

Fortnightly - May 30, 2007

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1: ISRAEL GOVERNMENT ACTIONS & STATEMENTS

1.1 Tel Aviv Light Rail Concession Signed

On 28 May, the State of Israel and the MTS consortium, led by Africa-Israel Investments signed the franchise agreement for the construction of the first line of the Tel Aviv light railway. The agreement was signed five months after MTS won the tender for the light railway. The agreement was reached after the Knesset Finance Committee approved the state's commitment to award MTS a \$1.75b set-up grant, amounting to 70% of the project's cost. The agreement stipulates that MTS will have six years to build the railway line, including planning, and that work is scheduled to be completed by the first quarter of 2013. MTS will operate the line for 32 years, after which the infrastructure will be transferred to state ownership. The agreement also stipulates that the state will promote detailed planning of the project in parallel with closing the financing. The state will transfer \$32.5m for the planning. The Ministries of Finance and Transport said that MTS undertook to make reciprocal procurements amounting to 30% of the project, which is thought to be the largest ever proportion in Israeli economic history. Africa-Israel's partners in MTS are Egged Israel Transport Cooperative Society; Siemens AG, China Civil Engineering Construction Corporation and Sociedade de Construcoes Soares da Costa SA of Portugal. The consortium won the tender in December 2006. (Globes 28.05)

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1.2 Israel to Desalinate More Water After Government Rescinds Restrictions

On 20 May, the cabinet unanimously voted to rescind restrictions on the amount of water that can be desalinated each year. The proposal to lift the cap of 230 million cubic meter of water a year had been tabled by National Infrastructures Minister Ben-Eliezer. Next month, the cabinet will begin designing a new program for desalination, and discussing how many more plants should be built. The government has been addressing the issue of desalination since May 2001. In 2002 it set a target of treating 400 million cubic meters a year, but in 2006 the cabinet created restrictions and rules that in practice, lowered the ceiling to 230 cubic meters of water a year. However, experts have projected that by the year 2020, demand should grow by 350 million cubic meters a year. In parallel, climatic change could reduce the supply by as much as 450 million to 600 million cubic meters a year. Most likely, a tender will be issued to build a desalination plant south of Rishon LeZion. The Mekorot water facility is already planning one in Ashdod. At present Israel has a desalination plant in Ashdod that provides 100 million cubic meters of water a year. Within weeks, a smaller one at Palmachim should start producing 30 million cubic meters of water a year. Another plant in Hadera is expected to start production in three years, putting out 100 million cubic meters of water a year.

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2: ISRAEL MARKET & BUSINESS NEWS

2.1 Intel & STMicroelectronics Gives Kiryat Gat Fab to New Company for Non-Volatile Memory Solutions

STMicroelectronics and Intel have announced that they plan to merge their flash-memory businesses along with private equity firm Francisco Partners. The new company will combine key research and development, manufacturing and sales and marketing assets of Intel and STMicroelectronics into a new company. The new company's strategic focus will be on supplying flash memory solutions for a variety of consumer and industrial devices, including cellular phones, MP3 players, digital cameras, computers and other high-tech equipment. Concerning Israel, Intel now says that it's forming a new, independent semiconductor company in partnership with STMicroelectronics and Francisco Partners based on Intel's Kiryat Gat fab. Intel's Kiryat Gat facility has been considered a brand name since its creation in 1999, a familiar symbol of the company's established ties with Israel. More than a decade ago, Intel won a \$600m grant from the government of Israel to build the Kiryat Gat factory. That amount has since been returned through tax payments, but the chip maker still receives various tax breaks. Selling the factory will require a renewed discussion of these benefits. (Various24.05)

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2.2 Alvarion Wins Prestigious International Award

Tel Aviv, Israel's Alvarion (<http://www.alvarion.com>), the world's leading provider of WiMAX and wireless broadband solutions, announced that it was named the Most Innovative Wireless Broadband Company at the Wireless Broadband Innovation (WBI) Awards ceremony held in London. The Wireless Broadband Innovation Awards are prestigious independent international awards for users and service providers of wireless broadband. The awards recognize leadership, innovation and excellence in wireless broadband development and deployment. The judging criteria were based on market-leading products, quality of R&D and technology, and culture of innovation. The final winner was voted for by the industry and end-users. Alvarion's products enable the delivery of personal mobile broadband, business and residential broadband access, corporate VPNs, toll quality telephony, mobile base station feeding, hotspot coverage extension, community interconnection, public safety communications, and mobile voice and data. As a wireless broadband pioneer, Alvarion has been driving and delivering innovations for over 10 years from core technology developments to creating and promoting industry standards. (Alvarion24.05)

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2.3 Objet Opens New Office in Germany

Objet Geometries has opened a new business office in Germany. Objet Geometries GmbH, located in Griesheim, a suburb of Frankfurt, Germany, will handle all matters relating to customer support and resin orders for Objet's growing customer base in Germany, Austria and Switzerland. RTC, Objet's partner in German-speaking countries will continue to handle sales and marketing activities for Objet Geometries in the region. The German subsidiary is the second new office that Objet has opened this year. In January, the Company announced the opening of its US subsidiary which handles sales and marketing in the North American market and provides support for the growing Objet user base in the region. Objet also has offices in Shanghai and Hong Kong. The Objet headquarters and development center are

located in Rehovot, Israel. Objet Geometries (<http://www.2objet.com>), a pioneer in photopolymer jetting, develops, manufactures and globally markets ultra-thin-layer, high-resolution 3-Dimensional printing systems and materials that utilize PolyJet Polymer Jetting technology, to print ultra-thin 16-micron layers. PolyJet technology and Objet's high-speed product platform, which is suitable for use in an office-type facility, enables accurate, clean, smooth and highly detailed 3-dimensional models and parts. PolyJet technology enables manufacturers and industrial designers to reduce product-development cycles and dramatically shorten time-to-market of new products in many industries. (Objet Geometries 21.05)

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2.4 Atid, EDI's Plans Move Forward for ILSI-BioMed Israel 2007

Five of Atid, EDI's client states will be exhibiting at the US Pavilion at ILSI-BioMed Israel 2007 scheduled for the David Intercontinental Hotel in Tel Aviv, 5 – 7 June. Pennsylvania will be bringing a number companies to the event. Also participating will be Illinois, with five companies in attendance and Oklahoma, who will be bringing of company representatives as well as investment experts to the event. Georgia and Indiana will also have a presence there. The event is being organized by Kenes and the Israeli Life Sciences Industry Association, on whose Management Committee EDI participates. An additional cache of Pennsylvania companies will be participating in a three country trade mission, overlapping with the BioMed event, and will include Israel, Turkey & Jordan. Atid, EDI (<http://www.atid-edi.com>) is a Jerusalem, Israel based international consulting firm. Atid, EDI is best known for its representation of American state's trade and investment interests in the Middle East.

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3: REGIONAL PRIVATE SECTOR NEWS

3.1 Boeing 787s to Join Royal Jordanian Fleet

Boeing and Royal Jordanian announced an order for Boeing's highly sought-after 787 Dreamliner, confirming two unidentified customer purchases previously listed on Boeing's Orders & Deliveries Web site. The announcement was made at the World Economic Forum, an event sanctioned by the Jordanian royal family and held at the King Hussein Bin Talal Convention Center on Jordan's Dead Sea. Royal Jordanian is the first Middle East airline to announce an order for Boeing's 787, the fastest-selling new commercial airplane ever built. Royal Jordanian plans to confirm the purchase of its two outstanding options before the end of the year. The airline also intends to take an additional eight Boeing 787s on lease. Royal Jordanian was created in 1963 by a Royal Decree issued by His Majesty the late King Hussein, who was also known to be an excellent pilot. The Boeing 787 Dreamliner, scheduled for entry into service in 2008, provides passengers with a better flying experience, and operators with a more efficient commercial jetliner. (Boeing 20.05)

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3.2 American Soil Technologies Announces Successful Field Tests in Kuwait

Pacoima, California's American Soil Technologies announced that the first stage of initial field tests of Nutrimoist and Agriblend in Kuwait has been completed and that the results indicate "remarkable" improvement in the quality and yields of the potato crop that was tested. American Soil Technologies said this information from the Public Authority of Agricultural Affairs and Fish Resources (PAAFR) in Kuwait is very encouraging and is consistent with the positive laboratory test results announced by government agencies in the UAE and Kuwait in the summer of 2006. The field tests in Kuwait were done in a potato field and the polymers substantially improved the quality and quantity of the potatoes. The Kuwait government said that if the tests continue to show this remarkable improvement in agriculture product, American Soil Technologies products could dramatically change agriculture and horticulture in the region. The second stage of tests will focus on measuring the savings of water usage. Those tests will be conducted in October of this year. American Soil Technologies develops, acquires and markets cutting-edge technologies that decrease the need for water in agriculture and other plant growing businesses and promotes sustainable growing environments. (AST18.05)

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3.3 U.S. Chamber Launches U.S. - UAE Business Council to Strengthen Business Ties

On 16 May, The U.S. Chamber of Commerce launched the U.S.-UAE Business Council, a collaboration of leading companies in the United States and United Arab Emirates that are committed to expanding commercial relations between the two countries. According to U.S. government trade statistics, the U.S. exported nearly \$12b in goods and services to the UAE in 2006 - making it the largest U.S. export market in the Middle East and northern Africa. The U.S. is a profitable destination for UAE investment, especially in the real estate, manufacturing, and hospitality industries. The US-UAE Business Council was unveiled a day after UAE foreign minister, Sheikh Abdullah bin Zayed Al Nahyan, and Abu Dhabi Crown Prince Sheikh Mohammed bin Zayed Al Nahyan met privately with US President Bush at the White House. Some hurdles still stand in the way of the burgeoning trade links, however, as the United States and the UAE have yet to clinch a free-trade pact. Affiliated and housed at the U.S. Chamber headquarters building in downtown Washington, D.C., the Council will operate autonomously, advancing the commercial interests of its member companies by monitoring and advocating policies central to the bilateral relationship between the U.S. and UAE, and developing strategic relationships between U.S. and UAE business and government officials. The U.S. Chamber of Commerce is the world's largest business federation, representing more than 3 million businesses and organizations of every size, sector, and region. (USC16.05)

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3.4 Electron Solar Energy Signs New Dubai Distributor to Bring Solar Energy Systems to the UAE

Miami, Florida's Electron Solar Energy, an international distributor of alternative energy systems, announced that Tibo Company, based in Dubai, will sell the Company's solar energy systems through two branch offices and direct-to-consumer sales covering the entire United Arab Emirates (UAE). Tibo currently markets Electron's line of batteries. Electron believes that as Dubai's construction boom is progressing at an unprecedented level of luxury and technological

advancement, Dubai will be a hotspot for green building technology and alternative energy products for years to come. (Electron Solar Energy 22.05)

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3.5 GE Sells Plastics Business to SABIC for \$11.6 Billion

GE signed a definitive agreement to sell GE Plastics to Saudi Basic Industries Corporation (SABIC), a globally respected petrochemicals manufacturer, in a deal valued at \$11.6b in cash plus assumption of liabilities. GE will receive net after-tax proceeds from the sale of approximately \$9b. This acquisition of GE Plastics represents another step in SABIC's growth and diversification to become one of the world's leading manufacturing companies. GE Plastics is a high-quality organization with a great tradition at GE and it brings people, products and technology of significant value for their customers and growth. GE Plastics is a \$6.645b global supplier of plastic resins widely used in automotive, healthcare, consumer electronics, transportation, performance packaging, building and construction, telecommunications, and optical media. It is headquartered in Pittsfield, Massachusetts and employs 10,300 people in 60 locations worldwide. Headquartered in Riyadh, Saudi Arabia, Saudi Basic Industries Corporation (SABIC) is one of the world's 10 largest petrochemicals manufacturers ranked by market capitalization (currently \$80b). The company is among the world's market leaders in the production of polyethylene, polypropylene, glycols, methanol, and fertilizers as well as the fourth largest polymer producer. SABIC has record of operating excellence in safety, health and environmental protection for all of its facilities around the world. (SABIC21.05)

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3.6 Turkey's MN Pharmaceuticals & PAR Pharmaceuticals Sign Strategic Alliance

Istanbul, Turkey's MN Pharmaceuticals announced that it has signed an agreement with PAR Pharmaceuticals, based in Woodcliff Lake, New Jersey, to develop and market generic version of injectable pharmaceuticals. The companies will collaborate on the development of as many as 10 generic injectable drugs. Under the terms of the agreement, MN Pharmaceuticals will help PAR Pharmaceuticals to bring new generic products into the U.S. market and Par will provide regulatory affairs support and submit each Abbreviated New Drug Application (ANDA) to the U.S. FDA as the U.S. filing agent and MN Pharmaceuticals will be the registration holder. Par will be responsible for any litigation expenses arising from the ANDA submissions. Par will have exclusive rights to market, sell and distribute the products in the U.S. MN Pharmaceuticals and Par will share the net profits generated by all marketed products. MN Pharmaceuticals is one of the leading and oldest pharmaceutical companies in Turkey. MN is a leading manufacture of bulk pharmaceutical chemicals and finished dosage forms. Its high-capacity injectable units and lyophilization facilities make MN Turkey's most experienced pharmaceutical company in parenteral drug manufacturing. (MN 28.05)

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3.7 Toreador Announces First Gas Sales from Turkish Black Sea

