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Iraq Economic and Investment Outlook: One Year After Liberation

By Tim Kennedy

A year ago, coalition forces working under the leadership of the Coalition Provisional Authority (CPA) began the difficult task of rebuilding the Iraqi economy. Many believed that this mission would be far more daunting than the just-completed military invasion that toppled the repressive regime of Saddam Hussein.

Twelve months later, what has the CPA accomplished? What else needs to be done? Have enough legal reforms and incentives been implemented to make it easier to do business in Iraq? Are the Iraqi people economically better off today than they were a year ago? If they are, will Iraqis continue to see improvements in the economy after the CPA hands over control to a new government on June 30?

An Economy Devastated By War, Sanctions and Corruption

When Baghdad fell to U.S. forces in March 2003, nearly three decades of war, corruption and international sanctions during Hussein's authoritarian reign had devastated key sectors of the economy (oil and agriculture), degraded the national infrastructure (communications, electricity, ports, airports, railroads, water, and sanitation systems) and marginalized social services (healthcare, education) that had previously been the envy of the Arab world.

Saddam's repressive economic policies had also isolated Iraq internationally and placed the country's considerable wealth – largely derived from its oil industry – in the hands of political cronies while forcing the majority of Iraqis to suffer widespread poverty.

At the time of the invasion, Iraq had a \$125 billion debt, its two commercial banks and dozen or so private banks were undercapitalized and poorly managed, and taxes were disproportionately high and randomly applied. During the year leading up to the war, rampant inflation had caused consumer prices to nearly double.

Though moneyed Iraqis were always able to buy cars and household goods, Iraq was the scene of a post-invasion buying frenzy by Iraq's 24.6 million consumers, who by some estimates are largely (97 percent) under the age of 65, with nearly half (47 percent) under the age of 14.



Alsabah Construction worker repairing a school in Basra.

Photo Courtesy of Bechtel National, Inc.

"In March 2003, we found streets overflowing with high-ticket items: satellites dishes, televisions, refrigerators, and other goods like that," says Richard Greco, who worked at the CPA in Baghdad and now serves as its Director of Private Sector Development in Washington. "People had what we call 'mattress money' – money that they had saved through the years."

"But the economy was a dichotomy," Greco adds. "On one hand it was an economy that showed a robust consumer demand. Yet, on the other hand, it was in need of vast investment."

Greco says one of the CPA's first priorities was reform of the country's hopelessly dysfunctional banking and financial services sectors, a challenge made all the harder by Iraq's two competing currencies, the Saddam dinar and the old Swiss-made dinar.

From October 15, 2003 to January 15, 2004, the CPA introduced a new, fully convertible dinar, a move praised by many Western economists as one

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NUSACC President David Hamod

The Power of Commerce

This issue of *Tradeline*, in many respects, is a study in contrasts. On the one hand, we look at Iraq which, one year after liberation, has not met expectations. Iraq is a large and potentially lucrative market, but it's safe to say that events there have not gone according to plan.

On the other hand, we look at the burst of activity surrounding Trade and Investment Framework Agreements (TIFAs) and Free Trade Agreements (FTAs) in the Arab world. These negotiations have surpassed all expectations, and we need a veritable scorecard (see page 7) to keep up with developments from month to month.

Is this a David and Goliath story, or what?

Our "Goliath," the U.S. Department of Defense (DOD), is still battling to restore order and bring about peace in Iraq one year after liberation. Congress has approved nearly \$120 billion for the war and reconstruction efforts so far, and there is no end in sight.

By contrast, the relatively tiny Office of the U.S. Trade Representative (USTR) is aggressively and successfully pursuing President Bush's vision of a Middle East Free Trade Area (MEFTA) by 2013. Assistant USTR Catherine Novelli, who oversees most directly the TIFA and FTA negotiations for our part of the world, has a staff of only three professionals who handle the Middle East and North Africa.

Needless to say, DOD is only partially responsible for what is happening in Iraq, and USTR draws heavily on other U.S. Government agencies and the private sector in its FTA-related work.

Equally obvious is the fact that it is not fair to compare the work of these two government entities. One is heavily dependent on troops and materiel to defend the United States, to reduce the threat of weapons of mass destruction, and to engage in nation-building in Iraq. The other entity negotiates America's trade policies and serves as a "watchdog" to help U.S. companies compete around the world on a level playing field.

But this study in contrasts does harken back to the age-old debate about the carrot and the stick. Under these circumstances, the "carrot" of open markets, greater transparency, job creation, and a higher quality of life is clearly winning the debate hands down.

Morocco will sign its FTA very soon, and Bahrain has successfully concluded its FTA negotiations. Both nations have made sacrifices to reach these agreements, and both have good reason to celebrate these historic achievements.

