing — to conclude that recent events are a result of a clash between secularism and religion in Turkey. Even though there is a grain of truth in such arguments, it is still too simplistic, in my view, and ignores a plethora of economic, social, ideological and political factors. One of the widely quoted figures showing the rise of religion is the number of Turks identifying themselves as Muslims, which indeed increased from 35.7% in 1999 to 44.6% last year. However, to a trained economist, this figure alone does not tell much about the risk of religious fundamentalism in Turkey. That is why I highlighted the details of a comprehensive, reputable survey in an earlier briefing note. Even with the strengthening of Muslim identity — a global phenomenon taking place in all Muslim countries — the number of Turks in favor of a religious state declined from 21% in 1999 to 9% last year. Put differently, survey results show that the overwhelming majority of Turks — 76% — stands against a regime based on religious principles. Nevertheless, there is a deep-rooted fear among certain circles that a party like AKP with historical linkages to political Islam represents a threat to the secular principles of the republic."

"The risk is not religious fundamentalism, but isolationist nationalism. Turks, by and large, are against a regime change towards a structure based on even loosely defined religious principles. This may come as a surprise, but the ‘Turkish version’ of Islam has long become ‘secular’ over the centuries and arguably reflects personal attitudes rather than a political agenda. Even so, Turkey is a big country with more than 70 million people and therefore it would not be surprising to find individuals and groups in favor of radical ‘Islamization’. This is probably why there is still a lack of trust between the country’s so-called ‘secular establishment’ and political parties (like the ruling AKP) with a greater propensity to play religious overtones. Indeed, even though all the existing evidence suggests that the AKP leadership does not have a ‘hidden agenda’ to establish a Sharia-based state, its occasional mismanagement (such as attempts to criminalize adultery, to create alcohol-free zones and to appoint the CEO of an Islamic financial institution as the governor of the Central Bank of Turkey) has undermined its credibility earned though integrating Turkey with the EU. Consequently, fear-driven politics remains a valid currency in the political realm and results in polarization in the society. However, the real problem is not radical religious fundamentalism, in my view, but isolationist nationalism seeking to keep Turkey out of the EU as a closed economic and political system. In other words, recent developments are a reflection of the status quo’s resistance against greater openness."

"Election uncertainty is a risk, but my main concern is about Turkey’s relationship with the EU. What has happened recently has undoubtedly increased the degree of uncertainty in parliamentary elections, and I will focus more on political maneuverings (including mergers between center-right and left parties) in the coming days. However, my main concern is about Turkey’s already fragile relationship with the EU. No candidate country has experienced what Turkey is going through now, and that makes the EU’s response to the military’s role even more critical for the future of accession negotiations. As an important part of the political criteria to start membership talks with the EU, Turkey has introduced a series of legal and constitutional changes to address democratic deficiencies and to demilitarize the political landscape. Indeed, Brussels has emphasized the “stability of institutions guaranteeing democracy [and] the rule of law” as well as the normalization of civil-military relations in Turkey as a key requirement for membership. Even though the Copenhagen criteria leave room for flexible interpretation of civil-military relations, the Turkish case has always been uniquely problematic. As a result, given the history of military intervention, the EU has kept communicating concerns about the extent of convergence in Turkey’s civil-military relations towards a platform that is in harmony with liberal democracy and European standards. Unfortunately, just as the EU is waiting to see “full, effective and comprehensive implementation” of legal and constitutional changes, the military’s foray into politics as an autonomous and powerful actor has undermined the process of institutional reforms and accession negotiations between Ankara and Brussels."