Dallas, Texas' Toreador Resources Corporation and its joint venture partners TPAO (the Turkish national oil company) and Stratic Energy Corporation announced that first gas sales from the South Akcakoca Sub-Basin project have begun. Initial production is from three wells on the Akkaya platform, the Akkaya-1a, -2 and -3 at a rate of approximately 20 million cubic feet of gas per day (MMCFD). The production rate from the three wells will be adjusted as the remaining two platforms in the first phase of production are brought online over the next few months. When all three platforms are on full production, estimated to be early in the third quarter, the projected flow rate will be approximately 50 MMCFD to the 100% interest. Toreador has 36.75% interest in the project, TPAO has 51% interest, and Stratic has 12.25% interest. Pricing for the gas is based on the BOTAS (Turkish national pipeline company) posted guaranteed industrial tariff which in May is approximately \$8.90 per thousand cubic feet of gas (MCF). After discounts, the wellhead price based on current pricing is estimated to be \$8 per MCF. Pricing is adjusted monthly and will vary with the BOTAS posted price. Dedication of the production center occurred on 20 May and was officiated by Turkish Energy Minister Guler and former Foreign Minister Yasar Yakis. The production is the first ever from the Turkish Black Sea and adds significantly to Turkish domestic production of natural gas. (Toreador 22.05)

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3.8 AES Acquires Majority Stake in Leading Turkish Hydroelectric Developer

Arlington, Virginia based AES Corporation has expanded into Turkey through the acquisition of a 51% interest in IC ICTAS Energy Group (IC Energy), a leading Turkish developer and producer of hydroelectricity. IC Energy currently owns and operates 26 MW of hydroelectric power capacity, and has an additional 390 MW of hydro power capacity under development. The remaining 49% of IC Energy will continue to be owned by IC Investment Holdings A.S. Financial terms of the transaction were not disclosed. AES's move into Turkey, which expects an additional 3,000 MW of new capacity to come on line every year through at least 2015, furthers the Company's strategy to focus its core business expansion on select high growth markets. Renewable energy sources, which include hydroelectricity, biomass and wind, represent nearly 20% of AES's global generation portfolio. AES is one of the world's largest global power companies, with 2006 revenues of \$12.3 billion. (AES25.05)

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3.9 Falken Signs Super Distributor in Cyprus

Falken Industries announced the signing of a Super Distributor in Cyprus for the Clean Plus "Premium" auto care line. This latest strategic alliance guarantees an \$810,000 influx of revenues for Falken Industries. Cyprus is enjoying a steady period of economic growth (3.7% to 3.8% per year in 2004, 2005, and 2006), largely due to their burgeoning tourism market. Resulting increases in consumer spending and a recent tax registration reduction on newer cars have significantly increased the consumption of auto care products. The island entered the EU in 2004 and will be invited to adopt the Euro in 2008. Falken Industries is a New Jersey developer, manufacturer, and marketer of innovative wet wipe and specialty cleaning products. Its core product group is the leading Clean Plus brand of high performance products. (Falken Industries 22.05)

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4: ISRAEL MACRO-DEVELOPMENTS

4.1 Jerusalem Considers Compressed Natural Gas Imports From Turkey

Globes reported that Israel's Ministry of National Infrastructures will promote a new plan for the import hundreds of millions worth of natural gas a year by ship from Turkey. The plan has been submitted to Minister of National Infrastructures Ben-Eliezer. The plan is being considered as an alternative to the import of liquid natural gas (LNG), because of the high cost of building suitable infrastructure, estimated at up to \$1b. A preliminary study by the Israel Natural Gas Authority that only \$400m would be needed to build infrastructure for the import of compressed natural gas (CNG). CNG is a fairly new technology. In contrast to LNG, which requires heavy investment in building gas liquefaction facilities, CNG can be offloaded at any port, stored and transported to areas not connected to natural gas pipelines. Israel currently has two natural gas suppliers: Yam Thetis, which has sold most of its gas reserves; and Egypt's East Mediterranean Gas Company. The government is considering importing gas from BG Group plc's fields offshore from Gaza and is also seeking another long-term supplier. (Globes 29.05)

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4.2 Israel to Lead European Eureka R&D Network in 2010-2011

The pan-European network for market-oriented industrial R&D - Eureka - has selected Israel to serve as program chair in 2010-2011. Eureka was founded to promote joint R&D ventures supported by state-administered R&D management authorities and to set out an R&D policy at the European level. At present, nearly all European countries (36 in all) are partners in the program together with the European Commission, which approves projects worth a combined €1.5b annually. Israel was admitted as full member of the program in 2000 and Israeli companies currently take part in more than 10% of the projects that take place under the program. Chief Scientist of the Ministry of Industry & Trade Dr. Opper said that chairing the program would significantly upgrade Israel's standing in the European R&D community. He added that Israel would be able to use its tenure as program chair to set the agenda for the European program and secure European support for important ventures, such as the strengthening of priority fields including life sciences, water technologies and the environment. During its year as program chair, Israel will also host a series of meetings of officials in charge of R&D policy setting in member countries. (Globes 17.05)

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4.3 Haifa Wants an International Airport

On 29 May, the Haifa municipality received the recommendations by Ernst & Young on how to turn the city into a tourist

attraction. The key recommendations in the report commissioned by the municipality are to turn the city's municipal airport into an international airport and to develop a marina as a center for recreation. Ernst & Young says that upgrading the municipal airport to international status will increase Haifa's accessibility for both scheduled and charter flights. The Ministry of Transport opposes the idea on the grounds that the airport cannot be expanded because of security concerns. Developing a marina next to Haifa Port will both increase the flow of tourists and create a tourist space that will include the city's German Colony neighborhood, the Bahai Gardens and Mt. Carmel. The report also stresses Haifa's strategic location as the gateway to the Galilee and recommends taking measures to attract cruise ships and to create special packages for the business sector in order to maximize this market segment. Ernst & Young notes that most of the tourists in Haifa are businesspeople visiting high-tech companies at the Matam Science Industry Center. An important tourist segment for Haifa are Bahai pilgrims, 6,000 of whom visit the Bahai Gardens every year, but only stay in the city for an average of three days and spend little money on either shopping or recreation. Domestic tourists visiting Haifa generally do not stay at the city's hotels, while foreign tourists rarely visit the city at all. Ernst & Young recommends building more hotels in the city and doubling the number of hotel rooms. (Globes 29.05)

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5: ARAB STATE & PAKISTANI DEVELOPMENTS

5.1 Jordan Launches Tourism Awareness Strategy

Jordan's Ministry of Tourism & Antiquities, in cooperation with Seyaha (tourism) Project, launched Jordan strategy to increase public awareness on national tourism. The strategy launched during a special function patronized by Tourism Minister al-Dabbas also aims to improve perception of average Jordanian about the tourism sector. The strategy includes a nation wide campaign organized by Seyaha, a project funded the US Agency for International Development (USAID). The campaign is designed to address decision makers, students, teachers, tour operators, the media and ordinary citizens explain to them the significant role of the tourism sector for national economy. A survey conducted by Seyaha last year showed that a large number of citizens do not have enough information about the vital role of tourism and its effect on people's lives and the national economy and therefore a strategy like this one deemed important. The first phase of the campaign starts on 23 May until the end of this year. The second year covers the year 2008 after which starts the third phase. (Petra23.05)

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5.2 South Africa to Cancel 80% of Iraqi Debts

The Embassy of South Africa in Amman said that South Africa had decided to cancel 80% of the Iraqi debts which total \$160m. The government of South Africa also agreed to reschedule the balance of 20% of the debts, noting that this decision is in line with Paris Club commitment to ease the debt burden of the Iraqi government. (Petra21.05)

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5.3 WTO Starts Negotiations With Iraq For Membership

For the first time since Iraq's application in 2004, the Working Party met to discuss and examine Iraq's trade legislation and its conformity to WTO principles. Iraq's Trade Minister Dr. Al-Sudani stated that Iraq's joining the WTO is an important step towards its integration into the global trading system and restores its position within the international community after decades of isolation. He emphasized that WTO accession was essential to integrate into the global economy and a priority for his Government. The Chair of Iraq's Working Party, Ambassador for Columbia Uribe, declared the meeting to be a significant event in WTO's calendar of activities and said that the presence of a high-level delegation from Baghdad demonstrated Iraq's strong commitment to its accession to the WTO. Members strongly supported Iraq's accession and welcomed the commencement of multilateral work in Geneva. Members acknowledged the progress made by Iraq in passing or drafting new legislation to comply with WTO rules. Areas for further work were identified. Iraq called for technical assistance to help the country accede the WTO and members stated their willingness to help Iraq advance the accession process in every possible way. Iraq met bilaterally with Brazil, Chinese Taipei, Egypt, the EU, Jordan Morocco, Norway, Oman, the UAE, the US and Vietnam. Iraq was invited to submit initial offers to advance their market access negotiations on goods and services. Iraq will prepare documents on agriculture, services, technical barriers to trade, sanitary and phyto-sanitary issues and intellectual property. It will also prepare a general legislative action plan providing members with a state of play of current and future legislation. (WTO25.05)

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5.4 Foreigners to Start Pumping Oil in North Iraq

Foreign firms are re-starting to produce oil in Iraq, after a 35 year hiatus. Norwegian firm DNO signed an agreement with the Kurdish Local Administration despite all the oppositions of the central government in Baghdad. DNO said that they will start to supply Iraqi oil to the market as of next month. DNO represents "the symbolic return of the foreign firms to Iraq after 35 years of state control". Relations between the Kurdish authorities and the central government in North Iraq may become tense due to the announcement that DNO will start producing oil in Iraq, and underlined that the DNO did not make the agreement with the Baghdad government but with the Kurdish administration. DNO, who signed an agreement with the Kurdish Local Administration in 2004, found the Tawke oil zone around the end of 2005. The initial production in Tawke is expected to be around 15,000 bpd. While the oil reserve in Iraq was estimated to be around the 115 billion barrels level, the 3rd biggest oil reserve of the world, the oil reserve in the Kurdish region is estimated to hold around 45 billion barrels. Daily production may reach 500,000 bpd in the upcoming five years. (EkoTurk 17.05)

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5.5 Shroud of Doubt Cloaks Gulf Monetary Union

Ambiguity about the viability of a Gulf monetary union and the region's ability to meet the 2010 deadline has deepened after Kuwait and Oman opted for independent monetary policies. On 23 May, Oman made it clear it was not ready to surrender its monetary policy independence in favor of a common Gulf currency. Speaking at a banking conference in

Kuwait, Oman's Central Bank Governor Al Zidjali said the country had decided not to take part in union. Although the UAE government and the Central Bank have reaffirmed the country's commitment to the dirham-dollar peg, Shaikh Al Maktoum, Vice-President and Prime Minister of the UAE and Ruler of Dubai, said the UAE was studying the region's plan to adopt a single currency. Oman believes restrictions on monetary policy will have a negative impact on its development plan. It was the first Gulf state to express its reservations about the 2010 deadline. The country has also cited its inability to meet legislative and technical requirements for monetary union by the deadline. (Various24.05)

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5.6 Kuwait Drops Dollar Peg, Adopts Currency Basket

Kuwait switched the dinar's exchange rate mechanism to a basket of currencies, dropping a peg to the tumbling U.S. dollar that was adopted in 2003 and throwing into disarray plans for a single currency in the Persian Gulf region. The dollar would still account for a major share of the new currency basket, Sheikh Salem Abdul-Aziz al-Sabah told reporters, declining to name any other currencies or what weights they had. Kuwait was still committed to the monetary union, the central bank governor said in a statement, but the dollar's slide over the past two years had forced it to break ranks with fellow Persian Gulf oil producers to contain inflation. Until the completion of all the requirements to achieve the currency union and the launch of the Persian Gulf currency, the central bank of Kuwait will continue to adopt the basket system. Analysts said the shock move plunged the monetary union project into crisis. After Kuwait, the UAE was the most likely candidate to loosen a dollar peg, which the six oil producers had agreed would stay in place until monetary union in 2010. The central banks of Saudi Arabia, Bahrain, Oman and Qatar had already ruled out a policy shift.

Kuwait's currency came under intense pressure early this year from speculators betting the central bank would allow it to appreciate against the dollar to curb inflation and soak up some of the cash pouring into the oil exporter's economy. Kuwait has blamed rising inflation on the falling dollar, which tumbled to a record low against the euro in April. At the end of Q1/07, inflation stood at 5.15%. Like other Gulf Arab states, Kuwait has been investing more of its windfall revenues from a near tripling of oil prices in the five years to July in Asia. (Various22.05)

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5.7 IMF Expects UAE to Ride Out Oil Fall

A decline in oil prices is expected to reduce the UAE's current account balance by 19.70% to \$22b by the end of this year from last year's \$27.4b, according to the International Monetary Fund (IMF). This would be 11.8% of the UAE's projected GDP this year, declining from 16.2% of the \$168b GDP last year. A decline in oil prices however, will not hamper the UAE's GDP growth which is expected to grow by 10.71% to \$186b by the end of 2007, the IMF's latest report Regional Economic Outlook (REO) for the Middle East and Central Asia, shows. This reflects the fact that the country's economic diversification is working well. The region's external and fiscal surpluses remain very high, but are expected to decline in 2007. For oil exporters, only one-fourth of the projected fall in the external current account surplus in 2007 is due to lower oil prices. Oil export revenues are projected to decline slightly to \$570b in 2007, based on an average oil price of \$61 a barrel, down from \$64 last year. Among the six Gulf countries, the UAE and Qatar's real GDP growth remains the highest. The UAE's gross official reserves, however, are expected to grow from \$28.1b to \$32.5b by the end of the current year. The country's total exports of goods and services are expected to reach \$171.3b, up from last year's \$151.1b, a 13.36% increase. At the same time, the country's total government debt will fall to 7.7% of GDP compared to 8.1% last year. The UAE's import bill is expected to rise 20.63% to \$149.1b by the end of this year, up from \$123.6b last year. Although the region is set for another high-growth year, this may not necessarily be very good news to consumers

as soaring inflation and the declining value of local currencies will nullify the gains. Real GDP growth in the Middle East and Central Asia is likely to average 6% this year for the fifth year in a row. (IMF18.05)

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5.8 Dubai Living Costs Set To Surge