Now comes the hard part.

In these two nations, and throughout the Arab world, expectations are growing rapidly for the post-FTA period. Governments have been making the case for FTAs for months, and private sector leaders in the region are now responding. Sometimes nervously. Sometimes with gusto. Always with an eye to understanding how the FTA will help to put bread on the table.

In the end, it all boils down to managing expectations. When I was in the region last month, I asked a taxi driver for his opinions on the proposed FTA. He said he couldn't wait for the FTA to go into effect because this would finally be an opportunity to get rich quick! He is a good candidate for expectation management, obviously, but his views are not out of the ordinary.

At a time when U.S. foreign policy is taking a beating in the Middle East, the FTA talks have been remarkably successful. Arab nations have been quick to climb on board the "TIFA train" lest they be left behind at the station. USTR has been a relentless locomotive in this process, and NUSACC tips its hat to Ambassador Zoellick, Ms. Novelli, and their indefatigable staff.

David Hamod
 President

NUSACC Helps to Launch Women's Network in Iraq

On International Women's Day (March 8), at a special ceremony in The Treaty Room at the State Department, NUSACC participated in launching the U.S.-Iraq Women's Network. Modeled after the U.S.-Afghan Women's Council, the new Network is designed to bring together American and Iraqi women leaders in the business and non-governmental (NGO) communities to form public-private partnerships for the benefit of women in civil society.

NUSACC has been working in recent months with Ms. Charlie Ponticelli, the State Department's Senior Coordinator for International Women's Issues, whose office played an instrumental role in the successful launch. "Charlie and her staff are doing a great job," said NUSACC President David Hamod, "and we are pleased to support their efforts."

Secretary of State Colin Powell helped to launch the event, but H.E. Nesreen Berwari, Iraq's Minister of Municipalities & Public Works, stole the show. She oversees more than 40,000 staff members who manage 100,000 properties, she told the crowd, and half of her top management positions are held by women. "Before [liberation on]



Photo Courtesy of NUSACC

Secretary of State Colin Powell shares a laugh with David Hamod, NUSACC's President.

April 9, 2003," she said, "we were not allowed to dream. We could not imagine life with the kinds of positive challenges that we face today."

"The first year... has been very short and fast," she noted. "For Iraqi women, we anticipate the years ahead to be longer. But the road ahead will be neither as long nor as difficult as the seemingly endless road we were on before April 9, 2003." ♦

Algerian National Ballet Helps Earthquake Victims

NUSACC Members Donate \$10,000

The Algerian National Ballet has given performances in more than 50 countries around the world, but it has never toured the United States. Until this year, that is.

Under the auspices of the Embassy of Algeria and the Ministry of Communication and Culture, the National Ballet performed in March in Washington, New York, Houston, and San Francisco.

The response, said H.E. Idriss Jazairy, Algeria's Ambassador to the United States, "was extraordinary, well beyond our expectations." He described it as a "double bonding experience," one that helped to build bridges between Algerians and Americans, but also among Algerians living in the United States.

The purpose of the tour was to raise funds to benefit the survivors of last year's devastating earthquake, which affected hundreds of thousands of Algerians, many of whom are still homeless or in need of health care.

The tour brought in around \$200,000, not including services-in-kind. Coupled with the \$800,000 that was raised previously from U.S. companies and individuals, the Embassy of Algeria has raised approximately \$1 million in the past year for this important humanitarian cause.

NUSACC, through the generosity of its members, was pleased to contribute \$10,000 toward this effort. Donors

included Calpine Corporation, Motorola, Lockheed Martin, Security Storage, U.S. Energy Association & International LNG Alliance, ChevronTexaco, NUSACC, and a number of individuals.

Noted Ambassador Jazairy, "I would like to thank the National U.S.-Arab Chamber of Commerce for providing outstanding support for the ballet's USA tour. In addition to raising funds from your members, you advanced people-to-people relations between the United States and Algeria by inviting 50 youths from the Greater Washington Boys and Girls Clubs to attend the performance. For me, sharing the excitement and enthusiasm of these young people was one of the highlights of the entire tour."

Proceeds from the ballet tour will be used to construct a hospital in Dergana, situated in Bordj El Kiffan, one of the

regions most heavily affected by the earthquake. The capital costs of the project will exceed \$1 million, so the funds raised in the USA will make a significant difference. And donations are still coming in. Constituents of Congressman Joseph Pitts (R-PA) recently donated five dialysis machines to the cause.

