

## Fortnightly - June 13, 2007

### TOP STORIES

- ILSI Biomed Israel 2007 Hosts Large US Presence Among Delegations from 30 Countries
- Pennsylvania Trade Delegation Visits Istanbul and Amman
- Dubai Third Largest Re-Export Hub
- Istanbul Accounts For One-Fourth Of Turkey's Total Spending
- Israel's Consumer Confidence Index at 6-Year High

### TABLE OF CONTENTS:

#### 1: ISRAEL GOVERNMENT ACTIONS & STATEMENTS

- 1.1 Israel Cancels Purchase Tax on an Array of Consumer Items
- 1.2 Goose Fattening Outlawed - But Foreign Pate Exempted From Duty

[Back to Top](#)

#### 2: ISRAEL MARKET & BUSINESS NEWS

- 2.1 ILSI Biomed Israel 2007 Hosts Large US Presence among Delegations from 30 Countries
- 2.2 Zion Oil & Gas Ends Its IPO Successfully with a Total Raised of \$12 Million
- 2.3 T-Online Venture Fund Makes Strategic Investment in JAJAH
- 2.4 Elron Announces New Investment in RADLIVE
- 2.5 Attunity Files Draft Preliminary Prospectus for Possible Public Offering in Israel

- 2.6 OpTier Receives \$15 Million in Third Round of Funding
- 2.7 Frutarom Acquires Raychan Food Industries
- 2.8 IXI Mobile Announces the Closing of the Merger With Israel Technology Acquisition Corp.
- 2.9 Herley Israel Awarded \$1.1 Million Contract for Integrated Microwave Assemblies
- 2.10 Gizmoz Raises \$6.3 Million from Benchmark Capital and Columbia Capital
- 2.11 Goldman Sachs Holds Board Meeting in Jerusalem
- 2.12 Red Herring Israel Start-Up Winners Announced
- 2.13 Revolution Partners to Launch Israel Activity

[Back to Top](#)

### 3: REGIONAL PRIVATE SECTOR NEWS

- 3.1 Pennsylvania Trade Delegation Visits Istanbul and Amman
- 3.2 Middle East Next Hot Export Market for China Manufacturers
- 3.3 Sonoran Azraq Production Sharing Agreement Signed by Jordan's King Abdullah
- 3.4 Viewpoint Enters Corporate Learning Market in UAE through Equity Investment from CERT
- 3.5 Dubai Aerospace Enterprise Arranges Funds for \$1.8 Billion Buyouts
- 3.6 Raytheon & UAE Sign \$76.5 Million Rolling Airframe Missile Contract
- 3.7 Cleveland Clinic Enters Partnership for Sheikh Khalifa Medical City in Abu Dhabi
- 3.8 DME Has Successful Launch; Trades More Than 2,800 Contracts on Opening Day
- 3.9 US Investment Firm Colony to Buy Libya's Tamoil for \$5.4 Billion
- 3.10 Istanbul Municipality Selects Alien RFID Solution for Vehicle Tracking in Turkey
- 3.11 BioElectronics Announces Agreement with Grup H.E.R. Saglik SIS. of Turkey

[Back to Top](#)

### 4: ISRAEL MACRO-DEVELOPMENTS

- 4.1 Gaydamak Acquires Third Public Company

## 4.2 Private Sector May Receive Wind Turbine Projects

[Back to Top](#)

## 5: ARAB STATE & PAKISTANI DEVELOPMENTS

- 5.1 Jordan's Foreign Grants Totaled \$700 Million In 2006
- 5.2 Jordanian Pharmaceutical Exports Penetrate 60 Countries
- 5.3 Jordan & Iraq Plan to Build Free Trade Area
- 5.4 Dubai Third Largest Re-Export Hub
- 5.5 UAE Leads in Connectivity in the Arab World
- 5.6 Automobile Sales in UAE Likely To Drop
- 5.7 Oman Loses \$200 Million Due To Halt in Oil Exports
- 5.8 Pakistan's 11-Month Trade Deficit Soars to \$12.62 Billion

[Back to Top](#)

## 6: TURKISH & CYPRIOT DEVELOPMENTS:

- 6.1 Turkey's Raw Material Imports Surpass \$35.5 Billion
- 6.2 Turkey's 12-Month Exports Reach \$94 Billion
- 6.3 Turkish April Trade Deficit Shrinks 11.5% from 2006
- 6.4 Turkey Earns \$620 Million from BTC Oil Pipeline
- 6.5 Turkish Automotive Industry Sets New Record
- 6.6 Istanbul Accounts For One-Fourth Of Turkey's Total Spending
- 6.7 EU Finance Ministers Back Cyprus' Accession To Eurozone

[Back to Top](#)

## 7: GENERAL NEWS AND INTEREST

### \*REGIONAL:

#### 7.1 Burj Dubai Is Now Second Tallest Building In The World

[Back to Top](#)

## 8: ISRAEL LIFE SCIENCE NEWS

#### 8.1 PARI & Kamada Announce Positive Intermediate Phase I Results for Inhaled Alpha-1 Antitrypsin

#### 8.2 Can-Fite Completes Toxicology Studies with CF101 in Full GLP Compliance with US FDA

#### 8.3 Hadasit Announces Hadassah Hospital's New Clinical Research Center

#### 8.4 BioLineRx Introduces Early Development Program

#### 8.5 COPAXONE Pre-Filled Syringe Can Now Be Stored for up to One Month at Room Temperature

#### 8.6 GammaCan Presents Anti-Melanoma Technology at the 2007 ILSI BioMed Conference

#### 8.7 InSightec Receives CE Mark for ExAblate 2000 Treatment of Pain Caused By Bone Metastases

#### 8.8 Teva & Active Biotech Initiate Trial Program of Oral Laquinimod for Multiple Sclerosis

#### 8.9 Israeli Researcher Pioneers New Cancer Treatment

[Back to Top](#)

## 9: ISRAEL PRODUCT & TECHNOLOGY NEWS

#### 9.1 Israel Launches 'Ofek 7' Satellite

#### 9.2 EZchip's NP-4, a Single-Chip 100-Gigabit Network Processor with Integrated Traffic Manager

#### 9.3 Gizmoz Launches Free Service to Bring a Real Face and Voice to Digital Communications

#### 9.4 Eltek Wins First Sizable PCB Order from a Major Foreign Military and Aerospace Conglomerate

- 9.5 ECI Telecom Unveils Secure Encryption Solution for High-Speed Ethernet Networks
- 9.6 RADVISION Releases Next Generation SCOPIATM 3G Video Gateway
- 9.7 Magal Security Systems Receives \$1.8 Million of Orders for a Broad Spectrum of Products
- 9.8 First-Ever Mobile Television Handset with Smartcard Profile Protection Demonstrated
- 9.9 FiftyOne from E4X Makes Selling Internationally Easy
- 9.10 IncrediMail Introduces Chinese Language Version of Popular Flagship Product
- 9.11 Comsys Baseband Processor is First WiMAX Multi-Technology ITU-R Solution for Mobile Terminals
- 9.12 RADA Receives Order for Commercial Aviation Test Station (CATS) to NFF Avionics Services
- 9.13 emoze Releases Version 1.4 - Breakthrough in Battery Power Consumption for Free Push Email
- 9.14 Enforta Brings WiMAX to the CIS Countries Using Alvarion's WiMAX Solution
- 9.15 Smart Energy Solutions Completes Shipment of Battery Brain to Royal Dutch Touring Company
- 9.16 Resolute & BroadLight Bolster Circuit Emulation Services Over GPON with CMX-16C3 Aggregator Module
- 9.17 Leading Operator in Russia Places a First Time Order for ECtel's FraudView Release 8
- 9.18 China's HomeBuy Selects Retalix POS, Headquarters and Loyalty Solutions
- 9.19 Sanyo Broadens Use of MaxxVoice in Mobile Phones

[Back to Top](#)

## 10: ISRAEL ECONOMIC STATISTICS

- 10.1 Israel's Consumer Confidence Index at 6-Year High
- 10.2 Israel in Fourth Place among World's Defense Exporters
- 10.3 Record 22,900 Vehicle Deliveries in Israel in May

[Back to Top](#)

[In Depth](#)

- 11.1 Israel: Reading the (Early) Signs of Excess

- 11.2 Currency Exposes GCC Flaws
- 11.3 Fitch Affirms Kuwait's Foreign Currency IDR at 'AA-'
- 11.4 S&P: Kuwait's New Currency Peg Complicates Plans For Gulf Monetary Union
- 11.5 Kuwait: Dinar De-pegged
- 11.6 Qatar: Record Inflation
- 11.7 Qatar: Regulatory Standards
- 11.8 Oman: New Industry Entering Port
- 11.9 Egypt: Tourism Balancing Act
- 11.10 Measuring Turkey's Investment Desirability
- 11.11 Turkey: Food for Thought

[Back to Top](#)

## 1: ISRAEL GOVERNMENT ACTIONS & STATEMENTS

### 1.1 Israel Cancels Purchase Tax on an Array of Consumer Items

Beginning on 11 June, the purchase tax on some 100 consumer items, including refrigerators and air conditioners, were canceled after Prime Minister & Acting Finance Minister Olmert signed an order to remove the tax. The move is expected to cost the government an estimated \$100m in revenue annually. The removal of the purchase tax on many consumer products is part of the government's policy to reduce taxes and create an effective tax program with the goal of generating growth. This is the continuation of the policy implemented by former finance minister Benjamin Netanyahu. Included among the products that consumers will no longer have to pay purchase taxes of between 2% and 10% are electrical items such as refrigerators, washing machines, air-conditioning units and batteries, as well as cosmetics. Though the average Israeli family will save hundreds of shekels a year; the move is also viewed as "election economics." Prime Minister Olmert is under extreme pressures due to repeated allegations of corruption, as well as the mis-handling of the second Lebanon war. His approval ratings are now at record lows. In addition to translating into savings for consumers, the tax cuts will also move the country closer into the tax range of OECD (Organization for Economic Development Countries) countries, a group to which Israel is attempting to gain admission. (JP11.06)

[Back to Table of Contents](#)

### 1.2 Goose Fattening Outlawed - But Foreign Pate Exempted From Duty

On 29 May, the Olmert government outlawed raising geese to make foie gras pate, following a High Court of Justice

ruling that force-feeding the birds to fatten their livers caused them hideous suffering. However, the government also recently decided to remove customs duties on goose liver imports, opening the import market to free competition since there is no longer any homegrown industry to protect. The removal of duties extends for a year and a half trial period, during which the Agriculture Ministry will examine whether the imports affects or harms other Israeli agricultural producers, in particular other poultry growers such as turkey farmers. The 50% customs duty on goose meat had in effect prevented any such imports. Imported goose liver, from birds killed according to rabbinically supervised kosher slaughtering, comes from Europe, in particular from Hungary. (Various30.05)

[Back to Table of Contents](#)

## 2: ISRAEL MARKET & BUSINESS NEWS

### 2.1 ILSI Biomed Israel 2007 Hosts Large US Presence among Delegations from 30 Countries

A large US presence joined the leading experts of the global biomed industry at the annual ILSI Biomed Israel 2007, which was held on 5 &ndash; 7 June. Over 5,000 participants took part, making this year's event the largest life science conference held in Israel to date. ILSI Biomed has been growing continually since it started the conference tradition. Today it is one of the most important international conferences in the industry. Attendance figures were impressive, with 120 local and 30 overseas exhibitors, 80 local and 50 overseas speakers who reviewed the trends, innovations and hottest developments of the life science industry. The conference also served as a conducive forum for the devise and closing of numerous deals. Atid, EDI, a Jerusalem based consulting firm, played host to delegations from Pennsylvania, Illinois and Oklahoma, as well as local representation for Indiana and Georgia. Atid, EDI (<http://www.atid-edi.com>) represents the trade and investment interests of these and other American states in Israel and the region at large. (Atid12.06)

[Back to Table of Contents](#)

### 2.2 Zion Oil & Gas Ends Its IPO Successfully with a Total Raised of \$12 Million

Zion Oil & Gas of Dallas, Texas and Caesarea, Israel, announced that the company issued 48,947 shares of common stock in the eighth and final round of its initial public offering. Zion's offering was underwritten on a best efforts basis by Network 1 Financial Securities, Inc. of Red Bank, New Jersey. The shares were issued at \$7 per share, and the amount raised in the eighth round was \$342,629. In its IPO, that ended on May 25, 2007, Zion issued a total of 1,806,335 shares in consideration of a total of \$12,644,345. Zion Oil & Gas (<http://www.zionoil.org>), a Delaware corporation, explores for oil and gas in Israel on its Ma'anit-Joseph License and Asher Permit areas located onshore between Tel Aviv and Haifa. The net proceeds of Zion's offering will mainly be used for a completion attempt on the Ma'anit #1 exploratory well drilled by Zion in 2005 to a total depth of 15,842 feet and to drill an appraisal and deep test well, the Ma'anit-Rehoboth #2, on its license. In the event of a commercial discovery, following recovery of certain exploratory costs, Zion intends to donate 6% of its gross revenues from the license to two charitable trusts to be established by Zion, one in Israel and one in the U.S. The common stock of Zion is traded on the American Stock Exchange under the ticker symbol 'ZN'. (Zion30.05)

[Back to Table of Contents](#)

### 2.3 T-Online Venture Fund Makes Strategic Investment in JAJAH

T-Online Venture Fund, the corporate venture capital entity of Deutsche Telekom, has invested in JAJAH. The investment of the T-Online Venture Fund is part of a \$20m investment round, co-led by Intel Capital. T-Online Venture Fund, already well known for service and technology innovation investments, is expecting attractive synergies for Deutsche Telekom business units by bringing JAJAH web embedded solutions to consumer and business customers. JAJAH sees a world where all telephony becomes IP based. Deutsche Telekom, also known in the U.S. for its mobile arm, T-Mobile, is one of the worldwide leading telecommunication companies. JAJAH recently announced it has acquired more than 2 million users from 55 countries in their first year of business by providing innovative next-generation calling solutions, as well as ultra-low cost phone connections to the most called places on Earth. Unlike traditional VoIP solutions, JAJAH uses regular phones and does not require software or special equipment. A user simply initiates the call from [www.jajah.com](http://www.jajah.com) and JAJAH connects the call to either landline or mobile phones, for a fraction traditional cost. Additionally, users can make the same calls from many mobile phones and from web-enabled smart phones. Ra'anana, Israel's JAJAH (<http://www.jajah.com>) is a new type of phone company, one dedicated to providing their customers with phone calls at a better price. JAJAH wants to provide basic phone calls for free, via VoIP. Unlike other companies that are trying to replace the phone with the computer, JAJAH believes that phones are great the way they are. Phones work. People are not interested in headsets, downloads or hotspots. (T-Online30.05)

[Back to Table of Contents](#)

### 2.4 Elron Announces New Investment in RADLIVE

Elron Electronic Industries completed a new investment of approximately \$3.75m in RADLIVE. The aggregate financing round of \$7.65m was jointly led by Elron and Gemini Israel Funds, a top-tier Israeli VC Fund. As a result of the investment, Elron holds approximately 29% of RADLIVE's outstanding shares. Founded in 2006, Tel Aviv, Israel's RADLIVE (<http://www.radlive.com>) is engaged in the development of high definition telephony technologies and applications. While the variety and use of telephony applications is constantly growing (VOIP, cellular), the voice quality of the vast majority of today's telephony calls is less than satisfactory. With the increasing availability of wider bandwidth for telephony applications, RADLIVE is developing infrastructure and applications for High Definition Telephony, providing high quality voice for telephony calls. Elron Electronic Industries (<http://www.elron.com>), a member of the IDB Holding group, is a leading Israel-based technology holding company directly involved in the long-term performance of its group companies. Elron identifies potential technologies, creates strategic partnerships, secures financing, and recruits highly qualified management teams. (Elron30.05)

[Back to Table of Contents](#)

### 2.5 Attunity Files Draft Preliminary Prospectus for Possible Public Offering in Israel

Burlington, Massachusetts' Attunity, a leading provider of enterprise-class software for application and data integration,

and solutions in the new and fast growing Composite Workplace Applications market, announced that it has filed a draft preliminary prospectus with the Israel Securities Authority (ISA) and the Tel-Aviv Stock Exchange (TASE) in connection with a possible underwritten offering solely to the public in Israel. If the offering is completed, the Company intends to dual-list its ordinary shares for trading on the TASE. Building on nearly 20 years of history delivering data integration solutions, Attunity (<http://www.attunity.com>) is leading the innovative and fast growing Composite Workplace Applications space with its flagship product Attunity InFocus. Attunity InFocus is designed to dramatically enhance the effectiveness of business managers at all levels to focus their judgment, experience and knowledge on resolving business problems, exceptions and issues that tend to dominate their day. With successful deployments at thousands of organizations worldwide, Attunity provides enterprise-class software directly and indirectly through a number of strategic and OEM agreements with global-class partners such as HP, IBM, Microsoft, Oracle, Business Objects and Cognos. (Attunity04.06)

[Back to Table of Contents](#)

## 2.6 OpTier Receives \$15 Million in Third Round of Funding

OpTier announced that it has raised an additional \$15m in funding from new investor Gemini Israel Funds and existing investors Pitango Venture Capital, Carmel Ventures, and Lightspeed Venture Partners. Over the past year, OpTier has continued to expand its deployments within Fortune 500 organizations. OpTier's innovation and momentum with Fortune 500 customers have positioned the company as a leader in Business Transaction Management. OpTier's management team will use the funding to aggressively pursue plans to enhance the company's offerings, expand industry partnerships and fuel sales and marketing. The company will also broaden employee recruitment in the U.S., Europe and Israel.