Living costs in Dubai are set to surge for a fourth straight year as demand for accommodation, education and healthcare outpaces supply, according to a report by a Dubai-based recruitment consultancy Kershaw Leonard. Rental costs for two-bedroom apartments in the emirate rose as much as 47% during the last year, with rentals for three-bedroom apartments now \$4,000 per month - just 13% less than the average of the best areas in Geneva. Living costs rose between 15% and 20% in each of the last three years. The cost of primary education is as much as 28% higher this year than in 2006, or \$16,070 compared with \$12,568, according to the report. The cost of visiting a general practitioner doctor (GP) at two of Dubai's biggest hospitals has more than doubled in the last two years. Health insurance premiums have also risen. Comprehensive health insurance for Dubai with UK-based BUPA costs 23% more than a year ago, and is in the same pricing category as Switzerland and Monaco. By contrast, salaries have grown at a slower rate, according to the report. (Reuters28.05)

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5.9 Dubai Plans to Build Giant Power And Water Project

Dubai is planning to build one of the world's largest power and desalination complexes, a multibillion dollar plant that would produce nearly as much power as New York City's total generating capacity. The new plant would be capable of producing 9,000 MW of electricity and 600 million gallons a day of desalinated water. Dubai's planned mega-complex will sit next to Dubai World Central, intended to be the world's largest airport, and the giant Jebel Ali port and free zone - where most of the emirate's power generation capacity of about 5,000 MW is presently located. The completion date of the new plant has not been announced. State-run utility Dubai Electricity and Water Authority, or Dewa, invited international engineering companies to bid by 10 June for an initial contract to advise on the plant's construction. Dewa awarded contracts in March worth \$1.7b to South Korea's Doosan Heavy Industries and Construction and Italy's Fisia Italmianti to build a new 1,330 MW power and 70 million gallon-a-day water desalination plant in Jebel Ali. The new complex could cost between \$12b and \$15b to build. The need for power and water is pushing up demand for natural gas used to fire power plants. In June, the UAE will begin importing gas from Qatar through a pipeline. In April, Dubai and Iran signed a memorandum of understanding that could see Iran supply Dubai with electricity via a 180km underwater cable. Dubai is one of the world's fastest-growing cities and among its most ravenous per-capita consumers of electricity and water. Energy and water demand in Dubai are rising at rates of 11% to 18% a year, according to industry estimates, while the emirate's economy and population of 1.5 million continue to expand. (AP25.05)

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5.10 Oman: Oil Production Down - Gas Production Up

The Sultanate of Oman's total exports of crude oil amounted to 56.847,3 million barrels during the 1st three months of 2007, against 63.776,5 million barrels during the corresponding period in 2006, constituting a drop of 10.9%. Oman's National Economy Ministry indicated that Oman's total production of crude oil and condensates stood at 64.389 million barrels by the end of March 2007, against 68.669 million barrels during the corresponding period in 2006, constituting a drop of 6.2%. The average of daily production was 715,400 barrels at the end of March 2007, compared to 763,000 barrels during the corresponding period in 2006, reflecting a decline of 6.2%. The average price of Oman oil barrel fell by 6.3% by end of March 2007 to \$54.70 per barrel compared to \$58.39 per barrel during the corresponding period in 2006. China lead the countries importing Omani Oil as it imported 24.557 million barrels during the 1st three months of 2007, against 23.526 million barrels during the corresponding period in 2006, constituting a 4.4% rise. Thailand came second, as it imported 9.634 million barrels by end of March 2007, against 13.428 million barrels, constituting a drop of 28.3%. Meanwhile, the Sultanate's production of natural gas rose by 11.2% by 31st March 2007 to reach 267.785 Million Cubic Feet (MCF), against 240.739 MCF during the corresponding period in 2006. Gas consumption also went up by 11.2% during the 1st three Months in 2007, to reach 267.785 MCF compared to 240.739 MCF during the corresponding period in 2006. (Mena Report 16.05)

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5.11 Saudi Inflation Rate Declines By 2.2%

Saudi Arabia's annual inflation rate was 2.2% in Q1/07, the Saudi central bank announced, showing its first decline in several months. The average cost of living index showed an annual rise of 2.2%. The Saudi Arabian Monetary Agency (SAMA), which made the announcement, did not provide inflation figures for March as it usually does in monthly economic reports. The report showed annual inflation at 3% in February compared to 2.98% in January due mainly to rises in prices of food and beverages. Until recently, inflation had barely exceeded 1.4% for more than five years. Inflation had been on the rise for more than a year due to a boom fuelled by record oil revenues and a slide against other currencies of the US dollar to which the Saudi riyal currency is pegged, spiking the cost of non-dollar imports, analysts say. (SAMA28.05)

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5.12 Libya Announces \$900 Million Oil Deal with BP

On 29 May, Libya announced that it will sign a \$900m exploration deal with British energy giant BP, following the company's announcement it planned a return to the North African country after a 33 year absence. The announcement came ahead of a visit to the oil-rich nation by British Prime Minister Blair, who is starting a tour of Africa before he leaves office next month. The OPEC member is the African continent's second largest oil producer at 1.7 million bpd. It also has natural gas reserves estimated at 1,314 billion cubic meters. (AFP29.05)

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5.13 Pakistan's Food Inflation Up to 9.4% in April

Food inflation rose significantly to 9.4% during April 2007 against 3.6% in April 2006, mainly due to reversal of inflation from negative to positive in some key food items including vegetables, fruits, eggs and chicken. The State Bank of Pakistan (SBP) issued inflation monitor for April 2007, which showed that non-food inflation had declined to 5.2% during the month from 8% in corresponding month of last year. The SBP inflation monitor report said that general consumer price index (CPI) inflation increased to 6.9% in April 2007 on year-on-year (YoY) basis from 6.2% as registered in the same month of last year. This higher CPI inflation was mainly attributed to strong food inflation that muted the effect of declining non-food inflation, the report said. The SBP has fixed inflation target at 6.5% for the fiscal year 2006-07. Therefore, 6.9% inflation during April was at a higher level than the target for FY07. Essentially, the declining trend in non-food inflation this year had been counterbalanced by the rising trend in food inflation, with the result that CPI inflation remained at a higher level than the target for FY07, the report said. It said that wholesale price index (WPI) inflation, which remained on a rising trend during FY06, started to decline from the beginning of FY07 and this decelerating trend continued over the subsequent months of the current fiscal year. Wholesale price index (WPI) inflation declined to 6.0% in April 2007 on YoY basis from 8.1% in the corresponding month of last year. (BR29.05)

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6: TURKISH & CYPRIOT DEVELOPMENTS

6.1 Sarkozy Firm on Opposition To Turkey Joining EU

On 23 May, new French President Sarkozy said he could not drop his opposition to Turkish membership of the European Union, an opinion he voiced during the election campaign. "I don't see how you can be a candidate with one opinion and a president with another," he told a press conference in Brussels. "I don't think that Turkey has a place in the Union." (Various23.05)

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6.2 Dardanelles Bridge Put On Ankara's Agenda

The Turkish government is gearing up to build a bridge over the Dardanelles, a narrow straight that connects the Aegean to the Marmara Sea. This will be one of three major bridge projects currently being undertaken in Turkey, in addition to the third Bosphorus bridge and the Izmit Gulf bridge. Preparation will be carried out by the Highways General Directorate and will be submitted to State Planning Organization (DPT) for approval after opinions and suggestions are taken from the Environment and Forestry Ministry and the General Staff. After the DPT approves the project, construction of the bridge, linkage roads and highways will be open to international bidding. The Dardanelles bridge project is predicted to cost \$451.8m and the project will be constructed under the build-operate-transfer (BOT) method. It will be 2,196 meters long and have two lanes in both directions. Within the framework of the project, the bridge will be linked to Canakkale and Eceabat express roads and three tunnels that will be constructed. The total length of the project will be 13.7 kilometers. (Various28.05)

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7: GENERAL NEWS AND INTEREST

*ISRAEL:

7.1 Israel Ranks 17th in Perceptions of Judicial Corruption

According to the annual survey of judicial corruption published on 24 May by Transparency International, Israel's judicial system is ranked number 17 in the world out of 62 countries in terms of perceptions of honesty. About 29% of Israelis think their judicial system is corrupt, compared to only 7% in Denmark, the least corrupt according to the survey. Israel was cited as one of the ten leading countries in judicial independence in practice, based on a separate survey conducted in 2003. The most corrupt judicial system among those included in the survey was Paraguay, where 87% of those questioned said that bribery was involved in securing access to justice. Israelis have more faith in the system than Americans do, as 55% of those in the US feel that one has to pay a bribe to get access to justice. Other Western countries whose citizens rated their judicial systems as having more corruption than Israel included Canada, Italy, Britain, Spain, Portugal and Greece. The various issues related to judicial corruption cover two categories: political interference in the judicial process by the legislative or executive branch and bribery. Corruption in the judiciary includes any inappropriate influence on the impartiality of judicial proceedings and judgments and can extend to the bribing of judges for favorable decisions or no decision at all, according to Transparency International. (Various29.05)

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*REGIONAL:

7.2 Kuwait Switches To Friday-Saturday Weekend

Kuwait on 27 May decided to switch its weekend to Friday-Saturday from Thursday-Friday, starting on September 1, State Minister Faisal al-Hajji announced. Kuwait will follow the example of Gulf partners the United Arab Emirates, Bahrain and Qatar which all made the same switch last year in a measure designed to bring them closer to the working week in the West. The Kuwaiti decision, which applies to government offices, was taken during the weekly meeting of the cabinet in the oil-rich Gulf emirate on the recommendation of the Civil Service Commission. Only oil powerhouse Saudi Arabia and Oman still apply the Thursday-Friday Muslim weekend in the six-nation alliance of the Gulf Cooperation Council. The private sector in Kuwait is not bound to follow the government, but banks and most of the oil sector already apply a Friday-Saturday weekend to be more in line with international markets, which close Saturday-Sunday. (AFP27.05)

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7.3 Turkish MPs Back Election Reform Despite President's Opposition

On 28 May, in a stormy session marred by fistfights, Turkish lawmakers again voted for a constitutional amendment for the president to be elected by popular vote, overriding the current head of state's objections. The defining second round of voting is scheduled for 30 May. The key provision of the reform package, which calls for a two-round popular vote to elect the president, was supported by 367 deputies at the first reading in the 550-member parliament. It was exactly the two-third majority required for constitutional changes to be enacted without a referendum. The other provisions in the seven-article bill, pushed by Prime Minister Erdogan's Islamist-rooted Justice and Development Party (AKP) which dominates parliament, also got majority support. The AKP rushed the reforms through parliament earlier this month after twice failing to get its presidential candidate elected by the assembly, as the current law requires, in the face of strong secularist opposition. However President Sezer, who has often clashed with the government, returned the reform package to parliament, saying there was "no justifiable and acceptable reason" to change the election system. If the bill is voted again without changes on Thursday, Sezer must either approve the measure or submit it to a referendum. The AKP maintains the popular vote is the solution to a political crisis that erupted last month and forced the sole presidential candidate, Foreign Minister Gul, to withdraw. The prospect of the AKP, the moderate offshoot of a now-banned Islamist movement, providing the president alarmed secularists, who accuse the ruling party of seeking to increase Islam's role in politics and daily life. The AKP-majority parliament was virtually certain to elect Gul, but the opposition boycotted two presidential votes on 27 April and 6 May, denying the house the quorum for a valid ballot.

The main opposition Republican People's Party (CHP) protested that the president was insulted and the row soon grew into an exchange of punches and kicks between several CHP and AKP deputies, prompting a break in the debate. The reforms also call for a once-renewable five-year presidential mandate instead of the current single, seven-year term and set general elections every four years instead of five. The presidential election turmoil, exacerbated by a stiff warning from the military that it is ready to act to defend the secular system, forced Erdogan to bring general elections forward from 4 November to 22 July. Recent public opinion surveys show that after four-and-a-half years in power, the AKP is still Turkey's most popular party, leading its opposition rivals by a wide margin. The AKP has disowned its Islamist roots, pledged commitment to secularism and carried out reforms that stabilized the economy and secured the opening of membership talks with the European Union. But its opponents say it still harbors Islamist ambitions, pointing to AKP opposition to a headscarf ban in universities and public offices, its encouragement of religious schools and a failed attempt to restrict alcohol sales. Sezer's seven-year term officially ended on 16 May. (Zaman28.05)

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8: ISRAEL LIFE SCIENCE NEWS

8.1 India's Sun Pharmaceutical to Acquire Taro Pharmaceutical for \$454 Million

Taro Pharmaceutical Industries and India's Sun Pharmaceutical Industries have entered into a definitive merger agreement providing for the acquisition of Taro by Sun for \$7.75 per share in cash, a premium of 27% over the closing price of \$6.10 per share on May 18, 2007, representing a transaction with total equity value of approximately \$230m. Sun will also refinance approximately \$224m in net debt of Taro. The total enterprise value of the transaction is approximately \$454m. Taro and Sun also announced that they have entered into a separate definitive agreement for Sun to provide immediately \$45m of interim equity financing to Taro by acquiring 7.5 million of the Company's ordinary

shares. Pursuant to the definitive merger agreement between Taro and Sun, a newly formed Israeli subsidiary of Sun will merge with Taro, and each ordinary share of Taro will be converted into the right to receive \$7.75 cash. Merrill Lynch, Pierce, Fenner & Smith Incorporated provided a fairness opinion to the Board of Directors of Taro in connection with the proposed merger. Headquartered in India, Sun Pharmaceutical Industries is an international, integrated, specialty pharmaceutical company. It manufactures and markets a large basket of pharmaceutical formulations as branded generics as well as generics in India, the U.S. and several other markets across the world. In India, the company is a leader in the niche therapy areas of psychiatry, neurology, cardiology, diabetology, gastroenterology, and orthopedics. Haifa, Israel's Taro (<http://www.taro.com>) is a multinational, science-based pharmaceutical company, dedicated to meeting the needs of its customers through the discovery, development, manufacturing and marketing of the highest quality healthcare products. (Taro20.05)