Ambassador Jazairy, in a moving speech to the audience in Washington, expressed his heartfelt appreciation this way: "This invitation is delivered to

you in a language that is both

inclusive and universal: the language of Art. And the language of Music, which is so different from the exclusive contrivances of vocabulary and syntax. Our earnest hope is that this will be only the beginning of a lasting dialogue between the people of the United States and the people of Algeria." ♦



Photo Courtesy of Embassy of Algeria

Ambassador Jazairy meets with members of Boys and Girls Clubs.



Photo Courtesy of Embassy of Algeria

US-Arab Tradeline

Design

Rick Clark Illustration & Design



Of the nearly 1,000 business leaders who participated in the event, more than half were Iraqis.

Between Iraqi business leaders and their Arab counterparts, no fewer than 100 deals took place.

NUSACC Co-sponsors Iraq Reconstruction Conference

"Alliance" Conference in Bahrain draws more than 500 Iraqis

Conferences on the reconstruction of Iraq seem to come and go every week, but NUSACC was pleased to help sponsor a regional conference in Bahrain recently that was different from all the rest.

For one thing, of the nearly 1,000 business leaders who participated in the event, more than half were Iraqis.

On March 20 – 22, the "Iraqi-Arab Alliance Conference for Reconstruction, Trade and Investment" was held at the Gulf Hotel in Bahrain. Sponsors included the Bahrain Chamber of Commerce and Industry, the Council of Saudi Chambers of Commerce and Industry, the Federation of Iraqi Chambers of Commerce, the Arab-British Chamber of Commerce, and the National U.S.-Arab Chamber of Commerce.

The conference took place under the patronage of H.H. Sheikh Khalifa bin Salman Al Khalifa, the Prime Minister of Bahrain. William H. Lash III, Assistant Secretary of Commerce for Market Access and Compliance, was the top U.S. Government official to speak.

According to Nizar Zaitoun, Managing Partner of ExiCon, which organized the event, the conference met its goal of strengthening the alliance between Iraqi business leaders and their Arab counterparts. "No fewer than 100 deals took place," he said recently, "and the conference contributed significantly to the reconstruction process by helping to identify needs for commercial goods and services in Iraq."

Of the nine panel discussions held at the conference, all but two were overseen by Iraqi ministers. One was moderated by Dr. Fahad Al-Sultan, Secretary General of the Saudi Chambers of Commerce, who concentrated on the role of chambers of commerce in supporting reconstruction contracts. The other was



Attendees of Alliance Conference.

Photo Courtesy of International Foto Services

overseen by David Hamod, NUSACC's President, whose panel focused on the role that Western chambers of commerce could play in promoting joint ventures in the region.

In leading the panel discussion on Western chambers of commerce, Hamod observed that the "get-rich-quick gold rush" in Iraq, if there ever was one, is over. He encouraged companies to base their business development efforts in Iraq on "cost/benefit analyses, comparative risk assessments, and the hard-nosed realities of Iraq as a market." American businesses, he said, are fully supportive of Iraq's efforts to "adhere to the rule of law and to create key institutions that will both promote and protect foreign investment."

In describing some of the benefits that the National U.S.-Arab Chamber of Commerce offers to its members, Hamod touted NUSACC's strategic positioning in Washington, its close relationship with U.S. policymakers and the American business community, its high level of expertise and ability to identify reputable U.S. partners, and the Chamber's role as a "facilitator" for business in the broadest sense. NUSACC's bottom line, he said, is the same as any business: "Location, location, location."

Dr. Walid Al-Turk, Vice Chairman of JABA, the American Chamber of Commerce in Jordan, also participated in the panel discussion on Western chambers of commerce. He noted that JABA has been a "logical stepping stone and gateway to Iraq because it offers great benefits in terms of geographical location and proximity to Iraq, modern investment laws, advanced banking, communication and infrastructure systems, IP laws, political stability, democracy, the Jordan-U.S. Free Trade Agreement (FTA), Qualified Industrial Zones (QIZs), economic zones, and inter-Arab and European agreements."

While conferences on Iraq may be a dime a dozen, this one seemed to stand out. As one American businessman quipped, "I've met more Iraqi business representatives here in two days than I've met in the past year in Baghdad." ♦



Mohammed Al Kazzaz, Chairman, Baghdad Chamber of Commerce greets NUSACC President David Hamod.

Photo Courtesy of International Foto Services

Bahrain Concludes FTA Negotiations

NUSACC Congratulates U.S. & Bahraini Negotiators

Bahrain has become the first nation in the Arabian Gulf to conclude its Free Trade Agreement (FTA) negotiations with the United States. On May 27, U.S. Trade Representative Robert Zoellick and H.E. Abdulla Hassan Saif, Bahrain's Minister of Finance and National Economy, jointly announced this development in Washington, D.C. NUSACC's President, David Hamod, attended the announcement at the Office of the U.S. Trade Representative.