OpTier's flagship product, CoreFirst, dynamically links business services to IT infrastructure, assuring service delivery and optimizing IT resources. Its unique Business Transaction Management technology delivers end-to-end visibility and control of all business transactions, all the time. CoreFirst automatically discovers, tracks, monitors and profiles all transactions - across all tiers - to clearly map IT business service topology. This improves collaboration among different stakeholders by providing them with a common transactional context, reducing the cost and time to resolve application and platform performance issues. Ramat Gan, Israel's OpTier (<http://www.optier.com>) provides software solutions that dynamically link business services to underlying IT infrastructure, assuring service delivery and optimizing IT resources. Its unique Business Transaction Management technology, which delivers end-to-end visibility and control of all business transactions, makes effective Business Service Management a reality. OpTier tracks and monitors all business transactions; it identifies and isolates performance problems as they develop, thus minimizing the cost to resolve them. (OpTier05.06)

[Back to Table of Contents](#)

## 2.7 Frutarom Acquires Raychan Food Industries

Haifa, Israel's Frutarom Industries (<http://www.frutarom.com>) has signed an agreement to acquire 100% of the share capital of the Israeli company Raychan Food Industries in consideration for \$1.05m and the assumption of Raychan's debt (minus working capital) in the amount of \$1.23m. Raychan's sales for 2006 reached about \$5.5m, mostly in Israel. Completion of the transaction is subject to the final approval of the Israeli Anti Trust Commissioner. Raychan develops, produces and markets flavor compounds and markets ingredients for the food industry. Raychan's activity is highly

synergetic with Frutarom's activity in Israel and that of the Nesse company, which was acquired at the beginning of 2006. Raychan's activity is expected to broaden Frutarom's product offering in the fields of savory and functional products and solutions to its customers in Israel and worldwide. Raychan's products will be integrated into the product range produced by Frutarom's Flavors Division, which is the most profitable of Frutarom's activities. Frutarom intends to utilize the many cross selling opportunities inherent in the acquisition and to sell Raychan's products to Frutarom's existing customers in markets where Raychan was less active to date (such as Eastern Europe and Turkey) in order to maximize the synergy between the companies' activities. Frutarom is a multinational company operating in the global flavor extracts and fine ingredients markets. Frutarom has significant manufacturing and development centers on three continents and markets its products to more than 5,000 customers in over 120 countries on 5 continents. (Frutarom 05.06)

[Back to Table of Contents](#)

## 2.8 IXI Mobile Announces the Closing of the Merger With Israel Technology Acquisition Corp.

IXI Mobile announced the closing of the merger between Israel Technology Acquisition Corp. (ITAC), a specified purpose acquisition corporation, and IXI Mobile, the maker of the Ogo family of devices and services. Under terms of the agreement, ITAC acquired all outstanding shares of IXI Mobile, and has changed its name to IXI Mobile. The newly formed company will operate through its subsidiary, IXI Mobile (USA). ITAC will continue trading on the Over-The-Counter Bulletin Board, and has applied for a listing on the NASDAQ Stock market. Headquartered in Redwood City, CA and with an R&D center in Ra'anana, Israel, IXI Mobile (<http://www.ixi.com>) offers solutions that bring innovative, data-centric mobile devices and services to the mass market. IXI Mobile's Ogo devices are designed to improve the mobile user experience and increase mobile voice and data usage. The company provides a turn-key solution to mobile operators and Internet service providers around the world to launch and support Ogo products. Israel Technology Acquisition Corp. is a blank check company organized as a corporation under the laws of the State of Delaware on February 22, 2005. It was formed to effect a merger, capital stock exchange, asset acquisition or other similar business combination with an unidentified operating business that has manufacturing operations or research and development facilities located in Israel. (IXI Mobile06.06)

[Back to Table of Contents](#)

## 2.9 Herley Israel Awarded \$1.1 Million Contract for Integrated Microwave Assemblies

Herley Industries announced that its Israeli operation has been awarded a production order totaling \$1.1m to produce Integrated Microwave Assemblies (IMAs) for an international customer. This production award follows a successful development contract for these IMAs for an ongoing missile program. Production delivery will begin next year and extend to 2011. This is an important long-term program for Herley, who expects to receive awards for additional production hardware on this program within the next few months. Lancaster, Pennsylvania's Herley Industries is a leader in the design, development and manufacture of microwave technology solutions for the defense, aerospace and medical industries worldwide. (Herley 07.06)

[Back to Table of Contents](#)

## 2.10 Gizmoz Raises \$6.3 Million from Benchmark Capital and Columbia Capital

Gizmoz secured a \$6.3m Series A investment from Benchmark Capital and Columbia Capital. The funds will be used to expand the company's product development efforts and support its global expansion plans. Gizmoz launched its new online service today, which allows consumers to create animated, talking characters for use across their digital communications. The 3D lifelike characters can be used to generate video clips and other forms of original content and can be posted to any blog or social networking profile, sent via email to family and friends, or uploaded to video sites. Founded in 2003, Herzliya, Israel's Gizmoz (<http://www.gizmoz.com>) offers consumers a new generation of character-based visual expression for use across their digital lives. The Gizmoz service makes it easy to create, customize, animate and share photorealistic 3D talking characters and videos that allow consumers to communicate and express themselves in more realistic and imaginative ways. Gizmoz is funded by Benchmark Capital, Columbia Capital and Jagen. (Gizmoz 31.05)

[Back to Table of Contents](#)

## 2.11 Goldman Sachs Holds Board Meeting In Jerusalem

Goldman Sachs Group held its board meeting in Israel on 11 June at the Tower of David Museum in the Old City of Jerusalem. Goldman Sachs, founded in 1869, is one of the world's largest investment banks, and has more than 20,000 employees worldwide. In addition to the company's directors, Goldman Sachs invited 150-200 investors and potential investors to the meeting, in order to strengthen ties with Israel. Globes earlier reported that the investment bank was considering opening a branch in Israel. The company currently maintains an Israel desk at its New York office. Goldman Sachs has participated in the IPOs by Cellcom Israel and AFI Development. (Globes 11.06)

[Back to Table of Contents](#)

## 2.12 Red Herring Israel Start-Up Winners Announced

Unipier (<http://www.unipier.com>), Safend (<http://www.safend.com>) and GI View (<http://www.giview.com>) are the winners of the joint "Red Herring" and Israel Venture Association (IVA) most promising start-up awards. The three companies were chosen from the nine finalists in three categories: telecommunications and hardware; software and Internet; and medical device and biotechnology. The other finalists included Altair Semiconductor (<http://www.altair-semi.com>), PowerID, Red Bend Software (<http://www.redbend.com>), Drive Diagnostics (<http://www.drivesinc.com>), Gamida Cell (<http://www.gamida-cell.com>) and MGVS - MultiGene Vascular Systems (<http://www.mgvs.co.il>). The main focus of this year's competition was to locate companies with the biggest chances of becoming large companies. The winning start-ups were chosen on the basis of innovative concept, long-term vision, and achievements to date and the quality of their management. Red Herring believes Israeli companies have again demonstrated that they can compete in the global market. They are prominent not only in innovation and in the development of intellectual capital, but also in their business model and performance. This is a good sign for the next generation of entrepreneurs. (Globes 11.06)

[Back to Table of Contents](#)

## 2.13 Revolution Partners To Launch Israel Activity

US investment bank Revolution Partners, which specializes in mergers & acquisitions and private capital fundraising for IT start-ups, has signed a cooperation agreement with Israeli financial services group Magnolia Capital Partners, which will represent it in Israel. Revolution Partners is the fourth investment entity to collaborate with Magnolia Capital. It has been involved in 55 deals to date in all areas of technology, including software, internet, and services to telecommunications, semiconductors, wireless communications digital media and storage. It also advised on the acquisition of Top Tier, which was sold to SAP AG in 2001 for \$400m, and it raised \$30m in a private placement for Vista Print (the largest private placement in the last five years). (Globes 11.06)

[Back to Table of Contents](#)

## 3: REGIONAL PRIVATE SECTOR NEWS

### 3.1 Pennsylvania Trade Delegation Visits Istanbul and Amman

Following a successful visit to Israel, a bevy of Pennsylvania companies continued on a Middle East trade mission, visiting Turkey and Jordan. With visits arranged by Atid, EDI (<http://www.atid-edi.com>), the Jerusalem based consulting firm that serves as Pennsylvania's Authorized Trade Representative in the Middle East, the companies enjoyed a series of productive one-on-one meetings with potential distributors, agents and business partners. Among the companies taking part in the Turkey & Jordan part of the mission were Paoli's National Safety Technologies (<http://www.nst-usa.com>) and Erie's Logistics Plus (<http://www.logisticsplus.net>). Logistics Plus held some 20 meetings with regional logistics companies, facilitating their global reach and advantage. National Safety Technologies, a manufacturer of medical test equipment, was well received in its search for finding new distributors in the local markets. The participants expressed their satisfaction with the mission and the meetings held. Many expressed a keen interest to return to the region and to work with Atid, EDI in developing additional Middle Eastern markets.

[Back to Table of Contents](#)

### 3.2 Middle East Next Hot Export Market for China Manufacturers

Global Sources' China Supplier Survey: Middle East Export Opportunities shows 63% of respondents consider the Middle East the next "hot" export market for China-made products. The Middle East Export Opportunities survey was conducted in May among Global Sources' China Sourcing Fair exhibitors from mainland China, Hong Kong and Taiwan. All respondents have substantial export experience, with the Middle East an important and growing target market. Of the respondents, 58% currently export to the Middle East, 13% have exported to the Middle East for 20 years or more and

78% have up to 19 years' experience exporting to the region. Survey findings suggest strong manufacturer support for China government targets to double Middle East trade, set to reach \$100b in 2010, up from \$51.3b in 2005. Most of these manufacturers have been exporting to quality-conscious markets around the world for years. For example, 83% currently export to North America, 89% to Western Europe and 44% to Japan. These are the markets that have the toughest quality requirements and regulations. (Global Sources 04.06)

[Back to Table of Contents](#)

### 3.3 Sonoran Azraq Production Sharing Agreement Signed by Jordan's King Abdullah

Dallas, Texas' Sonoran Energy, the independent oil and gas exploration and production company, announced that King Abdullah II of Jordan signed the production sharing agreement (PSA) for the Azraq block - including the Hamza oil field. As this agreement was previously ratified by the National Assembly of Jordan, the signature of King Abdullah marks the successful conclusion of negotiations between Sonoran and the Jordanian authorities. The signing took place at the World Economic Forum on the Middle East held at the Dead Sea, Jordan. The Azraq block sits on the same trend as several other productive basins in the Middle East, yet remains relatively under-explored with limited use of modern seismic, drilling and production technology. The PSA covers an area of approximately 11,250 square kilometers offering a number of attractive new exploration plays. Sonoran Energy is a US-based independent oil and gas company that explores, develops, and enhances the performance of high value oil and gas opportunities. (Sonoran30.05)

[Back to Table of Contents](#)

### 3.4 Vuepoint Enters Corporate Learning Market in UAE Through Equity Investment from CERT

New York's Vuepoint, a leading provider of e-learning training and systems, announced that the Centre of Excellence for Applied Research and Training (CERT), the largest private training company in the United Arab Emirates (UAE), has taken a minority equity position in the company. As a result, Vuepoint will change its corporate name to CERTPOINT Systems Inc. to leverage CERT's leadership position in the Middle East's growing education market. The partnership expands CERT's and Vuepoint's worldwide footprint, combines their technology portfolios and resources and results in a business that out-sizes the next-largest LMS player in the market today. As a first step in the collaboration, CERT initiated a \$500 million development program for an advanced "education city" to be powered by Vuepoint Technology in the UAE, in addition to its \$35m investment in learning innovation and technology research. CERT's partners include such industry leaders as IBM, Intel, NYIT, MIT and Thales. CERT's partnership also furthers exposure of Vuepoint's flagship technology &ndash; the Vuepoint Learning System (VLS) &ndash; in the Middle East, a locus of business growth with the highest per capita spending on learning in the world. Additionally, CERT will leverage VLS, which is already in use by some of the world's top companies, to transfer knowledge to employees based around the world. CERT will also expand operations to the United States as well as Europe where Vuepoint already operates. (CERTPOINT 04.06)

[Back to Table of Contents](#)

### 3.5 Dubai Aerospace Enterprise Arranges Funds for \$1.8 Billion Buyouts

Dubai Aerospace Enterprise (DAE) said on 10 June that it has arranged funding for its planned \$1.8b take-over of two aircraft-servicing companies in the United States. DAE will buy Standard Aero Holdings and Piedmont/Hawthorne Holdings from private equity firm Carlyle Group for \$1.8b, according to a regulatory filing on 2 April. The deal still needs US government approval. It was also reported that DAE was considering selling Islamic bonds before the end of the year to finance expansion. (GN11.06)

[Back to Table of Contents](#)

### 3.6 Raytheon & UAE Sign \$76.5 Million Rolling Airframe Missile Contract

Waltham, Massachusetts' Raytheon Company and Abu Dhabi Ship Building of the UAE have signed a contract for the sale of seven Rolling Airframe Missile Guided Missile Weapon Systems. The direct commercial sale, valued at \$76.5m, calls for the systems to be delivered starting in December 2007 and installed on six Baynunah corvettes. The agreement provides for an on-shore Rolling Airframe Missile test and training system, logistical support and other services. Rolling Airframe Missile is a supersonic, lightweight, quick-reaction, fire-and-forget missile that provides defense against anti-ship cruise missiles, airborne threats and hostile surface craft. Included in the Rolling Airframe Missile Guided Missile Launching System is a 21-round launcher with supporting below-deck controls and intuitive control interface. The Rolling Airframe Missile's autonomous dual-mode passive radio frequency and infrared guidance design provides a high firepower capability for engaging multiple threats simultaneously. Produced in partnership by Raytheon and RAMSYS of Germany, Rolling Airframe Missile is aboard nearly 100 ships as an integral self-defense weapon for the navies of the United States, Germany, Greece, Korea and Egypt. (Raytheon 05.06)

[Back to Table of Contents](#)

### 3.7 Cleveland Clinic Enters Partnership for Sheikh Khalifa Medical City In Abu Dhabi

Cleveland Clinic has signed an agreement with the Health Authority of Abu Dhabi to manage Sheikh Khalifa Medical City (SKMC), a network of healthcare facilities in Abu Dhabi. The agreement is designed to transform health services in Abu Dhabi, the capital city of the United Arab Emirates. SKMC consists of 700-bed Sheikh Khalifa Hospital, a 150-bed Behavior Sciences Pavilion and the 100-bed Abu Dhabi Rehabilitation Center, in addition to more than 12 specialized outpatient clinics and nine primary healthcare centers around the city of Abu Dhabi. This announcement follows the agreement Cleveland Clinic and Mubadala Development signed in September 2006 to design and build a new preeminent first-class specialty hospital on Al-Suwwa Island within the next three years. Cleveland Clinic, located in Cleveland, Ohio, is a not-for-profit multi-specialty academic medical center that integrates clinical and hospital care with research and education. (Cleveland Clinic 04.06)

[Back to Table of Contents](#)