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8.2 Initiate Systems and dbMotion Partner to Transform Patient Health Information Management

Chicago, Illinois' Initiate Systems, the leading provider of enterprise master person index (EMPI) solutions, and dbMotion have partnered to create a unique solution that transforms the way patient health information is retrieved, integrated and managed. The University of Pittsburgh Medical Center (UPMC), one of the leading nonprofit medical centers in the US and a recognized technology leader in healthcare, and the Bronx RHIO, a multi-stakeholder, not-for-profit corporation serving the 1.4 million people in the Bronx, NY, are among the first organizations to benefit from the joint offering. By combining dbMotion's interoperability offering with Initiate Identity Hub software for master data management (MDM), the joint solution provides healthcare organizations with secure access to a comprehensive, real-time view of accurate patient information. This offering not only helps providers deliver superior patient service, but also plays an integral role in interoperability efforts by creating an integrated, accurate and comprehensive view of patient information across facilities. Hod HaSharon, Israel's dbMotion (<http://www.dbmotion.com>) is a premier provider of healthcare information integration software that facilitates interoperability and Health Information Exchange (HIE) for health information networks and integrated healthcare delivery systems. The dbMotion Solution gives caregivers and information systems secure access to an integrated patient record composed from the patient's medical data maintained at facilities that are otherwise unconnected or have no common technology through which to share data. (Initiate Systems 16.05)

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8.3 Can-Fite Starts Phase II Clinical Trials for Efficacy of CF101 in the Treatment of Psoriasis

Can-Fite BioPharma is about to commence a phase II clinical trial with CF101 for the treatment of psoriasis. This is the third indication for CF101 within Can-Fite's development pipeline, in addition to rheumatoid arthritis and dry eye syndrome, which are already in advanced clinical trial phases. The Company obtained a Ministry of Health and EC approval at several medical centers to commence phase II clinical trials with its leading drug CF101 in patients with psoriasis. This trial will involve about 60 patients, who will be treated for about 12 weeks at 4 medical centers: Rabin (Petah Tikva), Sheba (Ramat Gan), Wolfson (Holon) and Haemek (Afula). The company estimates that the trial will be completed in Q1/08. Pre-clinical studies have shown that the CF101 drug suppresses the production of the inflammatory cytokine TNF, which plays a major role in the pathogenesis of psoriasis. Patients with psoriasis have also been shown to over express A3 adenosine receptor, which is the target of CF101. In addition, Can-Fite reported the completion of the Phase IIb clinical trial with CF101 for the treatment of rheumatoid arthritis. All the patients taking part in the trial have completed treatment with the drug in accordance with the predetermined schedules. The data obtained in the trial are currently subjected to statistical analysis by ABR New Jersey and Can-Fite plans to release a final report of study results during the upcoming summer.

Can-Fite is developing its first drug CF101 for 3 clinical indications in the field of inflammatory diseases, including: rheumatoid arthritis (completed phase IIb clinical trials in the US), Dry Eye Syndrome (ongoing phase II trials in Israel), psoriasis (approved to commence phase II). The Company has also begun the development of CF102 for the treatment of liver cancer and hepatitis B. Petah Tikva, Israel's Can-Fite Biopharma (<http://www.canfite.com>) is a public company traded on the Tel Aviv Stock Exchange. The Company focuses on the development of molecule-based drugs that inhibit the development of cancer or inflammatory cells. The market for the company's drugs is estimated at billions of dollars. (Can-Fite BioPharma16.05)

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8.4 BioLineRx Initiates a Clinical Receptor-Occupancy Study of BL-1020 for the Treatment of Schizophrenia

BioLineRx began a study to determine the clinical binding properties of BL-1020 to the dopamine receptors in the human brain. The trial, which is being conducted following the successful filing of an investigational new drug (IND) application with the U.S. FDA, is designed as a single-center, randomized, open-label, sequential cohort clinical study to be conducted at Uppsala, Sweden. The results of the study will provide further data related to the anticipated efficacy of the BL-1020 compound - the first GABA enhanced antipsychotic clinical candidate for the treatment of schizophrenia. The trial will also supply additional safety, tolerability and pharmacokinetic data. BioLineRx expects to initiate its Phase II maximal tolerated dose clinical trial for BL-1020 in the end of June, 2007 as anticipated. The Phase II trial sites have already been selected in Romania and Israel and an investigator meeting is planned for mid-June. Jerusalem, Israel's BioLineRx (<http://www.biolinerx.com>), a clinical stage drug development company traded on the Tel Aviv Stock Exchange, is dedicated to building a robust pipeline of promising therapeutics for unmet medical needs. The Company's leading programs are for schizophrenia and treatment of damaged heart tissue post-myocardial infarction. Additional products under development include compounds for the treatment of cancer and CNS, cardiovascular, metabolic, infectious and autoimmune diseases. (BioLineRx16.05)

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8.5 Obecure Initiates Phase II Study to Examine Effect of OBE101 in Patients Treated With Simvastatin

Obecure has launched a double-blinded, placebo-controlled Phase II clinical trial to evaluate the efficacy of the company's OBE101 drug candidate in a third indication - improving the plasma lipid profiles of patients treated with Simvastatin, the most widely prescribed, now generic, cholesterol-lowering drug. The beneficial effect of OBE101 in reducing caloric intake, particularly from fatty foods has been observed in a pilot double-blinded placebo-controlled clinical trial conducted in obese women. This effect on food consumption is also the subject of a double-blinded, placebo-controlled trial undertaken by the NICHD division of the National Institutes of Health, which is currently recruiting patients. The new study will enroll about 30 subjects who are stably treated with Simvastatin and randomize them into one of two treatment groups: a treatment arm, which will be administered the drug twice daily, and a control arm which will receive a placebo. Treatment duration will be 4 weeks and the study will be conducted in 2-3 medical centers in Israel. Ramat Gan, Israel's Obecure (<http://www.obecure.com>) is a biopharmaceutical company dedicated to the development of weight management drug therapies. The Company is currently pursuing the clinical development of its lead compound OBE101 for three indications: (i) general obesity (ii) weight gain associated with anti-psychotic drug therapy and (iii) as adjunct to statin therapy for improving blood lipid profiles. In addition, the Company is evaluating additional proprietary

analogues for both weight gain and weight loss in preclinical models. Obecure is a subsidiary of Bio-Light Life Science Investments Ltd., which is traded on the Tel Aviv Stock Exchange. (Obecure 16.05)

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8.6 Rosetta Signs Agreement with Columbia Medical Center to Advance its Lead Cancer Diagnostics Program

Rosetta Genomics has signed a research agreement with Columbia University Medical Center to advance its lead cancer diagnostic. Under the terms of the agreement, Columbia University Medical Center will utilize its Clinical Laboratory Improvement Amendments (CLIA) certified laboratory to perform clinical validation of the Company's lead diagnostics program for Cancer of Unknown Primary (CUP). This is Rosetta Genomics' first agreement for clinical validation of one of its cancer diagnostic tests. The company is developing several microRNA-based diagnostics at its R&D facilities in Israel and the United States. The Company's CUP diagnostic, currently in the final stages of development, is designed to assist clinicians in identifying the origin of tumors which have metastasized throughout the body. Under the terms of the agreement, Rosetta Genomics will provide Columbia University Medical Center with its proprietary protocol for diagnosing the primary origin of metastatic cancers, which will then be tested and validated using unknown ("blinded") samples provided by the medical center. Rehovot, Israel's Rosetta Genomics (<http://www.rosettagenomics.com>) is a leader in the development of microRNA-based diagnostics and therapeutics. Founded in 2000, the company's integrative research platform combining bioinformatics and state-of-the-art laboratory processes has led to the discovery of hundreds of biologically validated novel human microRNAs. Building on its strong IP position and strategic alliances with leading biotechnology companies, Rosetta Genomics is working to develop a full range of diagnostic and therapeutic products based on microRNAs. (Rosetta Genomics 21.05)

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8.7 BSP Promising Results with Maccabi - Israeli Healthcare Service Organization

BSP recently announced the intermediate results of a collaborated pilot with Maccabi, Israel's 2nd largest healthcare service organization. The pilot, conducted as a clinical study and performed by a group of Maccabi's foremost cardiologists in three heart institutes, includes the clinical use of BSP's flagship product, the HyperQ Stress System, producing both high quality ECG readout as well as BSP's unique HyperQ readout. The pilot was conducted as part of Maccabi's evaluation of the product, towards its integration into Maccabi's routine clinical heart care services. BSP estimates that successful final results of this pilot could lead to a collaboration between Maccabi and the company. Routine use of the HyperQ Stress System could thus significantly enhance the ability to diagnose and monitor ischemic heart disease while saving unnecessary follow-up examinations that stem from inaccurate evaluation of healthy patients. Tel Aviv, Israel's BSP (<http://www.bsp.co.il>) groups experts in the field of signal-processing, bio-medical engineering and cardiology, to develop a technology based on sophisticated analysis of the cardiac signal which enables unique and non-invasive monitoring and diagnosis of ischemic heart disease in unmatched quality. BSP implements its technology in cardiac systems that offer low-cost, risk free cardiac monitoring for wide populations and allows, for the first time, an effective screening test for Ischemic Heart Diseases. (BSP20.05)

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8.8 Pluristem Acquires Patents and Technology for the Three Dimensional Expansion of Human Cells

Pluristem Life Systems announced it has purchased patents for its innovative stem cell production technology from Haifa's Technion-Israel Institute of Technology (Technion) and Rehovot's Weizmann Institute of Science (Weizmann) for approximately \$2m. The purchased patents replace a previous license agreement with Technion and Weizmann where Pluristem had exclusive rights to the technology in exchange for royalties. The technology covered under the agreement pertains to a three dimensional (3-D) bioreactor system known as PluriX. This bioreactor creates an environment similar to natural bone marrow and enhances the expansion of mesenchymal stem cells that are obtained from the placenta, termed Placental eXpanded (PLX) cells. These resulting stromal cells are allogeneic and will not require HLA matching when used in transplant therapies. Using PluriX, Pluristem estimates they can produce up to 1,000 patient doses per placenta at a significantly lower cost than current methods.

Haifa, Israel's Pluristem Life Systems (<http://www.pluristem.com>) is 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, 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. (Pluristem22.05)

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8.9 Pluristem Closes on \$13.5 Million Private Equity Investment

Pluristem Life Systems has closed on a private equity investment in the Company totaling approximately \$13.5m. The financing, which is a continuation of the investment announced on February 14, 2007, included as investors the Technion-Israel Institute of Technology and inventors who collaborated on the technology and whose patents were acquired by Pluristem. Pluristem is developing PLX-I as a safe and effective alternative to bone marrow transplantation. PLX-I is an allogeneic product, based on supplementing hematopoietic stem cells (HSCs) contained in umbilical cord blood (CB) to improve the effectiveness of HSCs engraftment and shorten recovery times. PLX-I mesenchymal stem cells were proven to increase the engraftment of HSCs from CB by up to five fold in a pre-clinical study. Haifa, Israel's Pluristem Life Systems (<http://www.pluristem.com>) is dedicated to the commercialization of non-personalized (allogeneic) stem cell therapy products for the treatment of numerous severe degenerative, malignant and autoimmune disorders. 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. (Pluristem22.05)

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8.10 Tissera Extends Agreement for Sponsored Research at the Weizmann Institute of Science

Tissera signed with Yeda, the Technology Transfer arm of the Weizmann Institute of Science, an agreement extending the R&D activities performed for the company at the Institute by one more additional year, up to April 9, 2008. This will be the fifth consecutive year of implementation of the company research at the Weizmann Institute. The main objective of the experiments planned for this additional research period is to further advance the ongoing preclinical studies being performed on primate models of type I (insulin-dependent) diabetes mellitus, as a preparation for the initiation of human clinical studies on diabetic patients. Based on the previously reported positive results obtained in pancreatic transplantation experiments in normal non human primates, Tissera's sponsored research team at the Weizmann Institute of Science has moved forward to investigate in diabetic non human primates the functional and therapeutic value of the company's approach. In these studies, non human primates are treated by an agent called streptozotocin (STZ) which induces them to become diabetic and consequently dependent upon administration of exogenous insulin for the maintenance of reasonable blood sugar levels. After allowing a few weeks for stabilization, appropriately timed pig embryonic pancreatic tissue is transplanted into the diabetic primate, which is thereafter intensively and carefully followed. As part of the results obtained so far, a progressive post transplantation reduction of the insulin amounts required for maintenance of blood sugar levels has been observed, together with the demonstration of gradual increase of blood insulin levels, suggestive of insulin production, which might be attributed to the growing pancreatic graft, though the pig origin of this insulin remains to be verified. Herzliya, Israel's Tissera (<http://www.tissera.com>) is a biotechnology company dedicated to the development of novel tissue precursor regeneration technologies for treating gene deficiencies and diseases in which organ transplantation is necessary, while minimizing the dosage of immunosuppressive drugs. (Tissera 29.05)

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8.11 Hadasit Stock Acquired by Consensus Business Group for \$2 Million

Hadasit Bio-Holdings announced that CBG (Consensus Business Group), a British investment group active in real estate, hi-tech and technology transfer, has acquired approximately 4% of its equity (fully diluted) in a private off-market placement. CBG has been granted a one-year option to invest another \$2m in HBL, at the same share price. A representative of CBG, will join the HBL board of directors. If CBG exercises its option, its holdings could reach 8% of the company's share equity (fully diluted). CBG is one of the leading investment firms in Britain. Jerusalem, Israel's Hadasit Bio-Holdings (<http://www.hbl.co.il>) was established by Hadasit (the technology transfer company of the Hadassah Medical Organization) in 2005 to capitalize on the knowledge and experience accumulated in its research laboratories. Hadasit Bio-Holdings currently owns nine biotechnology startups that have already demonstrated the feasibility and effectiveness of their products in animal models and are in preparation for clinical trials in human beings. The HBL companies have developed drugs with blockbuster market potential (annual markets exceeding one billion dollars) that are intended for the treatment of cancer, inflammatory diseases, and tissue regeneration using stem cells, areas in which Hadassah University Hospital has major expertise and an international reputation as a scientific, technological and clinical leader. (Hadasit29.05)

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9: ISRAEL PRODUCT & TECHNOLOGY NEWS

9.1 TTI Telecom Introduces TrafficGuard v1.2

TTI Team Telecom International has introduced a new module to its TrafficGuard system. TrafficGuard is a proactive Service Assurance tool which monitors network behavior in near real-time and provides operators with the ability to anticipate performance degradations and traffic-related impairments before their effects reach the end-user. This new module expands TrafficGuard's flexibility, enables easier operation by NOC staff, and cuts problem identification time by up to 50%. In addition to producing alerts based on Netrac PMM – TTI Telecom's Performance Management suite – the new module can also accept data directly from CDR/IPDR and third-party platforms such as probing and CRM platforms. This enhancement further leverages TTI Telecom's integration between Fault and Performance solutions, reducing processing time and problem identification time to provide improved real-time service assurance. The newer module retains TrafficGuard's intuitive user interface and smart thresholds capabilities. TrafficGuard, launched as an add-on to Netrac PMM in 2006, analyzes performance data in correlation with historical data on traffic trends to anticipate traffic-related faults through correlation between near-real time measurements and historical data. Netrac provides a unified network view integrating fault, performance and service management for a holistic view of service assurance based on all available information sources, including those provided by network resources, application servers, and active monitoring probes.