"Turkey now stands at a crossroads for democratization and greater openness. Thanks to the abundance of global liquidity and attractiveness of carry trades, market participants have so far dismissed the fallout from political shocks in a number of countries like Thailand, Ukraine, Romania and Turkey. However, I am not so inclined to ignore what could become a fundamental shift in the political landscape. The military’s reaction has certainly sparked a serious political debate and introduced a risk that was not present in the past five years. This is why, from a fundamental point of view, I am more cautious, even with my enthusiasm about Turkey’s macroeconomic strengths to withstand shocks. Of course, institutional change is never easy and always takes place with occasional setbacks. Therefore, I am also in favor of treating the current impasse as an opportunity to narrow Turkey’s democratic deficit and accelerate the evolution towards liberal democracy — a challenge only the voters can now tackle." (MS09.05)

Back to Table of Contents

11.19 Turkey: Blue Stream

In 2006, Turkey received 19.6 billion cubic meters (bcm) of gas from Russia (63% of total gas imports) of which 7.4 bcm came through Blue Stream, a major trans-Black Sea gas pipeline that carries natural gas directly from Russia to Turkey. Although the volume carried through Blue Stream is increasing in pace, the capacity used is still less than 50%.

Half-empty Blue Stream serves as a "last resort" option to supply peak demand and to address unexpected gas supply cuts during severe winters in Turkey. Iran, which supplied 14% of Turkey's gas needs in 2006, has been, from time to time, an unreliable supplier. For instance, it cut gas deliveries on January 3, 2007 on the grounds that its domestic demand increased. Turkey's excess demand was met by increasing imports from Russia, Algeria and Nigeria until Iran resumed supplying gas at a lower volume on January 5. Similar instances have occurred in the past, such as in December 2006, when Iran cut its exports to Turkey, leading to an increase in supply of Blue Stream.

The pipeline, which was officially inaugurated in November 2005, was constructed by Netherlands-based Blue Stream Pipeline, a joint venture between Russia's Gazprom and Italy's ENI. Blue Stream Pipeline is owner of the sea section of the pipeline, including the Beregovaya compressor station, while Gazprom owns and operates the Russian land section of the pipeline and Turkish energy company Botas has the part located on Turkish soil.

After reduced prices were achieved in the contracts for the delivery of Russian gas via the Western route (i.e. the pipeline crossing Ukraine, Moldova, Romania and Bulgaria), as well as with Iran, Botas negotiated a reduction in the prices and overall volume of gas transiting via Blue Stream because the volume initially contracted - 16 bcm per year - was more than Turkish demand could support. Instead of going to an international arbitration process, as originally considered by Gazprom, the parties managed to reach a settlement which resulted in the reduction of prices.

"We would like to cooperate with Turkey on transiting Russian gas to Southeastern Europe and the Middle East. With the help of this crucial proposal, Turkey will have a very strategic position in the energy market," said Servey Kupriyanov, a spokesman for Gazprom to a group of Turkish journalists in Moscow, in November 2006. He mentioned two alternatives, either the extension of the existing Blue Stream pipeline or the construction of Blue Stream-2 pipeline that would run alongside the existing Blue Stream pipeline.

Gazprom's interest in a possible extension of Blue Stream southwards has been long known. Gazprom and Hungarian state oil and gas company MOL signed a preliminary agreement shortly after Putin's visit to Hungary in March 2006. Besides, Alexei Miller, Gazprom's chief executive officer, and Janos Koka, Hungary's economy and transport minister, signed on June 21, 2006 a non-binding agreement to open the way for Gazprom's expansion via Hungary, deeper into EU territory.

These agreements support Gazprom's ambitious plan for a South European Gas Project (SEGP), counterpart to the North European Gas Pipeline, a planned natural gas pipeline from Russia to Germany. SEGP would extend the Blue Stream pipeline from Turkey to Bulgaria, Romania and Hungary, into Slovenia or Croatia, terminating in Italy. Considering the route and the partnership with Hungary, the Blue Stream extension project is competing with the proposed Nabucco gas pipeline project, planned to transport natural gas from Turkey to Austria via Bulgaria, Romania and Hungary, which is a strategic priority for the EU in order to decrease its dependence on Russian gas. (OBG03.05)

Back to Table of Contents

- Israeli Shekel conversions done at a rate of NIS 4.00 = $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 3.66 = $1.00

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

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

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