### 3.8 DME Has Successful Launch; Trades More Than 2,800 Contracts on Opening Day

The New York Mercantile Exchange, a subsidiary of NYMEX Holdings, announced that the Dubai Mercantile Exchange (DME) enjoyed a robust opening day, with more than 2,800 contracts traded on 1 June. The DME, the Middle East's first international energy futures and commodities exchange, was launched as a joint venture between NYMEX, Tatweer, a member of Dubai Holding, and the Oman Investment Fund (OIF). The DME established the Middle East's first and only physically-settled energy futures contract. With more than 60 member companies registered to trade, the DME saw active trading in its worldwide benchmark Oman crude oil futures, WTI-Oman financial spread, and Brent-Oman financial spread contracts. (DME01.06)

[Back to Table of Contents](#)

### 3.9 US Investment Firm Colony to Buy Libya's Tamoil For \$5.4 Billion

US investment firm Colony said it would buy Libyan government-owned Tamoil, one of Europe's largest international oil refining and distribution companies, for about \$5.4b. The Libyan government will retain a 35% interest in the ongoing company, valued in the deal at &euro;4b. The deal for the Tamoil brand also includes the holding company Oilinvest Group headquartered in the Netherlands. Tamoil owns and operates more than 3,000 service stations in Europe, is a market leader in Italy and has oil refineries in Italy, Switzerland, Spain and Germany. Its distribution network also extends into Africa, where it has businesses in Egypt, Burkina Faso, Chad, Mali, Niger and Eritrea. Libya is the second-largest oil producer in Africa, after Nigeria, with an output of 1.7 million bpd and has the continent's biggest oil reserves. Colony Capital is a private, international investment firm focusing primarily on real estate-related assets, securities and operating companies. The lifting of US economic sanctions on Libya in May 2006, after Libyan leader Kaddafi renounced all attempts to develop a non-conventional arsenal in 2003, has opened a new era of diplomatic relations and spawned a series of US investments. In April, the Libyan state-owned National Oil Corporation announced a proposed partnership with US chemicals group Dow Chemical. (AFP06.06)

[Back to Table of Contents](#)

### 3.10 Istanbul Municipality Selects Alien RFID Solution for Vehicle Tracking in Turkey

Morgan Hill, California's Alien Technology Corporation, an industry leader for Radio Frequency Identification (RFID) products and services, in partnership with STS Technology, recently secured a vehicle tracking contract for the Municipality of Pendik in Istanbul, Turkey. The Municipality of Pendik has installed the STS/Alien RFID vehicle tracking solution for their employee parking lots. Employee and company vehicles now will feature an Alien RFID tag mounted on the vehicle window with fixed position ALR-8800 readers mounted at various entry/exit points within the parking lots. STS Technology provides UHF Radio Frequency Identification (RFID) solutions and services to customers in the retail, textile, jewelry, consumer goods, manufacturing, defense, transportation and logistics, pharmaceuticals and other industries throughout Turkey. (Alien Technology 06.06)

[Back to Table of Contents](#)

### 3.11 BioElectronics Announces Agreement with Grup H.E.R. Saglik SIS. of Turkey

Frederick, Maryland's BioElectronics Corporation announced that Grup H.E.R. Saglik Sistemleri SAN, a distributor for healthcare products in Turkey, has signed an agreement to introduce ActiPatch, the unique drug free therapy for treatment of swelling, pain, and soft and hard tissues injuries. BioElectronics Corporation is the maker of ActiPatch. ActiPatch is a drug-free anti-inflammatory patch with an embedded battery operated microchip that delivers weeks of continuous pulsed therapy for less than a dollar a day. The unique ActiPatch delivery system, using patented technology, provides a cost-effective, patient friendly method to reduce soft tissue pain and swelling. (BioElectronics 08.06)

[Back to Table of Contents](#)

## 4: ISRAEL MACRO-DEVELOPMENTS

### 4.1 Gaydamak Acquires Third Public Company

On 5 June, Israeli entrepreneur Arcadi Gaydamak announced the acquisition of his third public corporation in Israel. Gaydamak has acquired 65% of the shares of Ameris Holdings, the controlling shareholder (51%) in energy company Petro Group for \$42.5m. Petro Group owns gas stations and convenience stores in the US. In March the company acquired tens of gas stations for \$50m. Ameris shareholders have a one year option to sell to Gaydamak the remainder of the company (35%) for \$22.7m. Ameris Holdings has a number of real estate projects in New York including building rights to 60,000 square meters of income producing real estate. On 4 June, Gaydamak announced his acquisition of the control (50.5%) of Gilon Investments (1979) for \$20.5m. His total acquisitions in public companies have amounted to some \$210m. (Globes05.06)

[Back to Table of Contents](#)

### 4.2 Private Sector May Receive Wind Turbine Projects

Globes reported on 6 June that the Ministry of National Infrastructures may transfer responsibility for building wind turbine farms in the Galilee and Golan to the private sector. The projects are worth \$50m. This pending move is attributed to Israel Electric Corporation's (IEC) deteriorating financial situation. The construction of wind turbine farms is part of IEC's power development program. The farms will generate 50 megawatts (MW) altogether: 35 MW at Ramat Sirin in the Golan and 15 MW at Kibbutz Maaleh Gilboa. The two wind turbine farms are due to produce 110 million kilowatt-hours a year, enough electricity for 18,000 homes. Minister of National Infrastructures Ben-Eliezer has asked IEC chairman Friedman for the company's position on its commitment to the wind turbines projects and asked for an answer as soon as possible. IEC is discussing the minister's request as soon as possible. No decision has yet been

made on the matter. (Globes 05.06)

[Back to Table of Contents](#)

## 5: ARAB STATE & PAKISTANI DEVELOPMENTS

### 5.1 Jordan's Foreign Grants Totaled \$700 Million In 2006

The Hashemite Kingdom received grants and loans totaling \$700m in 2006, Minister of Planning & International Cooperation Al-Ali said on 6 June. The United States remains the country's principal donor with an assistance package amounting to \$300m last year. In 2005 Jordan received \$348.5m in US assistance. The minister said about \$115m had been allocated for projects in the water sector, \$111m for health projects and \$68m for projects in the field of education. (Petra07.06)

[Back to Table of Contents](#)

### 5.2 Jordanian Pharmaceutical Exports Penetrate 60 Countries

The Pharmaceutical industry in Jordan represented 11% of national exports for the year 2006 standing at \$493.5m. The pharmaceutical exports penetrated 60 countries, while the production capacity of the sector reached \$1.41b in 2006. The Jordanian Association of Manufacturers of Pharmaceuticals and Medical Appliances (JAPM) said that the Jordanian pharmaceutical industry is keeping pace with the international development and has worked to develop capacity of its cadres. University graduates represent 30% of workers in this industry, who exceed 5,000 employees. The sector was the second largest exporting industry. In 2006, the pharmaceutical exports surpassed their level in 2005 for the same period by approximately 20% of total exports, reaching in value \$296m. Local manufactured medicine covers 30% of local market needs. (Petra11.06)

[Back to Table of Contents](#)

### 5.3 Jordan & Iraq Plan to Build Free Trade Area

On 3 June, Jordanian Minister of Trade & Industry Khazaleh and his Iraqi counterpart Al-Sudani started negotiations for the establishment of a free trade zone between the two countries. The move was one of several steps the two countries discussed for boosting bilateral and economic cooperation and removing obstacles that still hindered the restoration of merchandise between the two countries to the pre-2003 level. The Jordanian minister urged the Iraqi government to pay

for the Jordanian goods that were exported by industrialists to Iraq before and after 1992 outside the Jordanian-Iraqi protocol that was concluded under the regime of late leader Saddam Hussein. Al-Sudani promised to remove all impediments that so far blocked the restoration of normal trade ties between Iraq and Jordan. He said that an Iraqi technical team would be visiting Jordan in June to "settle all outstanding issues" between the two countries. However, he said that "lack of security on the highway between Iraq and Jordan had affected the volume of trade with Jordan&hellip;Accordingly, the implementation of a protocol that was signed last year for supplying Jordan with part of its energy needs is being shelved until security was ensured for overland transport," the Iraqi minister said. (ArabNews03.06)

[Back to Table of Contents](#)

#### 5.4 Dubai Third Largest Re-Export Hub

Dubai has become the third largest re-export hub in the world after Hong Kong and Singapore, due to a surge in Chinese exports. Average annual growth rate of imports from China was 14% from 1997 to 2005, while China's trade with the UAE grew 31.5% in 2006 to \$14.2b, according to a Global Sources study. Chinese government targets to double Middle East trade - set to reach \$100b in 2010, up from \$51.3b in 2005. Trade through the emirate represents 80% of the UAE's \$234.6b foreign trade recorded last year, which is about 143.34% of the country's \$163.7b GDP in 2006. (Various11.06)

[Back to Table of Contents](#)

#### 5.5 UAE Leads in Connectivity in the Arab World

The UAE is the most connected country in the Arab world, according to a latest report by the Arab Advisors Group. The annual results of Arab Advisors Group's Total Country Connectivity Measure (TCCM) reveal substantial - mostly cellular service driven - improvements in overall scores. However, on a more somber note, Arab broadband internet markets remain far less developed than OECD markets. The Arab Advisors Group, a member of the Arab Jordan Investment Bank Group, calculates the TCCM by adding the household mainline's penetration, cellular penetration and internet user's penetration rates in each country.

The UAE, with a score of 261.4% in TCCM, leads the table of 21 Arab countries followed by Qatar with 255.6%, while Mauritania and Sudan with 41% and 21.7% respectively stand at the bottom of the table. Jordan, with four mobile operators, is the most liberalized market in the Arab world. According to Booz Allen Hamilton (BAH), the number of cellphone subscribers in the Gulf reached 35 million and 125 million in the Middle East North Africa region. The main driver in the rising TCCM scores in the Arab world was cellular subscribers growth, with internet services contributing a much lower portion of the increase. (GN04.06)

[Back to Table of Contents](#)

## 5.6 Automobile Sales in UAE Likely To Drop

The local media reported that the rising cost of living and tense political situation in the region are expected to drive car sales down in the UAE. The UAE car market achieved 42% growth in 2005, which was almost halved in 2006, according to the general manager of Nissan dealer Arabian Automobiles. According to the Business Monitor International (BMI) group's projections for UAE auto sales, this year car sales are expected to grow between 13 to 15%. Factors that will contribute to lower sales include high living costs, more use of public transport and political tensions in some countries. Expatriates from certain countries will be sending more money home, especially from Lebanon, Iran and Pakistan. Measures like Dubai road toll and difficulties in getting new driving licenses are also expected to reduce sales. In 2006, the number of cars sold in the UAE was 236,515, an increase of 23% over 2005. Total sales in the first four months of this year have been about 26%, but a significant portion of the vehicles sold were re-exported. According to statistics provided by Arabian Automobiles, the sales of Japanese cars between January and April this year grew 32.3% in the UAE compared with the same period last year. (GN11.06)

[Back to Table of Contents](#)

## 5.7 Oman Loses \$200 Million Due To Halt in Oil Exports

Oman lost \$200m recently due to the halt in its oil exports due to Cyclone Gonu. Mina al Fahal, Oman's only oil terminal for its 650,000 bpd output, and the country's liquefied natural gas (LNG) terminal of Sur, have been operating normally since 9 June. It was announced that the pipelines were unaffected. Energy facilities in Oman were halted for three days during the cyclone. Petroleum Development Oman said last week that operations and facilities escaped damage. Gonu, which slammed into Oman on 6 June, killed at least 49 people. Meanwhile, Oman Telecommunications Company (Omantel) said it would disclose its assessment of its losses from Cyclone Gonu after repairing its damaged network. Oman's stock market regulator asked companies on Sunday to report any losses they may have suffered from Gonu, which battered Oman's coast last week and forced the bourse to close for three trading days. The market reopened on 11 June. (Reuters11.06)

[Back to Table of Contents](#)

## 5.8 Pakistan's 11-Month Trade Deficit Soars to \$12.62 Billion

Pakistan's trade deficit for July-May (11 months) climbed to \$12.62b, with imports dominating and leaving almost no room for the government to achieve the exports target of \$18.6b it had set for the year 2006-07. The projected trade deficit target, \$9.4b for 2006-07, has already been surpassed. According to official figures, the \$12.62b deficit during 11 months of the year has widened the gap by 15.10% against \$10.63b of same period of last year. Though May deficit was up by 6.28% from April, it was 1.74% less than May 2006. Trade deficit in May went up to \$1.14b against April but decreased to \$1.14b in May 2007 against \$1.16b of May 2006. Exports in 11 months (July-May) amounted to \$15.48b against the target of \$18.6b for 2006-07. Imports grew by 8.40% to \$27.74b during 11 months compared to \$25.59b over the same period of last year. Imports in May were up by 3.85% at \$2.75b against \$2.64b of May 2006. The imports in May were 6.87% higher to \$2.75b against \$2.57b of April. Economic experts believe that the continuing trend of trade deficit in the coming month could have a serious impact on the country's balance of payments, and may have a negative impact on the health of the rupee. However, increase in foreign direct investment and growth in remittances might help the government in controlling the losses caused by this burgeoning trade deficit. The government had projected import

bill at \$28b for the current financial year, whereas the export target was set at \$18.6b. Although category-wise data of exports would be released later, figures indicate that the growth in exports did not pick up to achieve the target. (BR12.06)

[Back to Table of Contents](#)

## 6: TURKISH & CYPRIOT DEVELOPMENTS:

### 6.1 Turkey's Raw Material Imports Surpass \$35.5 Billion

Turkey's raw material imports in the first four months of 2007 increased by 22.1% to \$35.5b from \$29.1b compared to the same period last year. Consumer goods imports decreased by 2.9% to \$4.9b and investment goods imports increased by 3% to \$7b in the same period. According to the Turkish Statistics Institute (Turkstat), total imports in the January-April period increased by 15.9% to \$47.6b from \$41.1b compared to last year's same period. Imports of unprocessed food and beverages increased by 146.3% to \$529.8m, and exports decreased by 15.4% to \$88.7m. Processed food imports decreased by 24% to \$213.5m and exports increased by 10.1% to \$264.1m. (Zaman 06.06)

[Back to Table of Contents](#)

### 6.2 Turkey's 12-Month Exports Reach \$94 Billion

Turkish Exporters' Assembly announced that the export figures of the first five months of 2007 rose by 25.82% compared to 2006, reaching \$40.47b. The annual export figures stood at a record high figure of \$94b. The announcement said that the export figures, which stood at \$7.255b in May 2006, rose by 26.26% to May 2007 and reached \$9.161b. Some 88.94% of the total exports in May were in manufacturing sector. The share of the agricultural sector and mining sector stood at 8.61 and 2.46%, respectively. The share of the manufacturing sector in exports in May rose by 28.69% as compared to that of previous year and reached \$8.147b. \$6.5b of this amount was industrial products' export, which experienced 31.59% increase. Agricultural exports rose by 9.11% and stood at \$788.3m. The largest monthly recipient of Turkey's exports was Germany with \$967m, followed by the exports to UK with \$715m and to Italy with \$656m. EkoTurk 02.06

[Back to Table of Contents](#)

### 6.3 Turkish April Trade Deficit Shrinks 11.5% from 2006

Turkey's trade deficit narrowed 11.5% year-on-year to \$4.545b in April, in line with forecasts, as export growth more than doubled growth in imports, the Turkish Statistics Institute announced. The institute revised the March deficit to \$4.13b from a previous \$4.076b. April exports rose 28.3% year-on-year to \$8.267b, while imports climbed 10.6% to \$12.8b. That tallied with data earlier this month from exporters association TIM, which had put April exports at \$8.21b, up 28% year-on-year. The lira was unchanged on the data. The trade deficit is a major component of the current account gap, which Turkey is trying to rein in. It is one of the largest proportionally in emerging markets and makes Turkish assets more vulnerable to shifts in investor mood. Domestic demand has been crimped by a 425-basis-point rise in benchmark borrowing rates enacted last year as the lira slid on the foreign exchanges, but import growth has not been affected as much as economists had expected. In 2006, exports climbed 15.9% to \$85.142b, while imports rose 17.3% to \$137.032b. (Various05.06)

[Back to Table of Contents](#)

#### 6.4 Turkey Earns \$620 Million from BTC Oil Pipeline

Turkey earned \$620m from the Baku-Tbilisi-Ceyhan (BTC) oil pipeline since 4 June 2006, the day when the first tanker filled with oil sailed off. The total number of tankers that sailed off from Ceyhan in the past 12 months reached 172. A total of 138 million barrels have been filled with oil and sent overseas from Ceyhan. (TN05.06)