Petah Tikva, Israel's TTI Team Telecom International (<http://www.tti-telecom.com>) is a leading provider of Next Generation Operations Support Systems (OSS) to communications service providers worldwide. The company's Netrac portfolio delivers an automated, proactive and customer-centric approach to service assurance and network management. (TTI Telecom16.05)

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9.2 AudioCodes Provides a Voice Network Solution for a Next Generation Project at StarHub

AudioCodes announced that StarHub, Singapore's second largest info-communication company, is using AudioCodes as their system integrator and complete solution provider for its residential telephony service known as Digital Voice Travel. AudioCodes' GX-21 media gateway was deployed between StarHub's public switched telephone network (PSTN) and its managed IP network to enable high quality and secure packet voice communications. The media gateways were part of the overall solution that included products from other partners such as Xener Systems, a developer of NGN softswitch solutions, and Sylantro, a leading SIP applications software provider. The GX-21 is a high-density VoIP media gateway that provides interworking between the PSTN and a managed IP network. The gateway enables subscribers to communicate with landline and mobile telephone subscribers worldwide. Because of its carrier-class performance, scalability and reliability, the GX-21 has been deployed in Tier 1 carrier networks throughout the world. 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. (AudioCodes21.05)

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9.3 Vuance Expands its U.S. Presence With Another Major County Government Order

Vuance announced that its US-based subsidiary has received a second-phase order from a county government in the northeastern region of the U.S. The customer is one of two northeastern U.S. counties that deployed the Company's Incident Response Management System (IRMS) in January 2007. The second-phase order includes a new application to be used by law enforcement agencies on a day-to-day basis, in addition to their usage of IRMS systems for the control, management and tracking of personnel and assets in accordance with the requirements of U.S. Department of Homeland Security (DHS) and Presidential mandates and directives. The application includes a smartcard solution based on a PKI interface that allows law enforcement personnel to access secure databases from remote locations. The solution also supplies smartcards for authorized personnel that are interoperable with the other (Fire, EMS and Emergency Management) first responder cards currently being used in the region. Vuance (<http://www.vuance.com>) provides innovative incident management, active RFID and credentialing solutions to the public safety, commercial and government sectors. The Company's Incident Response Management System (IRMS) is the industry's most comprehensive mobile credentialing and access control system, as required by Homeland Security and other initiatives. Its Active RFID is a complete, cost-effective solution for the continuous tracking of assets and individuals. Vuance is headquartered in Kadima, Israel and its U.S. subsidiary, SuperCom, based in McLean, Virginia. (Vuance 21.05)

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9.4 RADCOM Raises UMTS Monitoring Standard to New Level

RADCOM unveiled a powerful new Omni-Q probe for UMTS radio access network (UTRAN) monitoring and troubleshooting. The new Omni-Q R70 enables UMTS service providers to monitor and analyze traffic, track calls and sessions, and detect and report abnormal network conditions at the Iu and Iub interfaces. It generates rich call detail records (CDRs) for every call or session, and creates complete call-tracing files for detailed analyses. The UTRAN is not only the costliest part of the service provider's network, it is also the most sensitive to environmental and usage changes. Because of this, optimizing the UTRAN has been a significant challenge to service providers. The new Omni-Q R70 probe changes that, giving UMTS service providers complete visibility into the UTRAN, along with easy remote management and super high performance. The new probe is capable of handling ten times the traffic volume of standard probes, transforming comprehensive UTRAN monitoring - until now, problematic - into a cost-effective way for service providers to troubleshoot service delivery and radio management in real time. Tel Aviv, Israel's RADCOM (<http://www.RADCOM.com>) develops, manufactures, markets and supports innovative network test and service monitoring solutions for communications service providers and equipment vendors. The company specializes in Next Generation Cellular as well as Voice, Data and Video over IP networks. Its solutions are used in the development and installation of network equipment and in the maintenance of operational networks. (RADCOM 21.05)

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9.5 Explay Unveils oio, the First Real Pocket Nano-projector

Explay introduced and demonstrated the oio at a press conference at SID 2007 in Long Beach, California. oio, the first truly mobile and fully operational nano-projector, displayed a high image quality and brightness. oio projects an always focused eye safe image. The projector delivers a flexible viewing experience in environments ranging from a dimly lit bar to a bright office. oio's proprietary architecture will offer consumers and OEMs alike the opportunity to participate in this new market at an affordable price. Explay plans to launch oio in 2008. Herzliya, Israel's Explay (<http://www.explay.co.il>)

specializes in the development of ultra small, full color, nano-projector engines, always eye safe, for a wide variety of consumer and vertical applications. Explay's engines produce low-power, high-brightness, always focused projections. The technology, which is customizable, can either be packaged as a companion device or be embedded in handheld products such as mobile phones, portable media players and digital cameras. (Explay22.05)

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9.6 WorkLight Unveils New Version of Flagship Product ‐ Accessibility of Enterprise Application Data

WorkLight announced the general availability of version 1.1 of its flagship WorkLight product. WorkLight is a server-based product that extends the reach of enterprise applications to allow non-technical staff and customers to access the application data they need to do their jobs. WorkLight makes application data accessible via consumer-oriented services and tools like RSS, personalized home pages, widgets and gadgets, social bookmarking and others. Now available, WorkLight version 1.1 is licensed to enterprises by yearly subscription. Pricing starts at \$10 per user per month. Volume discounts are available. Yakum, Israel's WorkLight (<http://www.myworklight.com>) extends the reach of enterprise applications, by allowing workers the ability to access corporate application data via tools like RSS, personalized home pages, widgets and gadgets, instant messaging, social bookmarking and others. WorkLight delivers a substantial employee productivity gain and competitive advantage by helping people can find and use the information they need, quickly, efficiently and securely. Its enterprise-ready technology is scalable and conforms to existing and future corporate security and access-control policies. (WorkLight22.05)

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9.7 fring Launches Customized mVoIP For Cloud Users

fring and The Cloud, Europe's leading wireless broadband provider, announced the launch of the fring mobile VoIP (mVoIP) client, which will be specially optimized for The Cloud. The joint service facilitates fring mVoIP communication for all Cloud users, allowing them to call and chat for free to other fring users and to Skype, Google Talk, Windows Live Messenger (MSN) and SIP contacts over The Cloud's Wi-Fi networks in addition to other Wi-Fi, 3G and GPRS networks. fring enabled phones will automatically recognize, login and register on The Cloud network so users can make free mobile phone calls, chat and access the internet over their Wi-Fi connection with their fring and Cloud credentials automatically activated and synchronized. Last month The Cloud switched on Europe's most comprehensive and advanced Wi-Fi network, covering the entire of the City of London, giving the 350,000 people who work in and visit the area wireless broadband access across the City.

Tel Aviv, Israel's fring (<http://www.fring.com>) is a mobile Voice over Internet Protocol (mVoIP) product that allows users to make free calls over cellular data networks or a Wi-Fi connection. fring uses 3G over mobile phone networks and therefore provides a continuous call connection. It is 100% free with no subscription costs; consumers simply pay for the data they use under their existing line rental agreement. Completely PC-independent, it requires no additional hardware and no location limitations (e.g. Wi-Fi hotspots). fring also integrates with the Skype, Google Talk & MSN Messenger networks, allowing users to take all their PC buddies with them when away from their desk. (The Cloud21.05)

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9.8 Mellanox Surpasses 2 Million InfiniBand Ports Milestone

Mellanox Technologies announced that it has shipped over 2 million InfiniBand (10 and 20Gb/s) ports to leading server, storage, communications infrastructure, and embedded system OEMs. These ports span four generations of industry-leading InfiniBand adapter and switch families and are an integral part of the IT infrastructure that services a wide range of end-user markets, including automotive, bio and geosciences, communications, database, defense, economic and financial services, educational research, electronic design automation, entertainment, government, health services, retail, transportation services, weather analysis, web services, and more. Leading OEM suppliers that deliver InfiniBand-based server and storage hardware and software solutions to these end user markets include Cisco, DataDirect Networks, Dell, HP, IBM, LSI, Network Appliance, QLogic, SGI, Sun, and Voltaire, among others.

Headquartered in Santa Clara, California and Yokneam, Israel, Mellanox Technologies (<http://www.mellanox.com>) is a leading supplier of semiconductor-based, high-performance, InfiniBand and Ethernet connectivity products that facilitate data transmission between servers, communications infrastructure equipment and storage systems. The company's products are an integral part of a total solution focused on computing, storage and communication applications used in enterprise data centers, high-performance computing and embedded systems. (Mellanox 21.05)

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9.9 Gemtek Selects RADVISION Multimedia Terminal Framework for IAD and WiFi Phone Development

RADVISION announced that Taiwan-based Gemtek, one of the world's leading providers of wireless broadband solutions, is using the RADVISION Multimedia Terminal Framework to develop a new Integrated Access Device (IAD) and a WiFi phone. The RADVISION Multimedia Terminal Framework delivers the support required for call control services and multiple terminations. With advanced call control services, support for a wide range of SIP specifications, multiple terminations support and "out-of-the-box" ease of use, the Multimedia Terminal Framework is an ideal solution for IAD developers. Gemtek's IADs and WiFi phones deliver high voice quality with rich features. RADVISION's Multimedia Terminal Framework allows application developers to focus on application development, hardware integration and user interaction rather than complex VoIP standards when developing CPE (Customer Premise Equipment) devices, such as IADs and WiFi Phones. This enables faster time-to-market. The framework is a complete solution; encompassing signaling, call control and media management. Tel Aviv, Israel's RADVISION (<http://www.radvision.com>) is the industry's leading provider of market-proven products and technologies for unified visual communications over IP and 3G networks. With its complete set of standards-based video networking infrastructure and developer toolkits for voice, video, data and wireless communications, RADVISION is driving the unified communications evolution by combining the power of video, voice, data and wireless – for high definition videoconferencing systems, innovative services on converged IP and 3G networks, and highly scalable video-enabled desktop platforms for IP and emerging next-generation networks. (RADVISION29.05)

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9.10 Taiwan-Based Openfind Strengthens Email Protection With Commtouch Solutions

Taipei, Taiwan's Openfind and Commtouch announced that Commtouch Anti-Spam and Zero-Hour Virus Outbreak Protection technology will be integrated into version 2.8 of the MailGates Mail Protection System. Openfind provides search and messaging solutions to enterprises across Asia and was recently selected for a large government IT procurement project in Taiwan. The Commtouch anti-spam technology will fortify MailGates' Bayesian filter-based Chinese-language spam defense, with the goal of catching all types of spam outbreaks in real time. The Commtouch Zero-Hour technology, already adopted by leading global technology vendors, will give MailGates the ability to detect and block email-borne viruses in the first moments of an outbreak, thereby protecting enterprise IT systems from damage caused by malware in the zero-hour, before signature updates are made available by traditional anti-virus vendors. Headquartered in Netanya, Israel, Commtouch Software (<http://www.commtouch.com>) is dedicated to protecting and preserving the integrity of the world's most important communications tool -- e-mail. Commtouch has over 16 years of experience developing messaging software and is a global developer and provider of proprietary anti-spam, Zero-Hour virus protection and Reputation Service solutions. Using core technologies including RPD (Recurrent Pattern Detection), the Commtouch Detection Center analyzes billions of email messages per week to identify new spam and malware outbreaks within minutes of their introduction into the internet. (Commtouch 29.05)

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10: ISRAEL ECONOMIC STATISTICS

10.1 Israeli Economy in Its Longest Ever Expansion

On 27 May, the Central Bureau of Statistics announced that the Israeli economy grew by an annualized 6.3% in Q1/07, after growing by 7.3% in the preceding quarter. Business product grew by an annualized 6.5% in Q1/07 and GDP per capita rose by 4.5% in the same period. The main growth engines in the first quarter were the export of goods and services, which rose by an annualized 11.1%, a 23.7% rise in investment in fixed assets, and an annualized 11.8% rise in private consumption. The standard of living rose by an annualized 10%. Purchases of cars, appliances and other durable goods rose by 18.2% in the first quarter, and per capita spending on perishable goods rose by 3.8%. Unemployment continues to fall, reaching 7.7%, compared to 7.8% reported in the previous quarter. Since the end of the previous Palestinian war against Israel in mid-2003, the economy has grown by 18.3%, the longest sustained period of growth since Israel regained its independence in 1948. (CBS27.05)

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10.2 Israelis Invested \$6.2 Billion Overseas Between January-April

The Bank of Israel announced that overseas investment by Israelis amounted to \$6.2b in January-April 2007, including \$2b invested in securities and \$825m in foreign direct investment. Total overseas investment by Israelis is projected to

amount to some \$18b in 2007, considerably less than the \$30b in overseas investment witnessed during 2006. Financial establishment sources do not believe that it will be possible to repeat last year's record any time soon. Overseas investment by Israelis has totaled more than \$67b since 2004, including \$20b invested in securities and \$21b in foreign direct investment. (BoI17.05)

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10.3 Israelis Spend \$8.75 Million on Dairy Products For Shavuot Holiday

The Manufacturers Association of Israel reports that Israelis have spent \$8.75m on dairy products for the recent Shavuot, 8% more than last year. Consumption of soft cheeses is up 30%. The Manufacturers Association says that the dairy industry has invested \$12m this year on equipment, technologies and in the development of new cheese products. More than 30 new dairy products have been launched for the holiday, including a 5% "Symphony" brand goat feta cheese, cookies, sweet white cheese filling for blintzes and pies, a white cheese with grilled peppers, a Galilee brand goat cheese, and sheep's yogurt. The Federation of Israeli Chambers of Commerce reports that dairy product sales last week were 70% above the weekly average. Sales of a sweet sour cream were up 187%, mozzarella sales were up 169% and sales of white cheese spreads were up 105%. (Globes 21.05)

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[In Depth](#)

11.1 Israel Economy: Fischer's Itch

The Economist Intelligence Unit commented that as speculation swirls about the question of who will replace Paul Wolfowitz at the World Bank, one of the names being bandied about is Stanley Fischer, the governor of the Bank of Israel, former vice-chairman of Citigroup and before that the deputy managing director of the IMF. Some Israelis say Mr. Fischer's departure would be a more serious risk to their economy than the possible loss of the prime minister, the finance minister, or the president.