This is a "groundbreaking free trade agreement that will benefit both our peoples," said Zoellick, one that is "about more than opening trade with a friend and ally in the Persian Gulf. Bahrain's leaders, including Minister Saif, are reformers in a region searching for the fresh winds of new ideas, and the U.S.-Bahrain FTA is a pacesetter."

Bahrain's FTA negotiations were concluded in record time, the fastest of any nation to date. USTR announced the initiation of Free Trade talks with Bahrain in August 2003, negotiations began in January 2004, and the discussions were completed on May 27, 2004.

Zoellick complimented the Bahrainis on their determination. "In March, when I announced the creation of a Congressional coalition in support of the Bahrain free trade talks," he noted, "I said at the time that I thought that schedule was ambitious. Well, as it turned out, the schedule was ambitious, but Bahrain was even more ambitious."

Under the agreement, Bahrain will open its services market wider than any previous FTA partner. When the pact enters into force, 100 percent of consumer and industrial goods and 81 percent of U.S. agricultural exports will be duty-free.

Minister Saif said the FTA will "provide essential tools and will fortify our two nations' political, economic, cultural, and strategic partnership." The agreement "is reason for both countries to celebrate our friendship, which has entered a century," he noted.



Photo by Christopher Ross

Minister Saif and Ambassador Al-Khalifa discuss FTA developments with the media.

NUSACC, along with the Business Council for International Understanding (BCIU) and the National Foreign Trade Council (NFTC), helps to make up the Secretariat of the U.S.-Bahrain Free Trade Agreement Coalition, which has nearly 60 U.S. member companies and associations. In a statement released on May 27, the Coalition said the new agreement will "increase economic opportunity in both countries, eliminate key trade barriers, and set a new standard for future high-level trade agreements throughout the region."

H.E. Khalifa Ali Al-Khalifa, Bahrain's Ambassador to the United States, expressed his appreciation to NUSACC, and the Coalition, for its steadfast support. He noted, "I am grateful to all our friends in the United States, whose uncompromising support has made this agreement possible. This is truly the highlight of my ambassadorship in Washington."

NUSACC wishes to congratulate the U.S. and Bahraini negotiators, who have worked tirelessly to bring about this agreement. Special thanks is due to Ambassador Zoellick & Assistant USTR Catherine Novelli and their team, Minister Saif and his team, the U.S. Embassy in Bahrain, and Bahraini Ambassador Khalifa Ali Al-Khalifa and his team, including Economic Representative Dr. Naser Al Belooshi. NUSACC is also grateful for the strong support provided by the U.S.-Bahrain FTA Congressional Caucus, led by Congressmen Paul Ryan (R-WI) and Jim Turner (D-TX).

The last word goes to Ambassador Robert Zoellick. At the May 27 announcement, he said that Bahrain has earned a great deal of respect "as a moderate Arab state that is a beacon of economic, political and social reform in the Middle East, as a nation that is firmly determined to make a new future for itself in the post-oil economy of the 21st Century, and as an emerging hub of finance and distribution in the Persian Gulf region." ♦

"Bahrain's leaders, including Minister Saif, are reformers in a region searching for the fresh winds of new ideas."

Ambassador Robert Zoellick

When the pact enters into force, 100 percent of consumer and industrial goods and 81 percent of U.S. agricultural exports will be duty-free.



Photo Courtesy of Embassy of Bahrain

Ambassador Zoellick and Minister Saif announce conclusion of FTA talks.



Morocco to Sign Trade Agreement in June NUSACC Participates in California "Road Show"

"Morocco is a good friend of the United States," Zoellick noted, "and this FTA sends a powerful signal that the United States is firmly committed to supporting tolerant, open and more prosperous Muslim societies."

According to U.S. Government officials in Washington, Morocco is on track to sign a Free Trade Agreement (FTA) with the United States in the first half of June. The two nations concluded FTA discussions in early March, which initiated the "90-day clock" that leads up to the signing ceremony in June. NUSACC has been actively involved in supporting these talks as part of the U.S.-Morocco FTA Coalition, which is encouraging adoption of the FTA on behalf of America's private sector.

When U.S. and Moroccan leaders ink the deal, Morocco will become the second nation in the Arab world, following Jordan, to sign an FTA with the United States.

In announcing the breakthrough on March 2, Ambassador Robert Zoellick, U.S. Trade Representative (USTR), stated, "It's a ground-breaking FTA that not only slashes tariffs, but sets a new high standard for the protection of intellectual property rights, opens markets for services, ensures government transparency, and provides effective labor and environmental enforcement."