[Back to Table of Contents](#)

#### 6.5 Turkish Automotive Industry Sets New Record

As the driving force of Turkey's exports, Turkish automotive sector's exports grew 34% in the first five months of this year and reached \$7.78b. This has been a new record for automotive manufacturers since 2003. According to Uludas Exporters' Association's figures, Turkish automotive manufacturers sold their products to 162 countries and autonomous regions. Exports mainly destined to European countries. Germany has been the major importer of Turkish automotive products while Italy, France, Britain and Spain were the other leading importer countries. EkoTurk 02.06

[Back to Table of Contents](#)

#### 6.6 Istanbul Accounts For One-Fourth Of Turkey's Total Spending

Istanbul is the leading city in all 12 defined expenditure groups of the Turkish Statistics Institute (Turkstat). These groups, which include health, education, food and furniture among others, are measured and compared across cities, regions and sub-regions in Turkey. Istanbul, which hosts almost one-fifth of the total population and is considered by all to be the national business capital spent more than any other region in all expenditure groups. Istanbul's people accounted for 23.2% of all of Turkey's expenditures in 2003, 2004 and 2005. According to Turkstat, the Aegean region

was responsible for 15.6% of all expenditure in Turkey, in second place behind the Marmara region where Istanbul is located. Only 2.1% of the country's spending, however, was from the northeastern Anatolia region. All regions and sub-regions spent most of their incomes on food and nonalcoholic beverages. The second-highest item in the expenditure tables was rent or housing costs. These two items consumed more than 50% of household incomes, while the remaining half was spent across 10 other categories of expenditure such as clothing, furniture home appliances, tobacco and alcohol, transportation, telecommunication, health and education. Of every YTL 100 spent on health services all across Turkey, YTL 31.2 came from Istanbulis, whereas northeastern Anatolia was at the bottom of the list with only 1.1% of all health expenditure. Actually northeastern Anatolia was the last region in every expenditure item. This zone is so far behind because it is economically underdeveloped and has a low population density. The data showed that the southeastern Anatolia region spent 38.4% of their income on food and alcohol-free beverages. This region, which gets the lowest share in wealth distribution, could spend only 1.1% of its income on education during 2003, 2004 and 2005. Central Anatolian inhabitants were the leading spenders for tobacco and alcoholic drinks, shelling out 5.5% of their income for such unhealthy products. (Zaman 31.05)

[Back to Table of Contents](#)

## 6.7 EU Finance Ministers Back Cyprus' Accession To Eurozone

On 4 June, Eurogroup Finance Ministers decided unanimously in Luxembourg to recommend to ECOFIN the accession of Cyprus and Malta to the Eurozone as of January 1, 2008. Chairman of Eurogroup and Luxembourg's Prime Minister Juncker said he had no doubt that European leaders will accept the suggestion for the two countries' accession on 1st of January 2008, adding that Cyprus and Malta will be invited to take part in the Eurozone ministers' meeting in September. For his part, EU Commissioner for economic and monetary affairs Almunia described the decision as "very easy" because, as he said, both countries fulfilled the criteria and had a positive suggestion by the European Commission and the European Central Bank. On the contrary, he added, last year there were problems with one of the two candidate countries applying at the time with Lithuania being rejected due to high inflation while Slovenia was accepted. The Eurogroup ministers' decision will be referred to the Council of the European Union &ndash; Economic and Financial Affairs (ECOFIN). They will then make the proposal to the European Council meeting of 21-22 June to take the political decision. In July, ECOFIN's Council of Ministers will ratify the accession of the two countries in the Eurozone, simultaneously locking Cyprus and Malta's currency against the Euro. (FN05.06)

[Back to Table of Contents](#)

## 7: GENERAL NEWS AND INTEREST

\*REGIONAL:

### 7.1 Burj Dubai Is Now Second Tallest Building In The World

Burj Dubai, the iconic tower developed by Emaar Properties, is now the second tallest building in the world, 468.1 meters (1,535.8 ft) high and with 130 stories. Burj Dubai is taller than Petronas Towers in Malaysia (452 meters; 1,483 ft) and Sears Tower in Chicago (442 meters; 1,450 ft), and is second only to Taipei 101 (509 meters; 1,670 ft), taller by only 39.9 meters (145.2 ft). Burj Dubai has also set a new world record for vertical concrete pumping for a building, by

pumping to over 460 meters (1,509 ft). Designed by Chicago-based Skidmore, Owings & Merrill (SOM), Burj Dubai is being constructed by high-rise experts South Korea's Samsung Corporation. Turner Construction International is the project and construction manager. More than 318,000 cubic meters of reinforced concrete and 63,000 tons of reinforcing steel have been used in Burj Dubai's construction to date. The construction of 130 levels was completed in 1,226 days since excavation work started in January, 2004. Ten cranes and the world's fastest high-capacity construction hoists – with a speed of up to 2 m/sec (120 m/min) - are used to move men and materials. When completed, Burj Dubai will be the tallest building in the world in all four categories recognized by the Council on Tall Buildings and Urban Habitat (CTBUH), which compiles and ranks the world's tallest buildings. A mixed-use tower, Burj Dubai will have residences and commercial spaces apart from the Armani Hotel and Residences Dubai, a luxury lifestyle hospitality project developed by Emaar in association with haute couture major Giorgio Armani S.p.A. (Mena Report 31.05)

[Back to Table of Contents](#)

## 8: ISRAEL LIFE SCIENCE NEWS

### 8.1 PARI & Kamada Announce Positive Intermediate Phase I Results for Inhaled Alpha-1 Antitrypsin

The first of two stages of the Phase I clinical trial show positive results for Kamada's Alpha-1 Antitrypsin (AAT) liquid drug candidate for inhalation delivered with PARI's eFlow electronic nebulizer for the treatment of patients suffering from AAT deficiency. Dosage levels studied resulted in good safety profiles and patient tolerability, leading the way to continued drug development of aerosolized AAT delivered with an optimized eFlow. The study, which was approved by the European Medicines Agency, involved 24 patients who received various doses of inhaled AAT. AAT, also known as Alpha-1 Proteinase Inhibitor (API), is used for chronic replacement therapy in individuals who lack AAT and have an inherited form of panacinar emphysema. In November 2006, PARI signed a strategic agreement with Kamada to develop inhaled AAT using our advanced aerosol delivery platform, eFlow. Today, they are pleased that this collaboration is showing good initial results and are optimistic that this partnership will benefit patients in the long term. AAT is currently used for replacement therapy in the form of weekly intravenous infusions that distribute the medication throughout the bloodstream in order to reach the lungs. An inhaled treatment would offer a more targeted therapy by delivering medication directly to the lungs. Kamada is developing inhaled AAT in partnership with PARI. Kamada also produces and markets an intravenous AAT in several countries and is undergoing Phase III trials in the United States with its intravenous AAT. Munich, Germany's PARI Pharma focuses on the development of aerosol delivery devices and therapies. Based on PARI's 100-year history working with aerosols, PARI Pharma develops treatments for pulmonary and nasal administration optimized to advanced delivery platforms, such as eFlow. Kamada (<http://www.kamada.com>) is a biopharmaceutical company engaged in development, production and marketing of high quality, ready to use, plasma therapeutics. Kamada is based at Kiryat Weizmann Science Park, Ness Ziona, Israel. (PARI Pharma 31.05)

[Back to Table of Contents](#)

### 8.2 Can-Fite Completes Toxicology Studies with CF101 in Full GLP Compliance with US FDA

Can-Fite BioPharma announced the successful completion of long-term pre-clinical toxicology studies with its lead drug, CF101. Studies were in full GLP compliance with US FDA and EMEA requirements. The success of these studies will enable patients who will participate in future clinical studies with Can-Fite's CF101 to take the drug for periods of 6-12 months or longer, as generally required in phase III clinical studies. In January 2007, Can-Fite announced the enrollment

of about 250 patients in a phase IIb RA clinical trial in the US, Europe and Israel, in which CF101 was given for a period of 12 weeks. The results of this trial are expected to be released this summer. The company announced that additional pre-clinical studies are underway to facilitate the initiation of phase III trials shortly after the release of the phase IIb study results. These studies include the development of a new drug formulation, in-vivo assessments of the distribution of radio labeled drug, and others. In addition to the RA trial with CF101, Can-Fite has initiated concurrent clinical trials for two other indications of CF101, namely Dry Eye syndrome and Psoriasis, the latter of which was announced about 2 weeks ago. Petah Tikva, Israel's Can-Fite Biopharma (<http://www.canfite.co.il>) is a public company traded on the Tel Aviv Stock Exchange. The Company, which commenced business activity in 2000 and focuses on the development of molecule-based drugs that inhibit the development of Cancer or Inflammatory diseases. (Can-Fite04.06)

[Back to Table of Contents](#)

### 8.3 Hadasit Announces Hadassah Hospital's New Clinical Research Center

On 30 May, Hadasit announced the opening of the Hadassah Clinical Research Center (CRC), soon to be located at the new BioTechnology Park at Hadassah University Hospital in Ein Kerem, Jerusalem, Israel. The CRC, together with the Hadasit team, provides all of the services and facilities needed for pre-clinical through Phase III drug and medical device studies. As a referral Center, Hadassah regularly treats comparably large scale populations of patients with a potpourri of conditions and illnesses. This reality enables trial recruitment for most studies to proceed reasonably smoothly. The Center is supported by a full service GMP Center located on the premises of Hadassah Medical Center. The GMP team can accommodate the protocol requests of any Phase I or Phase II study. In addition, the team is willing to draft GMP protocols for a requesting study sponsor, whose personnel it will also train to participate in the lab process. Hadasit (<http://www.hadasit.co.il>) was established as a subsidiary of Hadassah Medical Organization (HMO) in Jerusalem, Israel to promote and commercialize its continuously generated intellectual property (IP), purposed to helping solve the problems of modern medicine. Hadasit guides technologies from innovation to commercial application. (Hadasit30.05)

[Back to Table of Contents](#)

### 8.4 BioLineRx Introduces Early Development Program

BioLineRx announced the launch of its Early Development Program (EDP), a new strategic initiative to provide funding for early stage research and development of innovative therapeutics that have not yet achieved in-vivo proof of concept. EDP is funded by a \$6m grant from Pan Atlantic Bank and Trust Ltd. (a wholly owned subsidiary of FCMI Financial Corporation, a Canadian company) and BioLineRx. The EDP grant is in addition to the \$9m invested in BioLineRx by Pan Atlantic in a private placement in January of this year. EDP combines the cutting-edge research performed in leading research institutions with BioLineRx's proven expertise in the accelerated advancement of drugs into the clinic and beyond. The program also provides a unique opportunity for researchers and scientists to see their early stage inventions advance rapidly through the professional drug development process. 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. BioLineRx advances projects from early stage discovery and lead generation to advanced clinical trials, regulatory approval and marketing. (BioLineRx 05.06)

[Back to Table of Contents](#)

## 8.5 COPAXONE Pre-Filled Syringe Can Now Be Stored for up to One Month at Room Temperature

Teva Pharmaceutical Industries and sanofi-aventis announced that the application for up to one month room temperature storage of COPAXONE (glatiramer acetate injection) pre-filled syringe has been approved by the U.S. FDA and in Europe under the Mutual Recognition Procedure (MRP). With this supplemental amendment, COPAXONE may now be stored by patients at room temperature for up to one month. Prior to this approval, COPAXONE was approved for storage at room temperature for up to seven days. COPAXONE is indicated for the reduction of the frequency of relapses in ambulatory patients with RRMS characterized by at least two attacks of neurological dysfunction over the preceding two-year period. Copaxone 20 mg/ml should be administered as a subcutaneous injection once daily. Teva Pharmaceutical Industries (<http://www.tevapharm.com>), headquartered in Jerusalem, Israel, is among the top 20 pharmaceutical companies in the world and is the leading generic pharmaceutical company. The company develops, manufactures and markets generic and innovative human pharmaceuticals and active pharmaceutical ingredients, as well as animal health pharmaceutical products. (Teva06.06)

[Back to Table of Contents](#)

## 8.6 GammaCan Presents Anti-Melanoma Technology at the 2007 ILSI BioMed Conference

GammaCan International announced that their CEO presented VitiGam, GammaCan's lead product under development for the treatment of Stage III and Stage IV melanoma, at the 2007 ILSI BioMed 2007 Conference. Kiryat Ono, Israel's GammaCan (<http://www.GammaCan.com>) develops innovative immunotherapy and related approaches to treat cancer. GammaCan's platform technology is based on the use of IgGs, a safe, relatively non-toxic human plasma-derived product used to treat a variety of immune deficiencies and autoimmune diseases. In cancer, IgG-based therapies work by strengthening the patient's immune system. Many experts currently view immunotherapy as a future alternative to chemotherapy. VitiGam is a first-in-class IgG-based anti-cancer immunotherapy being developed for the treatment of Stage III and Stage IV melanoma. GammaCan is planning to submit its Investigational New Drug Application (IND) for VitiGam to the FDA in the near future. The Company expects to commence human clinical trials shortly thereafter. VitiGam is an IgG-based product manufactured from the plasma of donors with Vitiligo, a benign skin condition affecting up to 2% of the general population. Studies have shown that this "enriched" IgG formulation contains potent anti-melanoma activity. (GammaCan 06.06)

[Back to Table of Contents](#)

## 8.7 InSightec Receives CE Mark for ExAblate 2000 Treatment of Pain Caused By Bone Metastases

Elbit Medical Imaging's subsidiary InSightec announced that its ExAblate 2000 system has received the CE Mark certification for pain palliation of bone metastases. In clinical studies, which supported the CE mark certification, patients reported their pain levels using VAS (Visual Analog Score), a pain questionnaire used to monitor changes in pain levels

and assess the efficacy of pain management. The majority of patients reported an immediate improvement in pain scores. Many also reported that they stopped using any analgesic pain relief. The ExAblate 2000 is the first system to use the breakthrough MRgFUS technology that combines MRI - to visualize tissues in the body, plan the treatment and monitor in real time treatment outcome - and high intensity focused ultrasound to thermally ablate uterine fibroid tissue. MR thermal feedback, provided uniquely by the system, allows the physician to control and adjust the treatment in real time to ensure that the targeted tumor is fully treated and surrounding tissue is spared. ExAblate has been recognized for its innovation and potential to serve mankind and has been awarded the 2004 European Union Information Society Technologies grand prize, The Wall Street Journal's 2004 Technology Innovation Award, and recognition as one of Advanced Imaging's 2005 Solutions of the Year. Tirat Carmel, Israel's InSightec (<http://www.insightec.com>) is a privately held company owned by Elbit Medical Imaging (EMI), General Electric, MediTech Advisors and employees. It was founded in 1999 to develop the breakthrough MR guided Focused Ultrasound technology and transform it into the next generation operating room. (EMI06.06)

[Back to Table of Contents](#)

## 8.8 Teva & Active Biotech Initiate Trial Program of Oral Laquinimod for Multiple Sclerosis

Teva Pharmaceutical Industries and Sweden's Active Biotech are initiating a clinical Phase III program for laquinimod, a novel once-daily, orally administered immuno-modulatory compound for the treatment of relapsing multiple sclerosis (RMS). The studies will now begin following the successful conclusion of a second phase II study and the outcome of discussions with the U.S. FDA and the European Medicines Agency (EMA). The companies are to commence two global Phase III trials of laquinimod during this year. The Phase III trials will take place in centers in the United States, Europe, and other locations worldwide, to further confirm the results of the Phase II trials. Results from a 36-week, randomized, double-blind, placebo-controlled Phase IIb trial evaluating the effect of oral daily 0.3 and 0.6 mg doses of laquinimod on magnetic resonance imaging (MRI) -monitored disease activity in patients with RRMS were recently presented at the American Academy of Neurology (AAN) Annual Meeting in May, 2007. Data from the trial demonstrated that an oral 0.6 mg dose of laquinimod given daily significantly reduced MRI disease activity by 40% in RRMS patients and was well tolerated. In addition, there was a favorable trend towards reducing annual relapse rates, the number of relapse-free patients and time to first relapse compared with placebo. Treatment with both 0.3 and 0.6 mg doses of laquinimod were well tolerated with only some transient and dose-dependent increases in liver enzymes. Teva Pharmaceutical Industries (<http://www.tevapharm.com>), headquartered in Israel, is among the top 20 pharmaceutical companies in the world and is the leading generic pharmaceutical company. The company develops, manufactures and markets generic and innovative human pharmaceuticals and active pharmaceutical ingredients, as well as animal health pharmaceutical products. (Teva07.06)