Mr. Fischer's five-year term at the bank is not due to end until 2010. However, local journalists say that the governor is somewhat frustrated at the bank, where a long-running wage dispute with the finance ministry continues to delay progress on the legal reforms that Mr. Fischer has sought since he arrived. Mr. Fischer wants to see a new central bank law that would formalize the bank's commitment to inflation-targeting above all else (which is already the case in practice, but lacks legal protection). The proposed law would also set up a monetary policy committee, including several external advisors, in place of the de facto group of internal officials that currently contributes to policy discussions.

[Fair Wage](#)

However, all this is being delayed while the bank and the ministry wrangle about pay and perks. Essentially, the finance ministry says pay at the Bank of Israel is far higher than public sector norms, while bank officials counter that their organization needs to be able to compete with private-sector banks for top economists.

This is an old fight and some say Mr. Fischer was promised that it would be resolved before he arrived. However, the issue has dragged on, leading to a standoff in March, with the finance ministry threatening not only to reduce bank salaries but possibly also to demand repayments of some back pay that it deemed excessive. Bank officials responded by calling a general strike.

In the end, rumors that Mr. Fischer was actually ready to resign over the issue forced the government's hand, prompting the prime minister, Ehud Olmert, to lean on both institutions to come to an agreement as quickly as possible. A rough agreement was duly hammered out in the space of a few days. But a further agreement on the precise details of the bank's new pay scale is still unresolved, which, bank officials say, is partly because the finance minister has been absent since April.

The police are also investigating whether some of the bank's former senior employees - who left before Mr. Fischer's tenure - lied to the finance ministry about the value of perks granted to high-ranking officials. Speaking at a recent conference, Mr. Fischer said: "Labor relations are not within my field of expertise in economics, but it has occupied much of my time in Israel."

The Fischer Brand

The government's speedy reaction to the rumors that Mr. Fischer was ready to resign serves to illustrate the importance that officials place on his presence at the central bank. Some civil servants say that the financial markets would be much more upset by Mr. Fischer's resignation than by Mr. Olmert's.

Indeed, the stock market largely shrugged off the recent suspension of the finance minister, Avraham Hirschson. The shekel even appreciated against the dollar in the week that the foreign minister - and thousands of protestors - called on Mr. Olmert to resign, following the Winograd Committee's damning official report of inquiry into the Lebanon war. Mr. Olmert's critics suggested this showed the markets were hoping for the return of Benjamin Netanyahu, the leader of the opposition and a former finance minister known for his strong commitment to the free market.

Whatever the truth of that, the sanguine behavior of investors more generally indicates that the top echelons in Israel's civil service are accustomed to frequent changes of government and are able to keep functioning reasonably well amid political uncertainty.

It is not that there is any serious concern that monetary policymaking would unravel without Mr. Fischer. Rather, his

supporters fear that investor confidence in Israel would be dented by the loss of such a credible name. Having an internationally renowned economist at the helm of the central bank is good for Israel's image overseas. Some hope that having a veteran of Citibank as governor will also help to attract foreign banks to set up retail banking operations in Israel, which they have so far been reluctant to do. One finance ministry official explained simply: "He will stay, because he came here to help the Israeli economy, and if he goes, the damage will outweigh all the good he has done us so far."

A Tough Press

However, the decision to appoint Fischer was controversial from the start, as local economists' noses were put out of joint by the fact that a US-based economist was preferred to them. Some of these continue to carp about the amount of time that Mr. Fischer spends overseas--albeit attending conferences and promoting the Israeli economy to foreign investors. Mr. Fischer is also facing criticism from Israeli exporters who complain that the shekel's strength against the dollar is undermining their business, although this is hardly his fault, given that he has been cutting interest rates for months.

Mr. Fischer's appointment has coincided with the consolidation of a broad-based economic recovery in Israel, the result of better security, major fiscal restructuring, the absorption into the labor force of the near-million immigrants that arrived into the 1990s, and strong global demand for Israel's high-tech exports. The current account, which recorded deficits throughout the 1990s, has been in surplus for four years now. These strong fundamentals have attracted rising levels of foreign capital, boosting the exchange rate against the dollar. The strong currency means inflation is extremely low--to the extent that the Bank of Israel seriously undershot its target last year.

As a result, Mr. Fischer has cut rates dramatically, by a total of 150 basis points since October 2006, in an attempt to dampen the shekel's appreciation against the dollar. The central bank does not have an exchange-rate target, but the shekel/dollar exchange rate is a primary determinant of inflation, partly because rents are usually priced in dollars. However, Mr. Fischer's successive interest rate cuts have failed to cool demand for the shekel, even though the central bank's policy rate is now 175 basis points below the Fed's benchmark rate.

A wider worry is that a sudden fall in the exchange rate - for example, if the US dollar strengthens substantially - could quickly cause a sharp rise in domestic inflation. This would force a sudden monetary tightening that would probably take at least six months to feed through into lower inflation. In this context, Mr. Fischer is subject to much more criticism from the press than he was used to in the world of high-level banking--and the Israeli press in particular does not tend to pull its punches. This is adding to concern among Mr. Fischer's supporters that a top job elsewhere might yet tempt him away. (ViewsWire29.05)

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11.2 Israel: Mind the Gap

Morgan Stanley (<http://www.morganstanley.com>) analyst Serhan Cevik observed that in Israel, inflation will remain low in the near future, but risks are now on the upside. Judging from the behavior of inflation over the last year, Israel is an exceptional country with strong economic growth and deflationary readings. Consumer price inflation moved from 3.8%

in April 2006 to -1.3% last month. Not only is this well below the lower bound of the central bank's target range, but it has also come through at a time of low interest rates and above-trend growth. Mysterious? Not really.

There is one simple fact behind this intriguing phenomenon, and that is the shekel's realignment towards its fair value against the dollar. After years of undervaluation, the shekel's appreciation has led to a wave of deflation, because of the high and immediate pass-through effect on the prices of imported goods and services and, more importantly, in non-tradable sectors using pricing schemes linked to the exchange rate. For example, housing prices denominated in dollars dropped by 6.2% over the last year. Since the housing sector has a 22% weight in the consumer price index, it is not surprising to see the headline inflation rate in deflationary territory, even if we ignore pass-through and spillover effects on other sectors of the economy. However, although inflation is likely to remain low in the near future, upside risks are now becoming more pronounced, in our view.

As the shekel stabilizes, underlying pressures will start dominating inflation dynamics. Our projections (as well as the consensus estimate) suggest that the annual rate of change in the CPI will stay in deflationary territory in the coming months, mainly because of base effects stemming from the shekel's appreciation. Even though fundamental improvements in the Israeli economy still support the shekel's valuation, it is likely to stabilize around the current level and have a diminishing influence over domestic prices. This is why we have argued that underlying pressures resulting from sustained growth in domestic demand will start dominating inflation dynamics. Indeed, consumer price inflation excluding items influenced by the exchange rate has already diverged from currency-driven items in the CPI. According to the Bank of Israel's estimates, the 'domestic' component of the CPI recorded a 4% year-on-year increase in the first quarter of the year - even above the upper bound of the target range, whereas the 'imported' component (including currency-linked items and energy prices) showed a 4.6% drop. These figures confirm our view that the strength of the global economy and accommodative monetary conditions in Israel have pushed GDP growth beyond the trend growth rate and thereby led to higher inflation (excluding the currency pass-through effect).

The Israeli economy is now expanding at a rate that is faster than its potential. After four years of strong growth, Israel's economy shows no sign of slowdown. According to preliminary figures, real GDP growth remained at an annualized rate of 6.3% in the first quarter of this year, just a bit lower than 7.3% in the previous quarter. While exports of goods and services are still one of the leading engines of growth, the most interesting story coming out of the latest national accounts is the shift in the composition of growth towards domestic demand. Consumer spending grew at an annualized rate of 11.8% in the first three months, up from 4.9% in the preceding quarter and an average of 4.8% in the whole of last year. Within the private consumption component of GDP, spending on durable goods is the key driver, recording an astonishing 95.1% annualized increase in the first quarter. With low interest rates and sustained improvements in the labor market, the rise in domestic demand should not be a surprise. However, the continuing pace of above-trend growth in domestic demand also means that the Israeli economy now faces inflationary pressures stemming from a 'positive' output gap.

The central bank's current monetary policy stance is highly accommodative, in our view. With short-term interest rates at an all-time low of 3.5% and consumer price inflation excluding currency-linked prices running at 4%, there is little doubt that the current stance of monetary policy in Israel is highly accommodative. Therefore, even if we assume an improvement in the economy's potential growth rate, the prevailing growth dynamics still confirm our view that inflation risks are now on the upside. (MS29.05)

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11.3 Israel: A Decorator's Guide to Monetary Policy

Morgan Stanley's Serhan Cevik observed that economic policies should provide a cushion against 'unexpected' developments. Like economists, interior designers rarely agree on what is right or not. But there are still certain rules in decoration like using accessories to smooth the edges and create a comfortable setting. Curiously, the same principles can be applicable to the making of monetary policy, in our view. Especially during transitional phases, a central bank should provide a reasonable cushion against 'unexpected' developments - emerging from the political front or changes in global conditions - to smooth the volatility of inflation and growth cycles.

The case of Israel is just like that. While the shekel's strength and deflationary readings tempt to experiment with lower interest rates, navigating through an uncharted monetary territory require extra caution as well as a comforting cushion for financial markets. To be frank, even though fundamental gains in the Israeli economy and accommodating undercurrents in the global financial system would allow for further easing of the monetary policy stance, we may well be approaching a critical risk-reward threshold and facing the risk of higher inflation in the future.

The shekel has moved to the strongest level in years, especially against the dollar. After years of undervaluation, the shekel is now in line with our long-standing, once out-of-consensus estimation for its fair value against the dollar. This is a justified outcome, in our opinion, supported by economic and financial improvements as well as the dollar's weakness around the world. Fiscal normalization - lowering the budget deficit from 5.4% of GDP in 2003 to 0.9% last year - and the structural shift in the current account balance from an average deficit of 2% of GDP a year in the 1990s to 4.9% in 2006 have turned Israel into a net creditor but also a point of attraction for foreign capital flows. The latest figures show that capital inflows remain robust, reaching \$3.3 billion in the first four months of this year, on top of \$24.4 billion last year. Therefore, even though the shekel remains undervalued against the trade-weighted currency basket and the strength of foreign capital inflows could still push it even to a stronger level, the risk of volatility is now higher and requires a cautious approach.

The currency pass-through effect lowers inflation, but underlying trends point to an increase. The consumer price index posted a monthly increase of 0.5% in April, but the annual inflation rate kept declining from -0.9% in March (and 3.8% in April 2006) to -1.3% - the lowest reading in the last three years. However, unlike the previous episode of deflation, today's inflation dynamics are not a result of weak demand, but instead reflect an unusual pass-through from the shekel's appreciation that depresses dollar-linked prices. For example, the housing sector, with a 22% weight in the CPI basket, recorded a 6.2% drop and pushed the headline inflation rate into the deflationary territory. This is why we call for caution and highlight underlying trends in the economy. Indeed, the annual rate of change in domestic prices measured by the GDP deflator already surged from -0.1% in 2004 to 0.8% in 2005 and 2.3% last year. Given the strength of domestic demand, we will see a steady, gradual increase in inflation towards the central bank's target range over the next 12 months.