On April 13, at the suggestion of Time Warner, co-chair of the U.S.-Morocco FTA Coalition, NUSACC helped to coordinate a "Morocco road show" to Los Angeles. NUSACC and the Los Angeles World Affairs Council co-hosted a dinner at the Loews Santa Monica Beach Hotel that was attended by more than 100 business and community leaders. The featured speaker was H.E. Aziz Mekouar, Morocco's Ambassador to the United States, who spoke about "Islam, Democracy and Economic Reform in Morocco: Escaping the Shadows of Terrorism." Catherine Novelli, Assistant U.S. Trade Representative for Europe and the Mediterranean, was a VIP guest at the dinner.

Laura Lane, Time Warner's Vice President for Public Policy, described the dinner as a "great opportunity to talk with the Los Angeles-based trade community about how the Morocco Free Trade Agreement will create new economic opportunities for California companies. The dinner, under NUSACC's able leadership, was the perfect ending for a very productive day."

That same day, NUSACC participated in a luncheon, organized by the Motion Picture Association, that brought



Curtis Mack, President of LA World Affairs Council (right), chats with Ambassador Mekouar and David Hamod.

Photo Courtesy of LA World Affairs Council

together half a dozen entertainment companies that have been filming in Morocco. Warner Brothers Entertainment, the Walt Disney Company, Sony, Twentieth Century Fox, MGM, and Universal Studios had rave reviews about their experiences in Morocco.

Novelli, Mekouar, and their respective staff members also had an opportunity to tour the Warner Brothers studio, a venerable institution in Hollywood that has been the filming site for dozens of classics, including "Casablanca." The tour for the VIPs from Washington included a stop at the set of "E.R.," one of television's most popular programs, where the cast was shooting footage for programs to be aired in coming weeks.

NUSACC's President, David Hamod, described the visit to Warner Brothers as a "rare opportunity to meet the stars and get a first-hand look at an institution that is steeped deeply in tradition."

This was the second "road show" arranged by the U.S.-Morocco FTA Coalition. In July 2003, CMS Energy, the Coalition's other co-chair, oversaw a visit to Michigan by Mekouar and Novelli. According to George Pickart, Director of Federal and International Affairs, CMS is currently laying groundwork to help organize a series of seminars this fall to promote bilateral trade & investment in automotive, agricultural, and electronic sectors.

According to USTR, U.S. products entering Morocco currently face an average tariff of more than 20 percent, while Moroccan products are only subject to an average of four percent duty in the United States. Under the new FTA, more than 95 percent of bilateral trade in consumer and industrial products will become duty-free as soon as the FTA is entered into force, and the remaining tariffs will be eliminated within nine years.

In announcing the wrap-up of FTA talks with Morocco, Ambassador Zoellick concluded, "Our agreement with Morocco is not just a single announcement, but a vital step in creating a mosaic of U.S. Free Trade Agreements across the Middle East and North Africa." ♦



Washington VIPs, including Catherine Novelli and Ambassador Mekouar, tour the set of "E.R."

Photo Courtesy of Warner Brothers

QATAR Signs TIFA Agreement NUSACC Co-Hosts High-Level Economic Luncheon

On March 19, Sheikh Mohammed Bin Ahmed Al Thani, Qatar's Minister of Economy and Commerce, signed a Trade and Investment Framework Agreement (TIFA) with the United States.

Twenty-four hours earlier, he was speaking to more than 80 American business leaders at a luncheon organized by NUSACC and the U.S.-Qatar Business Council in cooperation with the Embassy of Qatar.

"We are reinvesting Qatar's annual GDP into the economy because we want Qatar to offer the most competitive business climate in the Middle East," Minister Al Thani told luncheon attendees. Qatar is proud of the progress that it has made, he said, "and we plan to double our GDP in four to six years."

Given the extraordinary growth that the Gulf emirate is experiencing in energy development, Qatar may just pull it off. (See related story on LNG 14 on page 11.)

Catherine Novelli, Assistant U.S. Trade Representative for Europe and the Mediterranean, who oversees the TIFA discussions, quipped that "no moss is growing under anyone's feet" in Qatar. She was referring to the speed with which Qatar is moving toward a Free Trade Agreement (FTA) with the United States. Bahrain is on track to be the first nation in the Arabian Gulf to sign an FTA (see related story on page 10), but Qatar is giving Bahrain a run for its money.

Minister Al Thani told attendees of the lunch, held at the Four Seasons Hotel, that Qatar has taken some important steps in recent years to diversify its economy away from oil and gas. Qatar experienced a "major crisis" when oil prices dropped in the late 1990s, he said, which helped to spur the government and private sector to invest more heavily in other sectors.

H.E. Bader Omar Al Dafa, Qatar's Ambassador to the United States, told the crowd that Qatar "allows foreign investors to own 100 percent of a company in areas such as tourism, health, industry, education, and agriculture." Qatar has overhauled its investment laws in recent years, said the Ambassador, and it now provides "great incentives to the international business community."