[Back to Table of Contents](#)

## 8.9 Israeli Researcher Pioneers New Cancer Treatment

An Israeli researcher is testing a new treatment to destroy glioblastoma multiforme (GBM), the most common and aggressive type of primary brain tumor. The new treatment, invented by Professor Emeritus Palti, MD, Ph.D., of Haifa's Technion University, uses electrical fields to kill the cancer cells by interfering with the division of the cells, thus arresting the growth of the tumor. Initial research findings reported in the Proceedings of the National Academy of Sciences (PNAS) journal showed that Dr. Palti's new treatment more than doubled the median overall survival rates of GBM victims. The treatment involves the use of a special device that sends continuous electrical fields to the tumor site through electrodes attached to the scalp. The device, which is powered by a small battery pack, is worn by the patient in a special over-the-shoulder bag. The device, called the Novo-TTF (an abbreviation of Dr. Palti's company, NovoCure,

and the words, 'Tumor-Treating Fields'), was tested on 10 patients for a total of 280 weeks. Because the early findings of the study were positive, a larger-scale study is now being conducted at 12 cancer centers in the U.S. and eight others in Europe. Dr. Palti is optimistic that the treatment may also prove effective against other forms of cancers. "So far, at least in the lab, all types of tumors have been sensitive to the treatment," he said. (Israel21c11.06)

[Back to Table of Contents](#)

## 9: ISRAEL PRODUCT & TECHNOLOGY NEWS

### 9.1 Israel Launches 'Ofek 7' Satellite

Israel successfully launched the 'Ofek 7' satellite using the Shavit launcher on 11 June. The satellite is now in position in orbit and will undergo a series of tests to verify that all systems are functioning and performing according to specs. The Ofek 7 is a reconnaissance satellite with state-of-the-art imaging technologies. Israel Aerospace Industries (IAI) designed and built the satellite and launcher together with Elbit Systems subsidiaries EI-Op Electro-optical Systems Ltd. and Elisra Group, Israel Military Industries (IMI), Rafael Armament Development Authority, Tadiran Spectralink and other high-tech companies. The Ministry of Defense ordered the satellite, which was launched from the Israel Air Force experimental launch site. (Globes 11.06)

[Back to Table of Contents](#)

### 9.2 EZchip's NP-4, a Single-Chip 100-Gigabit Network Processor with Integrated Traffic Manager

EZchip Technologies (a subsidiary of LanOptics), a fabless semiconductor company providing high-speed network processors, disclosed information on its NP-4 network processor now in design in a 65 nanometer silicon process and scheduled to sample in 2008. The NP-4 offers system vendors a significant cost reduction by integrating all the key components of their line card into a single chip. NP-4 main highlights include 100-Gigabit throughput for building 20-Gigabit, 40-Gigabit and 100-Gigabit line cards for Carrier Ethernet Switches and Routers (CESR); Integrated traffic management providing granular bandwidth control to enable the delivery of triple-play services in Ethernet networks, and integrated 100-Gigabit, 10-Gigabit and 1-Gigabit Ethernet serial ports. The NP-4 enables the building of next generation CESR equipment through groundbreaking levels of integration and functionality. It provides a total of 100-Gigabit throughput and features a 100-Gigabit port, eight 10-Gigabit ports and twenty-four 1-Gigabit Ethernet ports.

Yokneam, Israel's EZchip Technologies (<http://www.ezchip.com>) is a fabless semiconductor company that provides high-speed network processors. EZchip's network processors provide the flexibility and integration that enable triple-play data, voice and video services in systems that make up the new Carrier Ethernet networks. Flexibility and integration make EZchip's solutions ideal for building systems for a wide range of applications in telecom networks, enterprise backbones and data centers. (EZchip Technologies 30.05)

[Back to Table of Contents](#)

### 9.3 Gizmoz Launches Free Service to Bring a Real Face and Voice to Digital Communications

Gizmoz has launched a free online service that allows consumers to create animated, talking Gizmoz characters for use across their digital communications. Each Gizmoz sports a 3D lifelike head and body and delivers a consumer's personalized, lip-synched message. Characters can be fashioned as a self-portrait, using a digital photograph, or customized using images from the extensive Gizmoz Library. The characters can be used to generate video clips and other forms of original content and can be posted to any blog or social networking profile, sent via email to family or friends, or uploaded to video sites. Additionally, Gizmoz unveiled new free tools that allow consumers to showcase their customized characters.

Gizmoz Stickers allows consumers to "stick" their Gizmoz character on any blog or profile page leaving their personalized mark and message behind. They can use Stickers to greet visitors or to comment on another site. Posting takes just two clicks. Gizmoz Answering Machine enables consumers to create a message center on their blog or profile page. Consumers use the Answering Machine to post their Gizmoz message on their site, and visitors can use the tool to instantly create their own Gizmoz character and leave a message, which can be made private or reviewed and rated by others. Founded in 2003, Herzliya, Israel's Gizmoz (<http://www.gizmoz.com>) offers consumers a new generation of character-based visual expression for use across their digital lives. The Gizmoz service makes it easy to create, customize, animate and share photorealistic 3D talking characters and videos that allow consumers to communicate and express themselves in more realistic and imaginative ways. Gizmoz is funded by Benchmark Capital, Columbia Capital and Jagen. (Gizmoz 31.05)

[Back to Table of Contents](#)

### 9.4 Eltek Wins First Sizable PCB Order from a Major Foreign Military and Aerospace Conglomerate

Eltek announced that a major foreign military and aerospace conglomerate has placed an order for PCBs that will be used in the production of advanced mission critical military equipment. This order is valued at \$730,000 and deliveries are anticipated to commence in Q3/07 with \$455,000 to be supplied in H2/07. This competitive win signifies the first sizeable order received from this significant customer, further reflecting the growing recognition that Eltek's market leading technological and highly reliable manufacturing capabilities are gaining worldwide. This initial order also represents the first stage of a larger project potentially worth \$2m for Eltek. Petach-Tikva's Eltek (<http://www.eltekglobal.com>) is Israel's leading manufacturer of printed circuit boards, the core circuitry of most electronic devices. It specializes in the complex high-end of PCB manufacturing, i.e., HDI, multi-layered and flex-rigid boards. Eltek's technologically advanced circuitry solutions are used in today's increasingly sophisticated and compact electronic products. The company has invested heavily in upgrading its production facilities over the past five years. (Eltek04.06)

[Back to Table of Contents](#)

## 9.5 ECI Telecom Unveils Secure Encryption Solution for High-Speed Ethernet Networks

ECI Telecom introduced an advanced encryption solution that protects all types of data transmission over high-speed Ethernet networks. This new product, the Aurora-G, is part of ECI's offering for the government and military telecommunications market, as well as for other markets and applications where high security and data protection is desired. The Government & Defense Solutions (GDS) business unit provides best-of-breed solutions in this arena. Information transmitted within a network operator's campus is considered secure, but fiber optic cables connecting different campus sites are vulnerable as intruders can easily access or divert information being transmitted. Enhanced security for these points is critical, particularly for governments, militaries, financial organizations and utility companies, whose data transmissions are highly valuable and sensitive. By encrypting the data running over the fiber, a network operator can achieve the highest level of security for protection against external threats. ECI's Aurora-G card offers Layer-2 encryption and is integrated into ECI's flagship XDM Multi-Service Provisioning Platform (MSPP) and All-Range ROADM solution. By integrating the encryption functionality into the XDM, service providers can reduce network complexity, decrease power and space requirements and lower operational expenditures through integrated management tools. Aurora-G's functionalities, including its encryption keys, are managed remotely by ECI's LightSoft network management system.

Petah Tikva, Israel's ECI Telecom (<http://www.ecitele.com>) delivers innovative communications platforms to carriers and service providers worldwide. ECI provides efficient platforms and solutions that enable customers to rapidly deploy cost-effective, revenue-generating services. Founded in 1961, ECI has consistently delivered customer-focused networking solutions to the world's largest carriers. The Company is also a market leader in many emerging markets. ECI provides scalable broadband access, transport and data networking infrastructure that provides the foundation for the communications of tomorrow, including next-generation voice, IPTV, mobility and other business solutions. (ECI Telecom 04.06)

[Back to Table of Contents](#)

## 9.6 RADVISION Releases Next Generation SCOPIATM 3G Video Gateway

RADVISION announced the release of Version 3.0 of its market-proven SCOPIA 3G Video Gateway. This IMS-ready version introduces exciting new functionality with enhanced support for multiple diverse applications over converged networks, powerful media processing capabilities and new levels of infrastructure optimization. The SCOPIA 3G Video Gateway bridges 3G-324M-based mobile devices and IP-based video terminals & media servers, messaging systems, RTSP streaming servers, IMS terminals, network cameras and ISDN endpoints for the delivery of advanced video and voice services. A pioneer of gateway technology, RADVISION's SCOPIA 3G Video Gateway was first-to-market in the emerging 3G industry. This established, market-proven product enjoys widespread success, answering the needs for scalable, multi-application and redundant carrier-grade performance for operators across the globe. RADVISION's SCOPIA 3G Video Gateway is integrated and delivered to operators by world leading telecommunication equipment manufacturers and system integrators. 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, 3G and IMS 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 &ndash; for high definition video conferencing systems, innovative converged mobile services, and highly scalable video-enabled desktop platforms on IP, 3G and emerging next-generation IMS networks. (RADVISION 04.06)

[Back to Table of Contents](#)

## 9.7 Magal Security Systems Receives \$1.8 Million of Orders for a Broad Spectrum of Products

Magal Security Systems recently received two new orders amounting to approximately \$1.8m for a broad spectrum of the Company's products. The orders, from two prominent Israeli customers, are for the protection of Ashdod seaport in Israel and a border crossing terminal. The orders include turnkey solutions to supply fully integrated security systems based on Magal's FORTIS Command & Control System, which supports real-time decision making and wide-area command and control. The orders also include the Company's state-of-the-art DreamBox intelligent video, audio and sensor management platform, access control systems with RFID, CCTV cameras, vibration sensors and other systems. Yahud, Israel's Magal Security Systems (<http://www.magal-ssl.com>) is engaged in the development, manufacturing and marketing of computerized security systems, which automatically detect, locate and identify the nature of unauthorized intrusions. Magal also supplies video monitoring services through Smart Interactive Systems, Inc., a subsidiary in the U.S. The Company's products are currently used in more than 70 countries worldwide to protect national borders, airports, correctional facilities, power stations and other sensitive facilities from terrorism, theft and other threats. (Magal04.06)

[Back to Table of Contents](#)

## 9.8 First-Ever Mobile Television Handset with Smartcard Profile Protection Demonstrated

Content Protection specialist Discretix together with ESG and player provider CyberLink, mobile TV platform provider CoreMedia, and handheld device manufacturer GIGA-BYTE Communications (GBC) announced a demonstration in Taipei of the first mobile TV handset supporting the Smartcard Profile. The combined solution showcases the ability to build a robust, secure, standards-based and fully integrated mobile TV system based on the Smartcard Profile. The mobile TV solution is being demonstrated on GBC's new GSmart t600, the world's first multi-standard mobile TV/PDA phone with built-in support for DVB-T, DVB-H and DMB. The device, which supports Quad-Band GSM, features a large 2.6" touch panel display. Driving the mobile TV system on the GSmart t600 are the Discretix' Multi-Scheme Mobile TV Security Client, CyberLink's Mobile TV Player and Electronic Service Guide (ESG) and CoreMedia's Mobile TV Platform. Israel's Discretix (<http://www.discretix.com>) is a leading provider of embedded security technology for mobile devices and flash memory storage. Discretix technology, which incorporates both hardware and software components, enables security to be incorporated into products at the chipset level, making it transparent to the end-user while protecting sensitive information from malicious attacks, viruses, fraud, and theft. Discretix' solutions are deployed in a wide array of devices and mobile systems to enhance security, reliability, and user experience. (Discretix05.06)

[Back to Table of Contents](#)

## 9.9 FiftyOne from E4X Makes Selling Internationally Easy

E4X has launched FiftyOne, a global ecommerce solution designed to overcome the complexities of cross-border ecommerce and help online retailers sell internationally with no more effort than selling domestically. FiftyOne manages

every aspect of the international sale, making international transactions look the same as domestic transactions from the perspective of US merchants. For example, in the area of Global Logistics, a merchant ships to a domestic hub and FiftyOne handles the international shipping, providing the buyer with a lowest guaranteed final price to deliver the product to their door, eliminating any surprise fees or surcharges. Concerning International Payments, it handles multicurrency credit card processing and international fraud screening. Buyers are charged and pay in their own currency while merchants are paid in USD at time of order without FX risks. FiftyOne seamlessly interfaces with all major ecommerce and operating systems, through a single integration. The solution currently offers shipping to 28 countries with more to follow in the near future. E4X (<http://www.e4x.com>) is a leading provider of services that facilitate global business by reducing cross border sales and payments complexities. E4X's unique, patented ecommerce application and comprehensive foreign exchange solutions help companies expand globally in what becomes a foreign exchange risk-free environment for global shoppers and merchants alike. Founded in 1999, the privately held E4X is based in New York and operates a research and development facility in Tel Aviv, Israel. (E4X05.06)

[Back to Table of Contents](#)

#### 9.10 IncrediMail Introduces Chinese Language Version of Popular Flagship Product

IncrediMail has introduced a Chinese language version of its flagship email product. This is the company's first step in extending its user base in China. Through its experience model, IncrediMail plans to parlay its success with its previous versions of IncrediMail XE, by fulfilling the need for a graphics-based email program in China. The regionalized graphic offerings will include email backgrounds, application skins, notifiers and eCards. Tel Aviv, Israel's IncrediMail (<http://www.incredimail-corp.com>) designs and markets an integrated suite of customized and entertaining email software products for the consumer market, offering users the ability to design highly personalized email presentations with a large collection of multimedia content for email communication. The products include: IncrediMail Xe, which allows users to personalize email messages with creative features and is offered free of charge; IncrediMail Premium, an enhanced version of IncrediMail Xe; IncrediMail Letter Creator, which enables further personalization of backgrounds; The Gold Gallery, a content database of additional backgrounds, animations and notifiers; JunkFilter Plus, an anti-spam solution; and the recently introduced Magentic, a solution offering desktop Wallpapers and Screensavers. IncrediMail generates revenue by the sale of these products and services; licensing and co-branding the Incredi brand to operators of third party websites; and selling paid advertising and sponsored links on its website and email client. (IncrediMail 06.06)

[Back to Table of Contents](#)

#### 9.11 Comsys Baseband Processor is First WiMAX Multi-Technology ITU-R Solution for Mobile Terminals

Comsys Communication and Signal Processing announced that its ComMAX CM1125 is the first multimode baseband processor to comply with the newly announced terrestrial OFDMA radio interface for IMT-2000. The Comsys CM1125 is the first IMT-2000 baseband to support the WiMAX TDD profile. Comsys is the only company that has currently announced it is working on multimode GSM/EDGE/WiMAX baseband processors for mobile phones and terminals. The new interface, OFDMA TDD WMAN, is a specific subset of WiMAX that complements the existing family of IMT-2000 radio interfaces. The WP 8F proposals update and expand the family of IMT-2000 radio interfaces, establishing a foundation for a 'beyond 3G' standard named IMT-Advanced, and at the same time call for the provision of additional spectrum for IMT, with the aim of securing a forward path beyond 3G that balances the market and services expectations with the constraints of technology and available spectrum. The ComMAX CM1125 is a flexible multimode OFDMA baseband processor that enables service continuity between cellular and Mobile WiMAX (IEEE 802.16e) networks. ComMAX provides manufacturers of multimode mobile WiMAX terminals with a comprehensive and flexible broadband solution fully compliant with WiMAX Forum Wave 2 requirements, offering MIMO capability, which can operate over

multiple bands. Featuring service continuity support between Mobile WiMAX and legacy GSM/EDGE networks, ComMAX provides best-in-class performance and offers substantial cost and power savings.