The Israeli economy is growing at an above-trend pace, creating real inflation pressures. Judging from the prevailing inflation figures and the near-term outlook, the Bank of Israel could continue cutting interest rates, as expected, to weaken the shekel and thereby create inflation. However, we beg to differ on the wisdom of such a strategy that has so far failed to deliver its promise. First, the reasons behind the shekel's appreciation are not very sensitive, at least in the short run, to interest rates. Second, and more importantly, with low interest rates and improvements in the labor market, the acceleration in domestic demand is pushing the rate of real GDP growth well above the potential growth rate and narrowing the output gap. The latest figures (like the rise in the purchasing managers' index, booming retail sales and the lowest unemployment rate in a decade) point to stronger domestic demand and real GDP growth around 6% this year. Therefore, we see no fundamental reason for more rate cuts, especially given the lagged transmission of monetary easing in the last six months, and argue for having some cushions around in times of transition. (MS22.05)

11.4 Kuwait: Unclogging the Pipes

The discovery of a new gas and oil field in the northern Al-Dhabi region of Kuwait is helping to revitalize the country's plans for boosting oil production. The Oxford Business Group reported that Kuwait's government is currently aiming to boost the country's output from 2.6 million barrels-per-day (bpd) to 4m bpd by 2020 but key components of that plan, including Project Kuwait, the multi-billion dollar upstream development of the northern oilfields, have stalled under political pressure and cost inflation. However, following a series of shake-ups and discoveries in the sector, industry insiders are saying the outlook is starting to look brighter.

The 2020 plan has been a cornerstone of the government's energy policy, as it seeks to increase oil production capacity from 2.6 million bpd to 3 million bpd in 2010 and 4 million bpd in 2020. The plan for increasing crude output has been mirrored by efforts to boost downstream capacity as well, raising refinery levels from the current 940,000 bpd to 1.5 million bpd. Cost estimates vary, but in some cases, up to \$65b is expected to be spent upgrading the country's infrastructure to meet the targets.

By far the biggest news for the production-boosting plans has been the discovery of a new gas and light oil field in the Al-Dhabi area in northern Kuwait, the sixth such field in the region. While the oil minister, Sheik Ali Al-Jarrah Al-Sabah, declined to give details on the size of the new Dhabii field, the discovery does lie adjacent to the Raudhatain oilfield, which has reserves of over 6 billion barrels. Sheikh Ali said the discovery would have a positive impact on both the country's oil strategy and gas production in the near future. Al-Dhabi follows on the heels of two earlier discoveries in the northern regions, which will provide an estimated additional 35 trillion cu ft of gas and well over 50,000 bpd once in full production. The discovery, says the oil minister, opens the door for Kuwait to meet its 2020 targets by 2012, a full eight years earlier than expected.

Faisal Hassan, head of research for Kuwait-based Global Investment House told OBG, "the discovery of the new gas and oil field in the Al-Dhabi region is the result of the country's plan to look out for new areas to augment its oil and gas production, and we feel there will be more new discoveries soon. There was a discovery of a non-associated natural gas reserve in March 2006 in the north of the country and we expect more of a shift towards natural gas for domestic electricity and water generation, which in turn will free up more crude oil for export."

Furthermore, Project Kuwait has finally begun to move into the finishing stages, according to Sheikh Ali. The plan, which looks to boost production to nearly 1 million bpd in the five northern oilfields, has been under discussion for over a decade now, but has been continually beset by political squabbles. The \$8.5b proposal establishes a framework for private sector involvement in the country's energy sector, a first for Kuwait since the oil industry was nationalized in the 1970s (currently, international oil companies (IOCs) such as ChevronTexaco and BP, which are both bidding on the contract for Project Kuwait, operate in Kuwait largely through limited technical service agreements). As a result, however, several members of parliament expressed opposition to the project, fearing foreign control of national resources, and the plan stalled in parliament. Speaking with OBG, industry executives said questions were raised about the need to boost output with the state's coffers already stuffed with surplus.

Earlier, however, Sheikh Ali re-emphasized the need for IOC involvement in Project Kuwait, stating that exploration and production in the north would be difficult and any such development required greater shared expertise to make the most of the project. He added that investment bank Morgan Stanley had been brought on board to review the continued feasibility of the project and that a revised plan should be presented to parliament within the next two months.

Global Investment House's Hassan said, "Project Kuwait, though much delayed, is an important and essential element in the government's plans to increase oil production capacity to 4 million bpd by 2020. The project primarily aims at developing the secondary reservoirs in the northern oilfields with the help of IOCs but even if Project Kuwait is delayed further, we believe the country will continue to invest aggressively in alternative long-term plans to raise proven crude oil reserves and oil production capacity."

Another central component of the 2020 plan centers on boosting downstream refining capacity, through the construction of a fourth refinery in Al-Zour. Like Project Kuwait, the Al-Zour refinery proposal has gone through a turbulent birth, but following the re-issuance of the tender, the project is back on track. The proposal was tendered late last year, with an expected price tag of around \$6b, but after bids came back nearly three times higher than expected, the plans were shelved. However, the three existing refineries, already running at 940,000 bpd, would be unable to meet the 1.5 million bpd refining targets alone. As a result, Sheikh Ali recently announced that a new cost-plus-profit tender would be issued with a budget of around \$12m, saying, "we have to be realistic (with the market). If all goes according to plan, the project will be up and running by the beginning of 2011." (OBG18.05)

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11.5 Northern Emirates: Crucial Free Zones

The continued growth of the Northern Emirates' industrial sector has shed light on the crucial importance of industrial free zones for economic development in the region. Free zones act as a catalyst for local and foreign investment by offering incentives such as 100% foreign ownership, one-stop locations for paperwork and procedures, exemption from import duties and taxes, full repatriation of capital and profits, and, in some cases, subsidized water and energy prices. The runaway success of Jebel Ali - the United Arab Emirate's first free zone, established in 1980 in Dubai - has encouraged the establishment of more free zones, unleashing an industrial revolution in the UAE.

The largest of these is Ajman's Free Zone, inaugurated in 1988, which hosted 2115 companies at the end of 2006 - a 5.75% rise from the previous year - over a total area of almost 1m sq m. But real estate pressure around the Ajman Creek is forcing it to move. A new area has been designated and, according to the authorities, industrial activities will not be allowed to spread out of the new area, in a bid to ensure that industrial and residential areas do not overlap. The Port of Ajman, which has contributed significantly to the free zone's success, is also due for a relocation. The new port will be part of the Al Zora project's master plan. It will adopt a modular design that will allow it to grow and adapt to demand.

Sharjah's efforts in this matter have also been successful. The Hamriyah Free Zone, centered around the eponymous port, is in the process of almost doubling its surface area to 22m sq m. It hosted 1565 companies at the end of 2006. A spin-off of the Sharjah Ports Authority, it caters mainly to medium- and heavy-industry. The Sharjah Airport International Free Zone, with 2738 registered companies at the end of 2006, is a 6.1 sq m area located next to the airport. While it is more focused on trade, import and export activities, it also features facilities for manufacturing, assembling and packaging of goods.

Another emirate that has done well is Ras al-Khaimah where the RAK Free Trade Zone (RAK FTZ) was established in 2000. It has grown fast and today accommodates 1,430 companies over a surface area of 1.1 sq m. It has secured some high-profile deals, such as the German crane manufacturer, BTK's establishment of what will be the UAE's first tower-crane factory. The zone has been in the spotlight recently, with international-level visits from groups such as the Alexandria Business Association of Egypt. Also, RAK FTZ's CEO, Oussama El Omari, was recently appointed secretary general of the World Economic Processing Zones Association (WEPZA).

Finally, the Fujairah Free Zone, with 498 companies at the end of 2006, and a surface of 1.4m sq m, might not be the largest free zone in the Northern Emirates. But with a 24.5% increase in registered companies over 2005, it certainly is one of the most dynamic. Established in 1987, it focuses on light manufacturing, warehousing and distribution, and trading enterprises. Many oil-related enterprises have decided to set up shop there to cater to the thriving oil bunkering business in the Port of Fujairah.

But authorities believe that industrial activities have only so much added value. Free zones, as a consequence, are increasingly focusing on associated services. In late 2005, for instance, Ajman Free Zone inaugurated a complex of over 300 offices. Similarly, Ras al-Khaimah recently inaugurated the RAK Global Logistics Park, as well as an Inland Container Depot. It will support industrial activities carried out in the RAK FTZ, as well as allow RAK Global Logistics (the joint venture company set up between RAK Ceramics and Global Cargo System to run the park) to tap into the lucrative logistics market system.

Some Northern Emirates are replicating the free zone model in non-industrial sectors. Ras al-Khaimah and Fujairah, for instance, are establishing media production free zones, and Fujairah will soon be host to 28 satellite TV channels, with 12 of them going on air as soon as next month. Ras al-Khaimah has also successfully implemented the RAK Education Zone, which has attracted high-profile education institutions, such as George Mason University, based in Fairfax, Virginia. So even if service-oriented sectors come to overshadow industrial activities, free zones are set to remain crucial assets for the Northern Emirates' economic development. (OBG23.05)

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11.6 Northern Emirates: Cement Industry

In 2006, 14.4m tons of cement was consumed in the United Arab Emirates (UAE). The federation boasts one of the world's highest per-capita cement consumption, at roughly triple the world average, and the ongoing construction boom has, by all accounts, created a major shortage locally. Cement prices, as a consequence, have skyrocketed. At the end of 2006, prices increased by 100% over 2003. Prices rose from \$73 per ton at the beginning of 2007 to \$81 per ton in May. While this is causing much concern among building companies and contractors, forcing some to put projects on hold, deliver late, or hastily renegotiate contracts with customers and suppliers, it is doing wonders for the Northern Emirates' cement industry.

The combined production of all Northern Emirates producers accounted for 9.26m tons in 2004 - the most recent year for which such figures are available - over 80% of the UAE's total. The emirate of Ras Al Khaimah is the largest producer, with 6.3m tons produced in 2004. Home to the country's three largest Portland cement producers (Union Cement, Gulf Cement, and RAK Cement), it also hosts the only white cement producer, RAK White Cement. The nearby Hajar mountains' abundant reserves of high-quality limestone have attracted cement producers ever since the UAE's first

cement factory (Union Cement) was set up in 1975.

RAK should remain at the forefront of the industry as the Hajar range holds supplies of limestone which are nowhere near depletion, and its two largest rock quarrying companies (RAK Rock and Stevin Rock) are busy expanding their supply to cement manufacturers. Stevin Rock, which currently produces 32m tons per year (tpa) of limestone and gabbro, part of which goes to the cement industry, stated its wish to increase production to 40m tpa in the near future. It recently bought rock drilling rigs and other equipment to meet that target. RAK Rock, which supplies over 10m tpa of limestone for the cement industry, is also expanding its operations. At least four grinders are expected to be installed in the emirate.

Cement manufacturers in Ras Al Khaimah and elsewhere in the UAE are eager to expand their production. Union Cement, whose output currently stands at 1.3m tpa, is in the midst of a major capacity upgrade. A new clinker production line, with a capacity of 10,000 tons per day - reportedly the largest in the world - will be inaugurated on May 17th, allowing it to almost treble this cement output to almost 4.5m tpa.

Similar plans are in the pipeline elsewhere in the Northern Emirates. A plant is being installed in Fujairah, with a reported capacity of up to 3m tpa while a new factory is expected to be built in Sharjah, with a capacity of 3.6m tpa. All in all, according to estimates, the UAE's overall capacity could reach close to 20m tpa by the end of 2008, and up to 25m tpa at the end of 2009.

However, there are concerns that this massive capacity increase may be excessive and coming too late. According to some analysts, demand in the UAE could stabilize sooner than expected, as real estate developments in Dubai and Abu Dhabi reach completion. Producers might therefore quickly find themselves with a supply glut at hand, leading to drastic price corrections and lower margins.

Cement manufacturers are confident that real-estate and infrastructure developments in the Northern Emirates - where the real-estate sector is just starting to kick into gear - will boost indigenous demand, while continued growth in the Gulf Cooperation Council (GCC) countries - where virtually every city is unveiling grand construction plans - will provide a profitable export market. But many countries in the region as a whole are also scrambling to augment their own capacity. According to Global Investment House, the proposed capacity upgrades in the GCC would lead to a doubling of clinker - and, therefore, cement - production in the region as soon as 2008. This casts a shadow on UAE-based producers' confidence that the regional market can absorb their excessive production. Increased diesel and maritime insurance costs mean that exporting farther than the Gulf will pose a major challenge.

Finally, rising costs have been challenging manufacturers' bottom lines for some time. Energy prices - which account for up to 60% of the manufacturing price of cement - have increased, and insufficient access to natural gas has forced producers to rely on expensive alternatives, such as diesel and imported coal. Transport and labor costs have also risen. Until now, high prices commanded by cement on the local market have easily offset these costs. But a stabilized market - and a looming price-control intervention on the part of the authorities - mean that prices will not remain high forever. (OBG16.05)

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11.7 Oman: Opting Out

Oman confirmed it would not join a planned monetary union with fellow Gulf Co-operation Council states, at least for the time being. On May 23, Oman's central bank governor, Hamood al-Zidjali, announced the sultanate would not be taking part in the Gulf monetary union, decided on by the GCC in 2001. He said the country did not want to restrict its monetary and fiscal policies at the present time. The government of Oman stated it believes that meeting the criteria set down for the single currency could have an adverse effect on the sultanate's development plan, the bank governor said during a banking conference in Kuwait. "At present we will not join, al-Zidjali said. Later, when the single currency comes into existence, then maybe."

As the Oxford Business Group observed, in December 2006 Oman indicated it would not participate in the proposed single currency in the near future, saying then it would not be able to meet the technical and legislative requirements needed to establish the monetary union in time for the proposed deadline of January 1, 2010. Omani officials said the sultanate supported the single currency scheme. They explained that the decision to opt out was based on not wanting to delay the process. However, the sultanate did indicate it would be prepared to sign on for the single currency at a later date. With al-Zidjali's comments of May 23, this date seems even further down the track.

Oman's confirmation of its decision to stay outside the monetary union came only a few days after the single currency plan took another major hit, this time from Kuwait. Citing inflationary pressures, Kuwait announced on May 20 that it had decided to break the link between its dinar and the US dollar, opting instead for a weighted basket of international currencies. This change, which puts Kuwait out of step with the other five GCC states, has been seen by regional experts as adding another hurdle to launching the single currency on time. Pegging the bloc's currencies to the dollar, a commitment made in 2003, had been one of the initial steps towards a unified monetary unit.