From left: Ambassador Al Dafa, David Hamod, Minister Al Thani, Catherine Novelli, Ambassador Quinn, and Ambassador Theros (U.S.-Qatar Business Council)

Photo Courtesy Embassy of Qatar

Such incentives include ten-year tax holidays for foreign companies and tariff-free imports of goods not otherwise available in Qatar.

This economic progress was reaffirmed by Hon. Maureen Quinn, U.S. Ambassador to the State of Qatar. "Qatar's economy is expanding very carefully" and very thoughtfully, suggested the Ambassador, and she highlighted particular progress made in the fields of education and health care.

For example, the Qatar Foundation for Education, Science, and Community Development (www.qf.edu.qa) has developed an Education City that is second to none in the region. With branch campuses of such U.S. universities as Cornell, Texas A&M, and Carnegie Mellon, the Education City is providing exceptional educational opportunities for Qatari men and women who might not otherwise be in a position to get a college degree from a U.S. center of higher learning. This project has received special attention from H.H. Sheikha Mozah bint Nasser Al Missned, the "First Lady" of Qatar.

Qatar is on track to become the most affluent nation in the world on a per capita basis. It has also set its sights on becoming the most progressive country in the region. Thanks to the vision of H.H. Emir Hamad bin Khalifa Al Thani, said the Minister, Qatar is positioned to be a "key part of the global economy with an open and robust private sector." With the signing of a TIFA with the United States, Qatar is one step closer to that goal. ♦

FTA Scorecard		
	Trade & Investment Framework Agreement (TIFA) Signed?	Free Trade Agreement (FTA) Signed?
ALGERIA	July 2001	No
BAHRAIN	June 2002	No
COMOROS	No	No
DJIBOUTI	No	No
EGYPT	July 1999	No
IRAQ	No	No
JORDAN	March 1999	October 2000
KUWAIT	February 2004	No
LEBANON	No	No
LIBYA	No	No
MAURITANIA	No	No
MOROCCO	March 1995	Expected June 2004
OMAN	No	No
PALESTINE	No	No
QATAR	March 2004	No
SAUDI ARABIA	July 2003	No
SOMALIA	No	No
SUDAN	No	No
SYRIA	No	No
TUNISIA	October 2002	No
UAE	March 2004	No
YEMEN	February 2004	No

"We want Qatar to offer the most competitive business climate in the Middle East, and we plan to double our GDP in four to six years."

Minister Mohammed Bin Ahmed Al Thani





Qatar is expected to become the top exporter of LNG in the near future.

LNG 14 Showcases Qatar Emir Inaugurates World's Largest and Most Sophisticated LNG Facility

Every three years, since 1968, the international energy community meets for a few days to discuss the state of Liquefied Natural Gas (LNG). This year's conference, LNG 14, held on March 21 - 24, broke all previous records with a turnout of some 3,000 participants from more than 50 nations around the world.

What country managed to snare the honor of hosting the 2004 event? Not surprisingly, the State of Qatar – a tiny nation by most standards, but a heavyweight when it comes to natural gas.

“By developing several huge LNG projects, combined with new benchmark technologies,” stated Japan's Hiroshi Urano, Chairman of the LNG 14 Steering Committee, “Qatar is expected to become the top exporter in the near future.”

As if to underscore Urano's point, Qatar's Minister of Energy and Industry, H.E. Abdullah Bin Hamad Al Attiyah, announced at LNG 14 that Qatar expects to export more than 60 million tons per annum (mtpa) of gas by the year 2010, up from current levels of 18 mtpa.

To reach this goal, Al Attiyah noted, Qatar anticipates investing \$30 billion into production and field development, plant and port expansion, a new generation of LNG carriers, and the construction of receiving terminals in new consumer markets.

Qatar's leadership is also working to make the Arabian Gulf emirate even more attractive to foreign investors. (See related story on page 7.) In kicking off LNG 14, H.H. Sheikh Hamad Bin Khalifa Al-Thani, the Emir of Qatar, highlighted the fact that his nation has enacted legislation in recent years to “improve the investment climate” of Qatar and to “protect the rights of international investors who put their trust in our economy.” This is particularly true, he said, for small and medium-sized enterprises.

Qatar anticipates investing \$30 billion in coming years to meet its goal of exporting more than 60 million tons of gas annually.

Qatar, by hosting this high-profile international gathering, soaked up the limelight surrounding LNG 14. NUSACC's President, David Hamod, who attended the conference, described it as a “public relations coup for Qatar and further evidence of that nation's growing dominance in this increasingly important sector.” Steven Miles, a NUSACC advisor and an attorney at BakerBotts LLP who specializes in energy issues, said, “The govern-



Minister Al Attiyah cuts ribbon for new project announced during LNG 14.