Herzliya, Israel's Comsys Communication and Signal Processing (<http://www.comsystemobile.com>) provides a complete licensable baseband solution for EDGE, GPRS, GSM and UMTS. Comsys and its technology partners offer integrated baseband system IP solutions including the complete physical layer and protocol stack (L1/2/3) and underlying system hardware. These solutions have already been ported onto multiple DSP platforms. (Comsys07.06)

[Back to Table of Contents](#)

#### 9.12 RADA Receives Order for Commercial Aviation Test Station (CATS) to NFF Avionics Services

RADA Electronic Industries has received a \$870,000 purchase order from NFF Avionics Services of Aliquippa, Pennsylvania for the delivery of Commercial Aviation Test Station (CATS) and Test Program Sets for various Boeing 777 avionics units. The CATS and TPS are scheduled for delivery and installation during June 2007. This is the third CATS system purchased by NFF Avionics Services Inc. and it will significantly enhance their capabilities to test and repair Boeing 777 avionics. Netanya, Israel's RADA Electronic Industries (<http://www.rada.com>) is an Israel based company involved in the military and commercial aerospace industries. The Company specializes in Avionics systems (Digital Video Recorders, Ground Debriefing Stations, Stores Management Systems, Flight Data Recorders, Inertial Navigation Systems), Trainers Upgrades, Avionics systems for the UAV market, and Electro optic cameras for airplanes and armored vehicles. (RADA07.06)

[Back to Table of Contents](#)

#### 9.13 emoze Releases Version 1.4 - Breakthrough in Battery Power Consumption for Free Push Email

Significant breakthroughs in battery consumption, synchronization and set-up wizards make the latest version of emoze a smart choice for consumers seeking free push-email and calendar access on their personal cell phones. The latest version of emoze (version 1.4), now available for download at <http://www.emoze.com>, is the result of extensive research and development as well as active collaboration with thousands of beta users who have commented on the breakthrough email and data synchronization service since its launch earlier this year. Emoze turns consumers' mobile devices into portable email terminals, providing the benefits of real-time email and calendar access to virtually everyone on the go. Emoze is the simplest, most efficient and most versatile free push-email service on the market. Topping the list of improvements is enhanced battery consumption. emoze already had offered efficient battery usage by only pushing emails to mobile devices when a new email or calendar event arrived in their in-box. In the latest version, improved traffic flow pushes emoze to the top ranks in battery efficiency. In tested Symbian platform devices, battery life improvements were significant: Nokia N73 phones worked for 60 hours in "always-on," true push mode; Nokia E61 ran for 31 hours; iMate K-JAM phones worked for 120 hours (nearly six days); and PDA2K worked for more than 100 hours. Similar performances, now being benchmarked, are expected of other platforms and operating systems.

Ra'anana, Israel's emoze (<http://www.emoze.com>) turns mobile phones and mobile devices in to fully functional personal

communication devices with a single, simple and free download for the individual user. It delivers real-time, secure synchronization of emails, calendars, contacts and tasks - pushing data and updates to you anytime, anywhere using any mobile service provider network or WiFi and all leading brands of mobile device. Download, registration and use of emoze are all free for the individual user. Users need a data package from their mobile service provider. (Emoze 07.06)

[Back to Table of Contents](#)

#### 9.14 Enforta Brings WiMAX to the CIS Countries Using Alvarion's WiMAX Solution

Alvarion announced that Enforta, the largest broadband wireless service provider in Russia, has selected its WiMAX solution for bringing WiMAX to the fast growing Russian market. Enforta, using Alvarion's platform, is among the first companies to commercially deploy WiMAX networks in Russia. Alvarion's local partner in Russia is Cedicom. In order to accelerate WiMAX penetration in the CIS, Alvarion is performing various adaptations to its WiMAX 802.16 platform according to market demands and CIS homologation requirements. Based on Alvarion's all-IP operator-centric OPENTM WiMAX strategy and technology expertise, Enforta will be offering a wide range of innovative high-quality wireless broadband services throughout the entire region. Tel Aviv, Israel's With more than 3 million units deployed in 150 countries, Alvarion (<http://www.alvarion.com>) is the world's leading provider of innovative wireless broadband network solutions enabling Personal Broadband to improve lifestyles and productivity with portable and mobile data, VoIP, video and other services. Alvarion is leading the market to Open WiMAX solutions with the most extensive deployments and proven product portfolio in the industry covering the full range of frequency bands with both fixed and mobile solutions. 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. (Alvarion30.05)

[Back to Table of Contents](#)

#### 9.15 Smart Energy Solutions Completes Shipment of Battery Brain to Royal Dutch Touring Company

Smart Energy Solutions has completed shipment of the new Platinum Series Battery Brain, as a private label program, to Telstar Trading, a supplier to The Royal Dutch Touring Club (ANWB). The Battery Brain is being promoted through ANWB's magazine to the club's 3.5 million vehicle owners in Benelux plus an extensive public relations program including over 250 automotive and transportation magazines. The Battery Brain Platinum, a patented innovative accessory that easily installs to any vehicle battery, is a new addition to the product line-up. Using unique micro-electronic technology it continually monitors the battery power. When Battery Brain Platinum detects power falling below the level required to start the engine, it automatically isolates the battery from the electrical system. Specially designed to protect accessory memory and presets, it also has the ability to disconnect the battery from the electrical system to act as an anti-theft device. Battery Brain Platinum ensures that the vehicle owner will always have enough battery power to start the engine and the anti-theft feature provides added security and peace of mind! Smart Energy Solutions (<http://www.smgynet.com>) is the sole owner of the Battery Brain line of vehicle accessory products. The company is headquartered in Pompton Plains, NJ, with an R&D center in Petah Tikva, Israel. (Smart11.06)

[Back to Table of Contents](#)

## 9.16 Resolute & BroadLight Bolster Circuit Emulation Services Over GPON with CMX-16C3 Aggregator Module

Resolute Networks and BroadLight announced the successful incorporation of Resolute's recently released carrier-grade CMX-16C3 Circuit Emulation Service (CES) aggregation module in the companies' joint CESoGPON (CES over GPON) technology offering. This technology enables GPON (Gigabit Passive Optical Network) equipment manufacturers to incorporate T1/E1 voice, leased line and frame relay services in FTTP (Fiber to the Premises) access networks. The two companies have previously estimated that the requirement for T1/E1-based services over GPON would reach a total of more than 250,000 links serving small and medium businesses worldwide by 2008. With the CMX-16C3, a CES module is capable of aggregating up to 512 circuit emulation streams at the GPON OLT. Having successfully passed interoperability tests with BroadLight's integrated GPON OLT and ONT System on a Chip platforms, both are now better geared to capitalize on this emerging market's full potential.

Headquartered in Modi'in, Israel, Resolute Networks (<http://www.resolutenetworks.com>) is a leading provider of standards-compliant subsystem and OEM solutions for circuit emulation applications. Resolute solutions are based on the company's unique silicon and module technology, which is optimized to support high performance converged telecommunication services over Ethernet, MPLS and IP infrastructure. BroadLight (<http://www.broadlight.com>) delivers the industry's only end-to-end solution (from the customer premises to the central office) for equipment vendors designing passive optical networks (PONs). The company's completely integrated product line consists of standards-based digital and analog optical transceivers, communication semiconductors and software solutions that enable its customers to deliver ITU-T PON equipment to carriers and service providers worldwide. BroadLight is headquartered in Mountain View, California and operates an R&D facility in Ramat Gan, Israel. (Resolute11.06)

[Back to Table of Contents](#)

## 9.17 Leading Operator in Russia Places a First Time Order for ECtel's FraudView Release 8

ECtel announced that a leading operator in Russia has placed a first time order for ECtel's FraudView Release 8. The order follows a successful pilot on live traffic. FraudView is the leading and most complete fraud management solution for telecom operators. Designed to meet the needs of wireline, wireless, convergent and next generation communication service providers, FraudView features an array of unique, state-of-the-art fraud detection and prevention technologies enabling thousands of fraud controls. Rosh Ha'Ayin, Israel's ECtel (<http://www.ectel.com>) is a leading global provider of Integrated Revenue Management (IRM) solutions for communications service providers. A pioneering market leader for over 15 years, ECtel offers carrier-grade solutions that enable wireline, wireless, convergent and next-generation operators to fully manage their revenue and cost processes. ECtel IRM Product Suite features the world-leading fraud and revenue assurance products, FraudView and RAP, that minimize operator revenue leakage across networks and operations support systems (OSSs). (ECtel11.06)

[Back to Table of Contents](#)

## 9.18 China's HomeBuy Selects Retalix POS, Headquarters and Loyalty Solutions

Retalix announced that HomeBuy Houseware, one of China's leading home furnishing and do-it-yourself (DIY) retailers, has selected Retalix solutions to automate, optimize and synchronize its rapidly growing retail operations. HomeBuy operates 60 stores in Shanghai and Eastern China. HomeBuy will install a synchronized retail solution from Retalix, which includes Retalix StoreLine point-of-sale (POS) and back-office applications at the stores, pre-integrated with Retalix HQ StoreLine and Retalix Loyalty and Promotions at the chain's headquarters. Retalix's partner in China, Shanghai-based Rinpak Technology Ltd., will provide domestic integration and support services to HomeBuy. Ra'anana, Israel's Retalix (<http://www.retalix.com>) is an independent provider of enterprise-wide software solutions to retailers and distributors worldwide. With over 40,000 sites installed across more than 50 countries, Retalix solutions serve the needs of grocery chains, convenience and fuel retailers, food and consumer goods distributors and independent grocers. The Company offers a full portfolio of software applications that automate and synchronize essential retailing, distribution and supply chain operations, encompassing stores, headquarters and warehouses. (Retalix11.06)

[Back to Table of Contents](#)

#### 9.19 Sanyo Broadens Use of MaxxVoice in Mobile Phones

Waves Audio announced that Sanyo has adopted MaxxVoice on the majority of its new mobile phone models in order to improve the loudness and intelligibility of speech. Using patented psycho-acoustic technologies, MaxxVoice overcomes the limitations of small handset speakers to accommodate the natural variation in speaker levels. The M1, Sanyo's first mobile phone with MaxxVoice, began shipping in December 2006. Waves MaxxVoice has also been utilized on the SCP-7050 and Sanyo's newest model, the SCP-3200. Tel Aviv, Israel's Waves (<http://www.waves.com>) is the world's leading developer and provider of professional digital audio processing tools. Waves technologies are used to improve sound quality in the creation of hit records, major motion pictures, popular gaming and multimedia titles the world over. With more than a decade of leadership in the development of psycho-acoustic algorithms, Waves now offers a variety of solutions under the Maxx brand (<http://www.maxx.com>). Manufacturers of consumer electronics are dramatically improving performance and reducing system costs using Maxx technologies. These solutions include custom semiconductor devices and licensing Waves proprietary algorithms to DSP and computer platforms. (Waves Audio10.06)

[Back to Table of Contents](#)

### 10: ISRAEL ECONOMIC STATISTICS

#### 10.1 Israel's Consumer Confidence Index at 6-Year High

The "Globes" Consumer Confidence Index for Israel rose five points in May 2007 to 90 points, its highest level in six years. The index has risen twelve points since January, after falling during the second half of 2006. The rise in the index in May was mainly driven by further improvement in respondents' assessments of the current economic situation and expectations about their personal economic situation in six months. These were slightly offset by a drop in assessments about the general economic situation in six months. The index has been rising despite the political furors, security tensions in the south, and reports about investigations into the country's leaders. The public, it seems, prefers focusing on positive economic data, while ignoring non-economic factors. The level of optimism about the current economic situation displayed in the Consumer Confidence Index was last seen in November 2000, before first post-Oslo

Palestinian war against Israel. Analysis of the Consumer Confidence Index by Globes Research and Kesselman & Kesselman - PricewaterhouseCooper Israel indicates that the public's consumer sentiment is also rising. The increase in consumer spending during the first quarter now looks set to continue into the second half of the year. (Globes 08.06)

[Back to Table of Contents](#)

## 10.2 Israel in Fourth Place among World's Defense Exporters

SIBAT - Foreign Defense Assistance & Defense Export Organization announced that Israel is the world's fourth largest defense exporter, following the US, Russia and France, and ahead of the UK. Israeli defense exports totaled \$3.4b. Israel's defense exports to the US grew from \$270m in 1999 to \$1.2b in 2006. US supervision of Israeli defense exports has cost Israel \$300m over the past three years. Israeli exports of homeland security and safety equipment, excluding information security, are forecast to grow 20% in 2007, compared with 15% growth in 2006, to \$1.2b. Some 30 new companies entered this field over the past year, to a total of 350 exporters. IT security exports totaled \$2b. The Israel Export & International Cooperation Institute added that Israeli companies will sign contracts worth \$600-800m during the upcoming Paris Air Show. (Globes 10.06)

[Back to Table of Contents](#)

## 10.3 Record 22,900 Vehicle Deliveries in Israel in May

The Israel Motor Vehicles Importers Association reported that a record 22,902 vehicles were delivered in May 2007, 38% more than in May 2006. These figures are based on the Motor Vehicle Department reports. Some 72,051 vehicles were delivered in January-May, up 24% on the corresponding period of last year. Demand by leasing companies was responsible for most of the increase, since they do not think that the company car reform will be implemented anytime soon and will not effect the market. Demand from individuals was also heavy, because of a shortage of new models in the preceding months and lower prices. Hyundai made 4,702 deliveries in May, followed by Mazda, with 4,057 deliveries; Toyota - 2,972; and Ford - 2,007. Ford and Mazda importer Delek Automotive Systems was the number one importer, delivering 16,921 vehicles in January-May, 55% more than during the corresponding period. (Globes 05.06)

[Back to Table of Contents](#)

[In Depth](#)

## 11.1 Israel: Reading the (Early) Signs of Excess

Morgan Stanley's Serhan Cevik observed from London that Israel is in a sweet spot of strong growth and no inflation, but there are already signs of excess. "Thanks to its high-tech orientation creating higher value-added, Israel has a unique position among emerging (as well as industrialized) countries. In our view, the composition of human capital and a high propensity for entrepreneurial activity form the basis for strong economic performance, despite all the obvious challenges stemming from geopolitical risks and security concerns. Indeed, supported by fiscal consolidation and robust global demand, the Israeli economy has kept growing at an impressive pace and enjoyed a structural shift in its current account balance from an average deficit of 2% of GDP in the 1990s to 4.9% last year. As a result, after a long period of undervaluation, the shekel has appreciated towards its fair value against the dollar, creating a wave of deflation in exchange rate-sensitive sectors of the economy. Therefore, Israel is in a 'sweet spot' of economic outperformance and lower interest rates &mdash; certainly a point of attraction for foreign capital as well as domestic investment. However, even though fundamental improvements will keep supporting the shekel and low inflation, we should not ignore the (early) signs of excess that may become a source of volatility in the future.

Technical deflation will prove to be a temporary phenomenon, in our view. Consumer price inflation declined from 3.8% a year ago to -1.3%, as the shekel's realignment led to a strong pass-through effect on domestic prices linked to or denominated in dollars. Take, for example, the notorious case of housing prices. With the legacy of hyperinflation, residents have long become accustomed to quoting rents and housing prices in dollars, just like many professional services using prices linked to the exchange rate. Unfortunately, this habit of indexation is a major source of inflation volatility. As the shekel appreciated by 13.5% against the dollar over the past year, housing prices recorded a 6.2% decline and, with a 22% weight in the consumer price index, lowered the headline reading into the deflationary territory. But this is just technical deflation, in our opinion, and will prove to be temporary, as the shekel stabilizes at its new equilibrium.

Israel already has a 'hidden inflation' problem, reflecting the narrowing output gap. We expect inflation to move slowly out of the deflationary territory and stay close to the lower bound of the central bank's target range of 1-3% by the end of this year. However, a closer examination of the data reveals that Israel already has a 'hidden inflation' problem behind the veil of currency appreciation. The Bank of Israel estimates that consumer price inflation excluding items affected by exchange rate movements increased to an annual rate of 4% in the first quarter of the year, as opposed to a 4.6% drop registered by currency-linked prices in the CPI basket. We believe that such a degree of divergence is a clear sign of underlying inflation pressures resulting from sustained growth in domestic demand. The latest national accounts show that real GDP growth reached an annualized rate of 6.3% in Q1/07, even after four years of sustained output expansion. More importantly (at least for inflation dynamics), consumer spending grew at an annualized rate of 11.8% in the first three months, up sharply from 4.8% last year, thanks especially to a 95.1% surge in spending on durable goods. In our view, improvements in the labor market (like the lowest unemployment rate in a decade) and the wealth effect of booming asset markets and low interest rates have pushed aggregate demand growth to beyond the economy's potential growth rate. As a result, the output gap &mdash; the difference between actual and potential output &mdash; has turned positive and inflationary.