Al-Zidjali said that Kuwait's decision had come as something of a surprise. "At the Central Bank of Oman we did not know about this," he said in an interview on May 20. "There was a position by the leaders of all Gulf countries to remain pegged to the dollar and we have abided by that decision."

Oman has said it has no plans to unpeg the Omani riyal from the greenback. Indeed, speculation over whether the proposed unified currency would be linked to the dollar or a range of international currencies has been one of the causes of Omani reticence over the monetary union. The weak riyal has helped boost Oman's exports, which are priced in dollars, and made the country more attractive to international tourists, who benefit from the good exchange rate. With the US dollar falling in value, dragging the riyal down with it, these benefits have only increased.

Among the restrictions that Oman has taken exception to under the planned monetary union is limiting public debt to below 60% of GDP. While the sultanate is not running up a deficit anywhere near this ceiling, authorities want to be able to retain the option of doing so, in order to prime the economy when needed to increase growth and boost employment.

At the GCC Supreme Council Summit in Riyadh last December, an agreement had been reached on finalizing all the requirements for a Customs union and common market between the six states by the end of 2007, another move that is lagging behind schedule. The GCC had already put back the deadline for having the preparations for the Customs union from 2005.

Oman's opting out of the monetary union does not spell the end of the proposed single currency. As an example, only 13 of the 27 member states of the EU use the Euro as their currency. However, the sultanate's determination to go it alone, for the present at least, combined with the delays in meeting the monetary union's baseline requirements and Kuwait's changing its US dollar peg all suggest that the single currency will be later rather than sooner. (OBG29.05)

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11.8 Oman: Logical Logistics

Due to its strategic location, the Sultanate of Oman was dealing with logistics long before the word had ever been coined, having been a hub for cargo movement and trans-shipment for thousands of years. But where once trade was carried in dhows from small coastal ports, now it is in tankers, dry cargo freighters and bulk container ships and the business of logistics is paramount. Oman is putting in place the infrastructure needed to turn the country into a major logistics hub, one that can move goods at speed from one destination to another, load and unload and meet the needs of the global transport industry.

The Oxford Business group noted that with both regional trade and consumer demand for imports on the rise, logistics firms are looking increasingly at Oman as a base of operations. In mid May, leading logistics company BDP International announced it was teaming up with Oman's Mustafa Sultan Enterprises to provide freight forwarding and other logistics services in the sultanate through a newly formed company, Arshhiya Logistics. Richard Bolte, BDP's president and chief executive officer, said the joint venture would offer logistics services to clients operating out of Oman and in the region. "Oman is a core market for our business," he said at the launch of Arshhiya. "By the second quarter of the year, we are also looking to expand further in Oman with a branch office in Sohar."

It is the Port of Sohar that Oman has pinned much of its hopes on to snare a major slice of the logistics trade in the region. Quite apart from handling the ever-increasing output from the heavy industries sprouting up in the Sohar industrial zone, and receiving the flow of raw materials needed to sustain these facilities, the port is increasingly becoming a centre for trans-shipment for the region.

More than \$12b has already been committed to the construction and equipping of the port, which is managed under a joint venture agreement between the government and the Port of Rotterdam through the Sohar Industrial Port Company (SIPC). Its location at the mouth of the Strait of Hormuz makes the port a potential gateway to the countries of the Gulf Co-operation Council. Trans-shipping cargoes to land-based transport means that vessels do not have to enter the strait and the Arabian Gulf, making for faster ship turn around times, thereby cutting costs and reducing insurance premiums.

Sohar's road network allows freight to be moved in hours by land to Dubai, Abu Dhabi, Al Ain and Muscat, all of which are within 240 km of the port. For trade going the other way, Sohar lies on the rim of the booming Indian Ocean region, an area hungry for natural resources and processed goods. Jan Meijer, the chief executive officer of SIPC, said that while the port was mainly designed to handle Oman's exports, Sohar has the potential to become a major regional trading hub. "Sohar is also within close reach of the booming economies of the Indian subcontinent and the

eastern coast of Africa, he said in a recent interview. Therefore, Sohar potentially is an international logistics hub.”

As is so often the case in the region's economy, the biggest competition comes from Dubai, which has ploughed billions of dollars into upgrading and developing its logistics infrastructure and offered incentives for international firms in the sector to base their Middle East operations in the emirate. However, Patrik Hallden, the managing director of the Gulf Agency Company Oman, said that strong growth in the sultanate and the logistics sector bode well for the future. “Logistics activities are growing in Oman and we foresee that this sector has tremendous potential for a majority of import as well as export sectors, he told the local media in April.”

Complementing Sohar is the Port of Salalah, to the south on Oman's Indian Ocean coast, which has become one of the world's largest container terminals and is now a global leader in trans-shipment services. Together with Muscat's Sultan Qaboos Port, which handles the bulk of Oman's domestic trade, a commitment by the government to support the transport sector with investment, and blessed by a location astride one of the world's busiest trade routes, Sohar and Salalah are at the hub of the region's logistics. (OBG22.05)

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11.9 Saudi Arabia: Spreading the Wealth

The Oxford Business Group announced that King Abdullah unveiled a raft of projects set to stimulate economic and social development as he took a long awaited tour of the northern regions of the Saudi kingdom recently - the first to the area since his accession to the throne in August 2005. The tour started in the northern border region and took in the Al-Jouf and Tabuk regions. He was accompanied by Crown Prince Sultan, other senior princes and a number of ministers, clearly underscoring the importance being placed on the trip.

Since the establishment of the kingdom in 1932, much of the emphasis in terms of development has been on the urban centers such as Riyadh and Jeddah. The consequence has been that outlying regions have not received the same amount of attention. In turn, this has led to a sharp rise in migration from rural areas to urban ones and the infrastructure in the main cities and towns is struggling to cope while more remote areas have stagnated.

Throughout the 1980s and 1990s, the Saudi population grew enormously with 75% currently under the age of 14. Rates continue to cause concern at 2.6% per annum and the United Nations warn that the population could double by 2050. Creating jobs and homes for what Saudis term their 'youth bubble' is therefore a primary concern for the government, but urban planners have been quick to point out that the main hubs cannot be expected to meet the demands.

There is a more immediate concern. By not developing such areas, they become more susceptible to extremism and what the government terms 'deviant' ideologies. With terrorism an ongoing threat - the security forces arrested 127 suspected militants in late April - it is an area of particular importance. The government's strategy to tackle this is to try to ensure that rural areas receive adequate financing so that an effective economy can be developed to make people want to stay. King Abdullah has been at the forefront of this drive.

In addition to a number of foreign tours, visiting key international partners such as oil importing Asian countries soon after he came to the throne, the king has also been on a tour of his own realm, focusing on the relatively underdeveloped and less prosperous areas to the north and south. The continued emphasis during these domestic trips is on equality of opportunity and the importance of unity in the kingdom. On the first day of his tour last week in the town of Arar, the king said, "We don't have certain regions considered as first-class and others as second-class. We are all equal before God and before the nation."

These royal meet-the-people visits also provide a tangible forum in which ordinary people can meet the king - access to leaders is a traditional right for Arabs and also reflects the humility of the monarch, thereby enhancing his legitimacy.

Education, health and infrastructure remain the primary focus of the government's initiatives in the outlying areas. In the northern border region alone, a new university complex costing \$133m is to be established, including various science and women's facilities. A number of hospitals and health centers were also inaugurated at a total cost of around \$135m. These include maternity and psychiatric facilities - areas which are currently underserved.

At the same time, the king also unveiled a wide range of infrastructure projects from electricity and water to road upgrades. No doubt mindful of the need for job creation, the king endorsed plans for a mega-economic city in Tabuk too, mirroring the Jizan project he unveiled on his tour of the southern regions back in November 2006.

To date, the kingdom has embarked on six such cities, which are aimed at providing attractive environments for commerce and industry, funded by the private sector. The Saudi Arabian General Investment Authority (SAGIA) is spearheading these and its governor, Amr al-Dabbagh, told OBG, "The economic cities projects are all part of King Abdullah and the government's drive to create opportunity throughout the kingdom. That is why they are spread throughout the kingdom, particularly focusing on traditionally less affluent areas."

During his visit to Tabuk and Al-Jouf, the king also made significant promises, again mostly in infrastructure, health and education. The projects in Al-Jouf alone are valued at \$4b. The Saudi press reported that the much talked about Saudi-Egyptian Causeway would soon be underway too - the \$3b project will provide a highly lucrative channel for business and tourism between the two countries. Further details have yet to be unveiled. (OBG16.05)

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11.10 Turkey: The Politics of Misery and Expectations

Morgan Stanley's Serhan Cevik commented that macroeconomic performance may not be enough to convince voters. Turkey's macroeconomic progress has turned out to be even better than our out-of-consensus expectations five years ago. Breaking away from the boom-bust cycles of the past, the Turkish economy expanded at an above-trend pace, reaching an annual growth rate of 7.5%, as the budget deficit narrowed from 16.5% of GDP in 2001 to 0.7% last year

and inflation declined from an average of 72% between 1990 and 2002 to the single-digit territory for the first time in 35 years. Even the rate and composition of employment growth have become welfare-enhancing, despite structural changes and constraints, and led to significant improvements in socioeconomic indicators, such as the poverty rate and income distribution. Nevertheless, the strength of 'macro' performance may not be enough to convince frustrated voters, especially in rural areas and spiraling urban slums. Indeed, the latest opinion polls suggest a steady support for the ruling party, but no major improvement compared with its standing in the previous elections. Therefore, considering the likelihood of mean reversion in the voting behavior, the risk of a relatively more fragmented parliament is now higher, in our view.

The rise of the middle class is great news, but we need to look deeper into the data. There are many ways to assess the effectiveness of economic policies in improving living standards and one such gauge is the misery index based on inflation and unemployment rates. In the case of Turkey, the misery index (rebased to 100 in 2000) shows a sustained improvement in the post-crisis period, declining from an average of 142.1 in the 1990s and 102.1 in 2001 to 30.5 last year - the lowest reading in the past three decades. We also constructed an alternative misery index - consisting of public-sector borrowing requirement, interest rates, income growth, inflation and the unemployment rate. It, too, indicates a decline in social affliction, from an average of 139.1 in the 1990s and 147.6 in 2001 to below 25 last year. These results are also consistent with the latest data on poverty and income distribution. For example, the poverty rate declined from 28.1% of the population in 2003 to 20.5% in 2005. In other words, 4.5 million people moved out of poverty, just as the distribution of income kept improving after the crisis. However, although the overall progress is encouraging, there are geographical and social divergences in the level of misery.

Unemployed and poor voters are likely to determine the composition of the next parliament. Socioeconomic conditions have improved across the country, but relative developments (especially with regards to expectations) are also important for political cycles. Take, for example, the gap between urban and rural areas. While the rural poverty rate declined from 40% in 2004 to 33% in 2005, it is still 157% higher than the urban reading. Even though this is simply a result of extremely low productivity and institutional rigidities in the agriculture sector, discouraged voters may not be as understanding as economists judging from a distance. Likewise, unemployed and informally employed workers face a significantly higher risk of poverty, because of inadequate educational attainments and structural changes in the economy. If truth be told, while the number of employed increased by 3 million since 2002, the unemployment rate remains almost twice as high as the pre-crisis average (even with a substantial increase in the number of discouraged workers who have withdrawn from the labor market).

With the 'true' jobless rate closer to 20%, Turkey's young population suffers more than others from the challenges of economic normalization and greater integration with the global economy. Of course, once again, we are not sure whether unemployed youth would appreciate, at least in the near future, the nature of productivity-driven growth and the transition from labor-intensive sectors to capital-intensive production that improves the quality of jobs but limits employment growth. Indeed, before the previous elections, we argued that the state of the labor market has a significant effect on voting behavior, especially among young voters. Now, with 4 million new voters, the channel of 'greater expectations' will only become more important in the coming elections. (MS17.05)

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11.11 Moody's Puts Cyprus & Malta on Upgrade Review

On 17 May, Moody's Investors Service placed the long-term government bond ratings and country ceilings for foreign currency bank deposits of both Cyprus (A2) and Malta (A3) on review for possible upgrade. Malta's short-term country ceiling for foreign currency bank deposits (P-2) has also been placed on review for possible upgrade. This follows the

recommendation issued on 16 May by the European Commission that both Cyprus and Malta should be allowed to adopt the euro on 1 January 2008.

"Moody's views the eventual adoption of the euro by these two countries as a credit positive because it will all but eliminate the risk of a currency crisis and thereby isolate their economies from external financial shocks," says Tristan Cooper, Vice President - Senior Analyst in Moody's London office.

This positive rating action is further supported by the strengthening economic fundamentals of both Cyprus and Malta. "In recent years, both countries have successfully implemented a program of fiscal consolidation that has narrowed their fiscal deficits and reversed the previous upward trend in their public debt burdens," adds Mr. Cooper.

Moody's will conclude its review of Malta and Cyprus's ratings following the publication of the European Union's final decision on whether to allow the two countries to adopt the euro, which is due to be taken by EU finance ministers in July.

Meanwhile, the outlook on Cyprus and Malta's Aa1 country ceilings for foreign currency bonds has been changed to positive from stable. "This is in preparation for raising these ceilings to Aaa when Cyprus and Malta eventually adopt the euro in order to bring them into line with the Eurozone's Aaa foreign currency bond ceiling," explains Mr. Cooper. Cyprus and Malta's country ceilings for local currency bonds and bank deposits remain at Aaa. Cyprus' short-term country ceiling for foreign currency bank deposits remains at P-1. (Moody's17.05)

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- Israeli Shekel conversions done at a rate of NIS 4.00 = \$1.00
- Turkish Lira conversions done at a rate of NTL 1.3 = \$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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