Photo Courtesy of Qatar Petroleum

ment of Qatar produced a truly world-class event.”

For practitioners, this is the conference to see and be seen by energy ministers, industry leaders in LNG, developers, and advisors. It is also an excellent venue for learning about the latest technical developments, to see new products demonstrated, and to track LNG marketing trends. LNG 14 came on the heels of the LNG Summit held in Washington D.C. in December 2003, which brought together some of the same players but in a more confined, high-level setting. (For details on NUSACC's role in that Summit, please see the January 2004 issue of *U.S.-Arab Tradeline*.)

The biggest development at this year's conference was the official inauguration of the world's largest and most technically sophisticated LNG processing facility, at Ras Laffan in Qatar.

Said Houston-based Andrew Walker, Senior Commercial Manager (Global LNG) for BG LNG Services, “LNG 14 was a great opportunity to meet old friends as well as to discuss business with contacts from across the entire industry. This is now quite clearly a global business.” BG LNG has major operations in Egypt and supplied 53 percent of U.S. LNG imports in 2003.

Miles, of BakerBotts, put it this way: “For those of us who have been involved in the LNG industry for the past 20 years, it is exciting to see the recent growth of the industry and the entrance of new players. This growth was evident at LNG14, where a couple thousand delegates from virtually all of the leading energy companies came together for a few days to learn more about the industry, network with colleagues and discuss new potential projects.”

Probably the biggest development at this year's conference was the official inauguration of the world's largest and most technically sophisticated LNG processing facility, at Ras Laffan in Qatar. Energy Minister Al Attiyah proudly announced that the new train was completed

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two months ahead of schedule and that it has “earned the world record for the lowest capital cost per ton of LNG production capacity.”

The new train, the third for the Ras Laffan Liquefied Natural Gas Company (RasGas), will produce nearly 5 mtpa of LNG to be supplied to India’s Petronet LNG over the next 25 years. RasGas II, which will oversee the new facility, is a joint venture between Qatar Petroleum (70 percent) and ExxonMobil (30 percent).

Another important development at LNG 14 was a \$6 billion gas-to-liquids (GTL) deal between Qatar Petroleum and Sasol-Chevron that Minister Al Attiyah said would help the State of Qatar to “become the GTL capital of the world.” John Gass, Chairman of Sasol-Chevron and President of ChevronTexaco Global Gas, noted, “This is an impressive slate of GTL projects and through Sasol-Chevron we are eager to work with QP to develop superclean liquid fuels from natural gas.”

At more than 900 trillion cubic feet, Qatar’s North Field is the largest single gas field in the world by far.

Growing demand in the United States for LNG was one of the hottest topics of discussion at LNG 14. By 2025, according to U.S. Energy Secretary Spencer Abraham, U.S. imports of LNG could reach 15 billion cubic feet (bcf) per day – more than 20 times today’s rate – and account for 15 percent of America’s total natural gas supply (up from one percent today). According to the International LNG Alliance, a Washington-based industry group, demand for LNG will continue to grow primarily as a result of dwindling domestic production and a greater need for clean-burning natural gas for America’s power generation.

LNG-exporting nations, including those in the Arab world, are scrambling to meet this burgeoning demand. Algeria’s Sonatrach, which has four decades of experience in this field, has announced that it plans to supply LNG to the United States from its new Gassi Touil train, which will have a capacity of at least 4 mtpa. Algeria is number two in the world in output capacity of LNG, and at LNG 14, Dr. Chakib Khelil, Minister of Energy and Mines, announced that Algeria’s export capacities will grow by more than 50 percent by the end of this decade.

Egypt, a newcomer to the group of LNG exporters, is also eyeing the United States market. Egypt’s natural gas production is expected to rise to around 5 billion cubic feet / day by 2007, according to the U.S. Department of Energy, with much of the increased volume being exported as LNG. Houston-based Apache Corporation, the largest foreign investor in energy in Egypt, expects that recent discoveries in the Khalda region (Western Desert) and the West Mediterranean (offshore)



H.H. the Emir addresses participants of LNG 14.

Photo Courtesy of Qatar Petroleum

Growing demand in the United States for LNG was one of the hottest topics of discussion at LNG 14.

will provide significant new yields of commercial quantities of natural gas.

Qatar, for its part, is developing three new trains of gas – two with ExxonMobil and one with ConocoPhillips – that will be dedicated to the U.S. market. Qatar took an important step in this direction on May 24 when Qatar Petroleum and ExxonMobil signed a heads of agreement (HOA) to produce and deliver more than 15 mtpa of LNG to the United States beginning in 2009.