Experimenting with lower interest rates would worsen underlying inflation dynamics. The Bank of Israel has already lowered short-term interest rates by 200bp since last October to 3.5% &mdash; the lowest level in history and 175bp below the US policy rate. We are not obsessed about interest rate differentials, but further experimentation with lower interest rates would worsen underlying inflation dynamics and even destabilize financial markets. This is why we believe that Israel is now at a stage of consolidation and the central bank should let the economy absorb the lagged effects of monetary easing. (MS06.06)

[Back to Table of Contents](#)

## 11.2 Currency Exposes GCC Flaws

The Gulf News commented that Kuwait's decision to go it alone on changing its currency link with the dollar, and not to act in coordination with the other members of the Gulf Cooperation Council (GCC), is an important example of how the GCC member governments do not want the GCC to move into deeper political or economic union.

The GCC has not found an independent role in 26 years of existence because its leaders prefer to use it to coordinate their several national efforts rather than to pool elements of their sovereignty into one regional organization. The GCC has been an important regional body, and has fared much better than the moribund Arab League, but it has still not gone beyond a forum which encourages cooperation between sturdily independent states.

Where the GCC did plan deeper links it has stuck to modest targets, and been successful in delivering one element at a time. These have mainly been areas of government which affect people and what they can do, such as free movement of citizens or residents, or the right to buy property, or own businesses, and even cultural exchanges.

The six member states share a common heritage as Arab states in the Gulf, and they have largely common views on how to deal with regional and wider issues. But for anything moving beyond the specific targets it has already achieved, a more committed political will for union is required than the member states offer at present.

The armed forces are one example of how the GCC has held back from deeper integration. The GCC has always cooperated effectively in military and the six states regularly hold joint exercises. Indeed, the GCC was formed in 1981 as a Gulf Arab reaction to new Iranian militancy after the 1979 Islamic Revolution and its early years were dominated by the long war between Iran and Iraq.

But despite this history of successful military cooperation, it has not gone deeper. For example, there is no GCC-wide joint military command structure, no GCC force made up of units from the six nations reporting to the GCC and not to the member states.

Another example of institutional hesitancy is currency union. A few years ago the plan to have a common currency seemed relatively easy, since all the GCC currencies were pegged to the dollar, all their oil exports are priced in dollars, and the dollar was relatively strong.

Today it looks very different as the dollar has fallen substantially, taking the GCC currencies down with it and giving them increasingly serious problems. The UAE had floated the idea of all six moving from the dollar peg before the planned currency union in 2010, but Kuwait has decided not to bear the pain any longer and plunged ahead unilaterally. Oman has backed off currency union, and other central banks have spoken of challenges.

## Plans

This means that any plans to go ahead with monetary union will now have to include re-calibrating the currency pegs, which will inevitably give the member states political and economic problems. Although if the political will is found to reunite the six states on this issue, a free floating GCC currency could solve their problems by stopping the present reliance on the continuously depreciating dollar.

Economic union appeared to be a substantial area where the GCC had agreed to move ahead. All member states agreed that economic union was a necessary pre-condition of monetary union, and they agreed on customs union, with the same customs tariffs applying across the six states, and open borders to all goods. This was a substantial achievement since it brought together the extremes of some states wanting to maintain a protectionist environment which sheltered their businesses, and others seeking to have open trade and global competition.

However, the reality is that goods are still stopped at internal GCC borders, the tariffs are still not yet unified and large parts of various member states' economies are exempted from tariffs anyway, as governments regard them as strategic parts of the economy which need support. But despite its refusal to move to deeper union of structure or purpose, the GCC remains a useful organization which is gaining in importance as the Gulf States themselves play a more important regional role.

The GCC has delivered one very basic and very important success: since the start of the GCC, no GCC state has gone to war with another, despite their disputes and despite their previous history of continual fighting. This is something that the wider region can learn from. (GulfNews07.06)

[Back to Table of Contents](#)

### 11.3 Fitch Affirms Kuwait's Foreign Currency IDR at 'AA-'

On 30 May, Fitch Ratings (<http://www.fitchratings.com>) affirmed Kuwait's foreign currency Issuer Default rating ("IDR") at 'AA-' (AA minus) and local currency IDR at 'AA'. The Outlooks on both ratings remain Stable. The Short-term foreign currency rating is affirmed at 'F1+' and the Country Ceiling at 'AA'.

"Kuwait's net external creditor position has continued to improve over the past year, lending strong support to the rating," says Charles Seville, Associate Director in the Sovereign group at Fitch. Public sector external debt is very low while high oil prices have boosted export and fiscal revenues and the government has saved the surpluses in its reserve funds. Fitch conservatively estimates that Kuwait's external assets exceed its external liabilities by \$86bn, or 88% of GDP, one of the strongest positions of any country rated by the agency. This provides a formidable cushion in the event of a negative shock.

Moreover, the rating is robust to a much steeper fall in oil prices than Fitch regards as likely; the cost of the Kuwaiti oil basket would have to fall below \$10/b to erase the budget surplus forecast for 2007/08, and even lower to erase the current account surplus. Kuwait recorded an estimated current account surplus nearing 50% of GDP in 2006 and a fiscal surplus of 34% of GDP in the fiscal year ending March 2007.

Nevertheless, dependence on a single source of revenue, especially one as potentially volatile as oil, is a rating weakness. In 2006/07, oil was estimated to have accounted for 76% of government revenue, with most of the remainder consisting of investment income. The oil sector represents more than half of national output, with the non-oil sector more dependent on government spending than some of Kuwait's GCC neighbors. With oil output expected to steady over the next two to three years, in the absence of a substantial rise in oil production capacity, the real growth outlook is moderate. Kuwait's per capita income has risen, however, and now matches that of the 'AA' category median.

Kuwait's oil endowment per capita (including Kuwaiti nationals only) is the strongest in the Gulf along with the UAE, and social problems such as unemployment are less acute than in some other GCC neighbors. Efforts to increase the role of the private sector in the economy are less dynamic. Kuwait's diversification and reform efforts are hampered by slow decision-making. Although Kuwait's political system, the most open in the region, is positive for the rating, providing a channel for potential dissent, the National Assembly and the executive do not work together very effectively.

Geopolitical risks also weigh on Kuwait, given its proximity to Iraq and Iran. Although the Iraq conflict has had little negative impact on Kuwait, a serious escalation in tensions between Iran and the international community could have political and economic repercussions.

The Central Bank of Kuwait recently replaced its peg to the US dollar, adopted in 2003, in favor of a peg to a basket of currencies, as it did prior to 2003. The decision was taken to head off inflationary pressures linked to the depreciation of the dollar. The new system should help dampen inflationary pressures, but available monetary policy tools remain limited. Kuwait's financial system is one of the most solid in the region, and is a further rating strength. (Fitch Ratings30.05)

[Back to Table of Contents](#)

#### 11.4 S&P: Kuwait's New Currency Peg Complicates Plans For Gulf

Monetary Union Standard & Poor's Ratings Services announced on 30 May that while the decision by Kuwaiti authorities on May 20, 2007 to abandon the dinar peg to the U.S. dollar has no impact on the sovereign ratings on the State of Kuwait and will help to subdue inflation, it casts significant doubt over plans to establish a monetary union across the Gulf States by 2010. Prior to the decision, all Gulf Cooperation Council (GCC) states had their currencies pegged to the U.S. dollar, and it was widely assumed that the common currency in 2010 would also be pegged to the U.S. dollar. The common peg de facto fixed member states' currencies against one another, reducing uncertainty and transaction costs and simplifying coordination of monetary policy in the run up to monetary union, and would have ensured a smooth transition into a common currency.

"The common peg was a great support to union aspirations," said Luc Marchand, credit analyst at Standard & Poor's Ratings Services. "By virtue of pursuing policies that are beneficial to the national interest but that are potentially detrimental to the common goal, Kuwait's decision to switch back to pegging the dinar against a basket of currencies

raises questions regarding the commitment of individual states to a monetary union, despite repeated official assurances to that effect."

Technically, Kuwait's decision does not derail the common currency project, but will, in practice, add an extra layer of complication, Mr. Marchand added. The peg for any common currency that involves Kuwait is now less likely to be the U.S. dollar, as it is unlikely that Kuwait will revert to such an arrangement in future. This raises the specter of negotiations among the six GCC states to agree to a common peg, with five currently opposed to abandoning the dollar.

Standard and Poor's expects the decision to repeg the dinar to a basket of currencies will have a positive impact on inflation. Although little is known at this point about the composition of the basket, other than that it will be trade-weighted, the move is clearly intended to halt the slide of the dinar vis-à-vis some of its trading partner currencies, and thus to dampen import prices and inflation expectations.

"The extent to which the repegging of the dinar will reduce inflationary pressures in Kuwait over the long-term will depend, in part, upon the composition of the new basket, and thus on the extent to which the dinar is delinked from the continued slide of the U.S. dollar going forward," Mr. Marchand said.

While a monetary union would certainly be a major step toward greater regional integration and cooperation, and holds much political and symbolic significance, Standard & Poor's Ratings Services believes that its importance from an economic perspective has always been limited. Regional integration of fiscal and customs policies and of financial markets has been progressing independently of the question of monetary union. "In short, the potential benefits from a future monetary union are not a support to the ratings of GCC countries, and thus any threat to its eventual inception will not impact upon the sovereign ratings," Mr. Marchand said. (S&P30.05)

[Back to Table of Contents](#)

## 11.5 Kuwait: Dinar De-pegged

The Oxford Business Group added its view on the Kuwaiti Central Bank's decision to detach the dinar from the US dollar. It feels this move highlighted some of the important policy issues that must be resolved prior to the launch of a common Gulf Co-operation Council (GCC) currency and signaling a growing trend among global central banks to actively manage their currencies.

On May 20, in a move aimed at curbing inflation, the Central Bank of Kuwait announced that it was de-pegging the Kuwaiti dinar from the US dollar for the first time since 2003, tying it instead to a trade-weighted basket of international currencies. The central bank also announced it would revalue the dinar by 0.37% against the dollar. While the composition of the currency basket was not disclosed, a typical assortment would likely consist of the euro, sterling, Swiss franc and the dollar, according to Mazin al-Nahedh, head of the treasury department at the National Bank of Kuwait (NBK). Speaking with OBG, a local banking analyst said that the dollar would still probably comprise the majority of the currency basket with a share of around 70%, although that is expected to be reduced gradually.

Pressure had been growing on the central bank to take action, as the dollar continued its decline on international markets. As the dollar dropped - reaching an all-time low against the euro and a 26-year record low against the pound sterling - so too did the dinar, which pushed up the price of European and Asian imports in the emirate, causing a significant distortion given the heavy import makeup of the economy. The downward trajectory of the US currency pushed inflation up in Kuwait, past 5.15% by the end of the first quarter of 2007. By comparison, it was at only 3% at the end of 2006, although still above the government's 2% target. As a result, the Central Bank spent the greater part of the past two months trying to stem speculation, cutting interest rates, including a 25 point reduction in the repurchase rate, to dampen dinar-based assets.

Speaking to local media, Sheikh Salem Abdulaziz Al-Sabah, governor of the central bank, said that, "The significant drop in the exchange rate of the American dollar against most other major currencies has had a negative impact on the Kuwaiti economy over the past two years."

The drag effect of the dollar is compounded by the concentration of dollars in the Kuwaiti economy. OPEC suppliers throughout the Gulf price their oil production in dollars, which increases the risk of exposure to the US currency's fluctuations. According to Stephen Roach, chief economist of Morgan Stanley, Gulf countries' foreign exchange reserves massively overweight dollars. The region worries increasingly about excessive exposure to a chronically weak dollar scenario as an unavoidable outgrowth of a prolonged US current account adjustment. "While the need for action was evident, the speed of the policy shift caught many off guard. The currency revaluation was expected but dropping the fixed dollar peg came as a surprise to many."

The region is now seething with rumors that other GCC countries may soon follow suit, particularly the United Arab Emirates and Qatar, whose currencies are increasingly under pressure as the dollar continues to adjust lower.

The decision by the Central Bank of Kuwait also highlights a growing trend among global central banks, especially those with large foreign-exchange reserves, to increase their monetary flexibility by diversifying their reserves, which explains why a growing number of countries are shifting towards currency basket pegs.

More importantly, it draws into question the viability of the 2010 deadline for the launch of a common GCC currency. The common currency has been one of the major goals of the GCC to boost inter-regional trade and diversify away from hydrocarbons. Oman was the first to question the proposed 2010 deadline, when it announced that it would be unable to meet the planned benchmarks. However, given the importance of currency pegs in reducing transaction costs and facilitating coordination, Kuwait's move has re-ignited the debate over the viability of a 2010 date.

Sheikh Salem explained that Kuwait remained committed to the common currency, stressing to the local media that, until the completion of all the requirements to achieve the currency union and the launch of the Gulf currency, the Central Bank of Kuwait will adopt the basket system. The reaction of other GCC central bank officials was largely muted, but all emphasized, at least in public, their continued commitment to the monetary union.

It is far too early to assess the fate of the proposed common currency, but Kuwait's recent monetary policy moves have thrown into sharp relief some of the issues that must be faced prior to the launch, including the establishment of a

Customs union and a common market. According to Mohamed A. Ramady, professor of economics at King Fahd University of Petroleum and Chemicals, Kuwait's moves are raising a wider debate amongst GCC members on fundamental questions, including what basket should be used as the common reference peg, whether it should be a wide or narrow band, and the role of national monetary and fiscal policies. (OBG31.05)

[Back to Table of Contents](#)

## 11.6 Qatar: Record Inflation

Qatar's inflation rate has hit a new record high of 15% in Q1/07, with increases in rent, fuel and energy prices being the main cause. The Oxford Business group added that this comes in spite of government confidence that the country had seen the worst of the problem. Meanwhile, Moody's Investors Service annual report on Qatar says the country's investment grade country ceiling and outlook are both categorized as stable. Prior to 2004, inflation in Qatar was 3%, rising to 11.8% in 2006 while excess demand for housing and office space began putting pressure on the construction sector in 2003. Meanwhile, the cost of imports from the EU rose as the value of the Qatari riyal dropped against the euro. An expansionary fiscal policy also stocked inflationary pressures.

Nevertheless, the governor of the central bank, Sheikh Abdullah bin Abdulaziz Al Thani, said he is sure the high rate of inflation in the last two years is a temporary phenomenon. "As we gradually overcome the bottlenecks in the supply side, the rate of inflation will decrease and may drop to 6-7% by the end of 2007," Al Thani told OBG. The government has said that bringing inflation down to a single figure is a priority. However, the index of rent, fuel and energy, which accounts for more than 20% of households' consumption expenditures, has risen by about 35% year-on-year in the first quarter. The index of the group showed a 9.1% jump, compared with the last quarter of 2006. According to government data, the general price level jumped by 3.7% in the first quarter of the year.

The real estate sector is cited as the cause for much of the inflationary pressure. Ahmed al-Shaer, president of ERA Real Estate, told OBG, "I'd put the figure for demand outstripping supply at four to one, and I don't see the price of rents coming down for the high-end units which are targeted at the professional expatriates."

The government is working to ease housing capacity issues, with plans to build new accommodation in an effort to rectify the imbalance and reduce inflation. Barwa Real Estate Company is building 2000 low-rent houses on the outskirts of Doha. The complexes in Msaimeer, south of Doha, and Sailiya in the west are expected to take some of the financial strain off low-income families.

However, feasibility studies carried out by Bawra suggest Qatar will need at least 40,000 housing units to accommodate foreign workers and their families in the future. The economic boom being experienced in Qatar is set to continue and large-scale immigration of foreign workers is needed to fill jobs in the oil and gas industry.

Moody's annual report sets the foreign currency country ceiling for bonds at 'Aa2', based on the foreign currency government bond rating of 'Aa3' and its assessment of a minimal risk of a payments moratorium. However, assistant vice-president of Moody's, Kenneth Orchard, author of the report, said there are factors holding Qatar back. "Qatar's

political, administrative and legal institutions are weaker than those of most other 'Aa-' or 'Aaa'-rated countries, and the poor quality, scope and timeliness of official data act as an impediment to economic analysis," said Orchard. He also identified regional geopolitical instability as a potential problem. Since the economy is highly reliant on hydrocarbon production and exports, it is exposed to potential swings in international energy prices, although the fiscal and external current accounts are less sensitive to a downturn in energy prices than those of other hydrocarbon-exporting countries, he said. (OBG08.06)

[Back to Table of Contents](#)

## 11.7 Qatar: Regulatory Standards

In its quest to diversify Qatar's economy, the government continues to introduce international regulatory standards for its financial services sector in order to attract foreign investors and move away from its dependence on oil and gas revenues. In the last week of May, it was announced that the local stock exchange, the central bank and the QFC would come under the authority of a single regulatory body, which the government hopes to have established by 2009, said Phillip Thorpe, chairman and CEO of the Qatar Financial Centre Regulatory Authority.

As reported by the Oxford Business Group, Thorpe told the press that companies have a choice where they base their headquarters in the region. "Having a single regulator simplifies things and makes Qatar more attractive for foreign investment," he said. He also said that with international standards of regulation, it might be easier for domestic companies to be accepted abroad. The new agency will introduce regulations for the insurance industry, private banking and asset management, which are limited now, according to Thorpe.

The as-yet-unnamed regulator is intended to improve the quality of company financial disclosures and accounting standards as well as tighten listing requirements, said Thorpe. In addition to this, good corporate governance, accountability and transparency have been identified as important building blocks for the country's development.

Yousuf Kamal, the minister of finance, told OBG, "We need the highest practices and standards for doing business. We are upgrading our laws and systems for this purpose. The most important thing for us is transparency."

With this in mind, Qatar Central Bank has focused on structuring departments, separating management responsibilities and clarifying their duties and responsibilities to build a banking sector based on these principles.

The government is undertaking other reforms designed to develop both the financial sector and capital market such as the creation of the Qatar Financial Centre (QFC), which was established in Doha in May 2005. It was set up to provide a regulatory environment for international financial services companies, which operates according to international standards. Businesses participating in the centre are entitled to 100% ownership and full repatriation of profits. Foreign companies outside the QFC must have majority local partners. Companies in the QFC receive a three-year tax holiday, after which a corporate tax rate of 10% applies.

Further reforms in 2006 led to significant changes in the capital market, with the Doha Securities Market creating a regulatory agency called the Qatar Financial Market Authority. The government says the organization is intended to be an impartial body that contributes to the development of a sound financial system that will contribute to Qatar's attractiveness for investors.

Qatar also recently announced it is looking to reduce its economic dependence on energy revenues to zero by 2020 as it moves to diversify its economy away from oil and gas production. Kamal said that by 2015, the country would like to see its reliance on the energy sector to 25%. In 2006, hydrocarbons accounted for 62% of the country's GDP. He said this could be achieved through encouraging investments in other areas and building a knowledge-based economy. This is in line with the government's decision to earmark \$130bn to develop infrastructure and other revenue-generating sectors of the economy.

In order for the country to realize its full potential, Kamal said Qatar must also reduce inflation and lower corporate taxes to improve the investment climate. Qatar's overall inflation touched an all-time high of 11.83% in 2006, mostly as a result of skyrocketing rents and their effect on the prices of commodities and services. The government has introduced legislation that will slash corporate taxes from the current 35% to 12%. The annual average growth rate for the country is set at 13% for the next six years and then it is expected to fall to 6%. The government hopes that in cutting corporate taxes, it can maintain a rate of 9%. (OBG01.06)

[Back to Table of Contents](#)

## 11.8 Oman: New Industry Entering Port

Oman is looking to further strengthen its links with the sea and maritime trade, seeking to position itself as the region's leading ship repair centre through the construction of a massive new dry dock and maintenance facility. Positioned as it is on the Gulf of Oman, with the Strait of Hormuz and the Arabian Sea at its north-eastern end, and with its long coastline running south along the Arabian Sea, Oman sits astride some of the busiest waterways in the world. The sultanate has already poured billions of dollars into developing the ports of Muscat, Sohar and Salahah to boost their cargo handling capacity. It is now investing to make Oman the port of choice for vessels in need of repair or overhaul.

On June 2, as observed by the Oxford Business Group, the state formally opened bids for the construction of a major dry dock and ship repair facility at Duqm on the coast of the Arabian Sea. When completed in 2010, the repair and maintenance facility will be one of the largest in the region, covering a total area of 1.163m sq meters.

The \$260m development will include two dry docks, both 410 meters in length, with one being 95 meters wide and the other 80 meters. They will be able to service most of the world's largest vessels, including the Ultra-Large Crude Carriers, which can come in at 600,000 deadweight-tons (DWT). The infrastructure of the dock will include 2.8 km of quays, a cofferdam, crane foundations and other facilities. The contract includes the construction of 36 buildings, with workshops, an administrative complex and accommodation for workers. Though not included in the present tender, the facility is expected to have a floating dry dock, which will be able to cater to ships of up to 100,000 tons. Further tenders are expected to call for the building of the dry docks' gates and to provide cranes, machinery, service towers and other equipment.

In late September, Oman awarded the contract to oversee the construction of the facility to Daewoo Shipbuilding and Marine Engineering Company of South Korea. As part of the agreement, Daewoo will also manage and operate the repair docks for a ten-year period after its completion, on behalf of a newly formed state enterprise, the Oman Dry Dock Company. At the time the contract was signed, Ahmed bin Abdul Nabi Macki, Oman's minister of finance and national economy, said that the dry dock facility was one of the major strategic initiatives being undertaken by the government to develop new sources of revenue and employment for the country and diversify the economy. While the initial focus of the yard is repair and maintenance work, Omani officials have said that future expansion of the facility could see shipbuilding being carried out at Duqm.

The repair yard is part of a much bigger development at Duqm. In early April, a consortium of the Omani firm Consolidated Contractors Company and Turkey's Sezai Turkes-Feyzi Akkaya (STFA) won a \$480m contract to do the groundwork for the first stage of the new port. Working with the Belgian dredging company Jan De Nul, the consortium will construct five kilometers of breakwaters, more than one kilometer of quays and deepen the harbor and approach channels to at least 16 m. The second phase of the project, for which tenders have yet to be called, will cover the construction of the port's land-based facilities and supporting infrastructure.

The port of Duqm is being designed to serve a new industrial hub that is being developed in the region, part of the government's drive to increase investment and employment opportunities across the country and spread the base of the economy away from the traditional centre around Muscat. One proposal currently being considered is a refining and petrochemical complex, with Oman Polypropylene having already completed a feasibility study for the project.

There are already other repair yards in the region, notably those in Dubai and Bahrain. However, apart from being the most modern, the Duqm facility will also offer the advantage of being just outside the Gulf, meaning ship owners will not have to pay the substantial fees to enter those busy waters. Duqm will also be positioned to attract the wider Indian Ocean trade, an important consideration as shipping in the region increases. (OBG05.06)

[Back to Table of Contents](#)

## 11.9 Egypt: Tourism Balancing Act

Egypt's tourist figures reached record numbers in 2006 but many in the industry believe the country is still not fulfilling its true potential as a travel destination. While the government has plans for even higher numbers, the Oxford Business Group reported that travel agents believe the right balance has to be struck between mass leisure tourism and the more lucrative luxury and business travel segments.

Last year Egypt attracted 9.1 million foreign visitors. Tourism Minister Zoheir Garannah told OBG, "We have generated 89 million room nights, a 4.8% increase, which makes an average stay per visitor of 9.83 nights - generating an income of \$7.6 billion. We have a target for 2011 to reach 14 million visitors. We currently have 183,000 rooms and over 130,000 more rooms in the pipeline." These numbers are mainly founded upon the increasing popularity of Egypt's beachside resorts, especially on the Red Sea and the Sinai Peninsula.

Mounir Kamal, managing director for Egypt and the Middle East for the UK-based travel agency Thomas Cook, remembered when things were different. He told OBG, "Thomas Cook used to focus primarily on cultural tourism to Egypt's unique heritage spots such as Luxor, Aswan and the desert. We used to offer beach stops to Sharm el-Sheik as optional add-ons for our customers. Now leisure tourism is our primary source of customers to Egypt."

However, Kamal said he is worried about the long-term affects of the 'numbers game'. "Some people arrive in Sharm el-Sheik and they don't even realize they are in Egypt," he said. "The emphasis on dropping prices to attract higher numbers of tourists risks making Egypt a budget destination. The focus should be on increasing the expenditure of tourists during their stay," said Kamal.

Amr Badr, managing director for Egypt and the Middle East for US-based luxury tour operator Abercrombie and Kent, said he agrees. He told OBG that Egypt was capable of meeting the demand of one million additional tourists every year and that he believes such growth can create 200,000 Egyptian jobs annually as long as infrastructure, especially the road system, is improved in tandem with the growth. However, he said he believes the strategy should override the object in that encouraging higher tourist spending and protecting the environment should not be sacrificed to meet preordained targets.

Badr said his company focuses on high yield and low impact tourism and pointed out the need to market the country as a multiple-site destination. The branding of Egypt is an important goal, he said. "We need to create awareness not just of the Red Sea and Sinai but of Cairo, the Mediterranean, the Nile, Siwa Oasis and the Western Desert."

Another strong area of potential growth is in the Meetings Incentives Conferences and Exhibitions segment (MICE). As more companies move their central offices to Egypt, Kamal said opportunities for package MICE trips to destinations such as Sharm el-Sheik will increase. Just last month, a popular resort on the tip of the Sinai Peninsula hosted an international conference on Iraq and the wedding of President Hosni Mubarak's son, Gamal. Such events are highly sensitive to security issues, however, and the Thomas Cook Company reported a significant drop in MICE events in the first three months of 2006. This is believed to be a result of terror attacks in the preceding years.

The Ministry of Tourism acknowledges the importance of offering diverse destinations but was quick to point out that leisure tourism will remain in the forefront. Garannah told OBG, "Cultural tourism has a very specific clientele and those visiting our historical and cultural sights number about two million. This makes up 18% of the 9 million total visitors. We need to preserve our culture and heritage; it can not be a mass business." (OBG01.06)

[Back to Table of Contents](#)

## 11.10 Measuring Turkey's Investment Desirability

The Turkish Daily News began a monthly index with exclusive analysis on Turkey in partnership with Eurasia Group. The Global Political Risk Index (GPRI), produced and developed by the New York-based Eurasia Group, is the first comparative index designed to measure stability in emerging markets. Accompanied by a unique and thorough comparative and international political analysis, the index is scored monthly and considers 20 indicators in four equally weighted categories: government, society, security, and economy aggregated into a single rating. Countries are ranked according to their capacity to withstand shocks and crises and to avoid generating crisis on a scale from zero to 100. The composite stability ratings are broken into categories: Maximum Stability (80-100), High Stability (60-80), Moderate Stability (40-60), Low Stability (20-40) and Failed State Stability (0-20).

## June 2007 Global Political Risk Index

The June index highlights several significant political developments with the key information found in the government variables. Shifts in the Global Political Risk Index (GPRI) government indicators can help identify potential policy paralysis. The case of Turkey illustrates the multi-dimensional impact of political risk. According to Eurasia Group analyst Wolfango Piccoli, "the outlook for a continued Justice and Development Party (AKP) majority government is uncertain. The approaching snap election could result in a fragmented, multi-party legislature and a difficult cabinet building process."

Exacerbating the AKP's troubles, opposition parties have taken steps toward consolidation that increase the probability of a fractious electoral outcome. Fragmented governments commonly result in larger budget deficits and reduced macroeconomic stability. Thus, this foreshadows potential problems for Turkey's political environment and budget deficit, as well as for monetary and economic reform policies. The falling government score hints at future budget problems. The political fight that precipitated this election was over the parliament's selection of a president, in which intrusion by the army, a boycott by the opposition of the parliamentary vote and a questionable supreme court ruling that invalidated the ruling AKP's selection of its own Deputy Prime Minister and Foreign Minister Abdullah Gul as the candidate for president. Together these actions raise concerns about the equal and systematic application of the law and the supremacy of civilian government.

In the near term, the AKP may indeed weather this storm and prevail in the July 22 election, but the potential for three or more parties winning parliamentary representation but no single party winning a clear majority is high enough to warrant close monitoring of the campaign. Risks in these political and economic areas could emerge if the election returns a disparate multi-party outcome, forcing investors to question the future of the progress the AKP has. As a result of these developments, Turkey's aggregate government stability rating dropped significantly in the June index from 74 to 67. (TDN11.06)

[Back to Table of Contents](#)

### 11.11 Turkey: Food for Thought

Morgan Stanley's Serhan Cevik observed that in Turkey, consumer price inflation eased from 10.7% in April to 9.2% last month. "You never know for sure what you would get, especially when it comes to monthly inflation readings in the midst of numerous shocks and uncertainties. After a disappointing start this year, consumer price inflation has lately moved into an encouraging downward trend, easing from 10.9% at the end of the first quarter to 10.7% in April and 9.2% last month. Indeed, the most recent reading &mdash; a month-on-month increase of 0.5% &mdash; was much better than

our own estimate of 1% and the consensus forecast of 0.8%. But let's not get overexcited and look beyond the headline figure. Even though we still expect further correction in inflation dynamics in the coming months &mdash; thanks to favorable base effects, the lira's continuing strength and the lagged effect of monetary tightening &mdash; the path towards price stability is full of challenges and likely to take a long time to complete. In fact, consumer price inflation is still running at a rate that is more than twice as much as the central bank's target, and the major factor behind last month's better-than-expected reading was a marked drop in food prices.

Inflation in unprocessed food prices declined from 16.6% in April to 11.1% in May. Unprocessed food prices have long been an obstacle in front of Turkey's disinflation efforts, as annual inflation increased from an average of 2.9% in 2005 to 21.8% last summer, due largely to supply-side disturbances affecting fresh fruit and vegetable prices. Unfortunately, the correction towards 10% in the second half of the year turned out to be unsustainable, and unprocessed food prices recorded a year-on-year increase of 20.7% at the beginning of this year. In our view, such a high degree of volatility in fresh fruit and vegetable prices reflects a number of curious factors, like meteorological anomalies throughout Europe (if not the whole world) and the 'rounding up' effect of price adjustments on low-cost items. Of course, volatility comes on the downside as well as on the upside. After a wave of inflation pressures in the first four months, the early arrival of summer products lowered unprocessed food prices by 3.5% and thereby the food component by 1.7% last month. However, it is still too early to declare victory over food price inflation for three key reasons: (1) fresh fruit and vegetable prices are increasing at the fastest rates in years; (2) low rainfall and high temperatures may lead to volatility in production and prices; and (3) regulatory changes affecting the distribution of fruit and vegetables may result in higher prices, despite tax cuts.

Core measures of inflation remain problematic, albeit showing a few signs of improvement. The deceleration in inflation is not just about food prices, as a number of other categories (such as entertainment, healthcare and even housing) showed lower readings. Nevertheless, the consumer price index excluding unprocessed food still posted a monthly increase of 1.2%, lowering the annual inflation rate from 9.8% in April to 8.9% last month. Therefore, beyond base effects, there is still no significant correction in domestic prices. This is a curious phenomenon, given the lira's strength and a far-reaching retrenchment in consumer spending. In addition to a wider spectrum of seasonal price variations and the asymmetric exchange rate pass-through effect, there could be external factors (like higher production costs in China) affecting domestic prices in sectors like clothing. However, we believe that the main reason for inflation inertia - not just in services but also in tradable goods &mdash; is a 'just in case' mark-up reflecting a higher exchange rate assumption. Indeed, such pricing behavior could explain the disconnect between economic conditions and expected as well as actual inflation.

Inflation will keep declining in the coming months, but it is still too early for monetary easing. According to our estimates, consumer price inflation will ease below 8% this summer and around 6.5% by the end of the year. However, there are still a number of risks: the volatility in food prices, higher energy quotes and political and global uncertainties that could weaken the exchange rate. Therefore, we expect the central bank to remain on hold until there is an unambiguous disinflation trend towards its target over the medium term and to lower short-term interest rates by no more than 100bp this year &mdash; less than the 150bp implied by bond prices." (MS06.06)

[Back to Table of Contents](#)

- Israeli Shekel conversions done at a rate of NIS 4.10 = \$1.00
- Turkish Lira conversions done at a rate of NTL 1.5 = \$1.00
- Cypriot Pound conversions done at a rate of C£ 1.00 = \$1.60
- Jordanian Dinar conversions done at a rate of JD 1.00 = \$1.41

- UAE Dirham conversions done at a rate of Dh 3.66 = \$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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