The biggest shortcoming of the U.S. market is the paucity of regasification terminals, where imported LNG is prepared for U.S. consumption. Only four import “regas” facilities currently exist in the continental United States – in Massachusetts, Maryland, Georgia, and Louisiana – and none of these will complete expansion plans until at least 2006. The *good* news is that there are some 30 proposals under consideration to build new terminals in the United States and the Federal Energy Regulatory Commission (FERC) has been steadily working its way through these proposals.

The biggest shortcoming of the U.S. market is the paucity of regasification terminals, where imported LNG is prepared for U.S. consumption.

As a result of its decision to aggressively pursue opportunities in the LNG market, Qatar is “in the driver’s seat,” according to one industry analyst. Qatar recently announced that gas reserves in its North Field have more than doubled, bringing certified reserves there to more than 900 trillion cubic feet (tcf), up from the previous reserve of 380 tcf. As such, the North Field is the largest single gas field in the world by far.

In the words of David Sweet, Executive Director of the International LNG Alliance, “The success of LNG 14 is indicative of Qatar’s premier position within the industry. LNG represents the future for clean and efficient natural gas supplies, and Qatar represents an important part of the future of LNG.” ♦



“Some of the work being done is commendable, but in other areas, I think we could be moving faster.”

Usamah Al-Kurdi,
 member of Saudi Arabia's
 Consultative Council

Economic Reform in Saudi Arabia

“The determination is there and it is time for reform”

NUSACC and the Center for International Private Enterprise (CIPE) co-hosted a roundtable discussion on April 29 on “Getting the House in Order: Opportunities and Economic Reform in Saudi Arabia.” The featured speaker was Usamah Al-Kurdi, a member of NUSACC’s Executive Committee and part of Saudi Arabia’s Consultative Council (*Majlis Al-Shura*), where Al-Kurdi helps to serve as a nexus between government and business. The event drew upwards of 100 attendees, including C-Span, which broadcast the discussion nationwide.

Reform in Saudi Arabia began in earnest in 1993, Al-Kurdi said, and “today it is a central issue of what’s happening in the country.” In terms of political reform, he highlighted the important role played by the National Center for Dialogue, which has led to a “healthy debate” among constituencies in Saudi Arabia. He also cited the Supreme Economic Council which, in his view, is the “single most important part of economic development in Saudi Arabia because it is the ‘fast track’ decision-making process in the business area.”

Equally impressive, Al-Kurdi suggested, are some of the changes that are taking place in the area of social reform, which has seen the establishment of dozens of civil society groups and non-governmental organizations in recent years.

There are twenty sectors targeted for privatization, including water and power, aviation, railroads, port and airport services, health care, and, perhaps most significantly, higher education.

The third pillar of reform is economic, according to Al-Kurdi, and on this front Saudi Arabia is moving forward very quickly. He cited the recent adoption of new laws affecting insurance, financial markets, intellectual property, and taxation on foreign investment. (“The reduced tax on foreign investors should enhance investment opportunities.”) In addition, he said, new

organizations have been created to promote economic development in such areas as tourism, investment, and technology.

Saudi Arabia is making significant progress in diversifying its economy, Al-Kurdi said, and he noted that the Kingdom “needs investment to proceed in diversification,” which is key to spurring job growth. He noted that there are twenty sectors targeted for privatization,



Usamah Al-Kurdi addresses the standing-room-only crowd at the Center for International Private Enterprise.

Photo Courtesy of CIPE

including water and power, aviation, railroads, port and airport services, health care, and, perhaps most significantly, higher education. “All these efforts to diversity and privatize have jobs as a major objective,” he noted.

“All the numbers look extremely good for the economy of Saudi Arabia, especially when you look at the opportunities that are being opened up,” said Al-Kurdi, who pointed out that Saudi exports total \$100 billion and imports amount to \$30 billion.

Despite all the positive economic news, Al-Kurdi admitted, there is room for improvement. “Some of the work being done is commendable,” he said, “but in other areas, I think we could be moving faster.” In particular, he cited the importance of creating more jobs, continuing the process of privatization, bringing down the nation’s debt, and further diversifying the country’s exports, ninety percent of which are petroleum-related.

The good news, said Al-Kurdi, is that the Saudi

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government is aware of these challenges and is actively searching for solutions. He noted that privatization is well underway, "Saudization" plans to combat unemployment are on track, and the issue of small & medium-sized enterprises (SMEs) is receiving "tremendous attention."

"I would like to see even better economic relations with the U.S.," Al-Kurdi said, and he pointed out the recent progress that Saudi Arabia has made toward acceding to the World Trade Organization (WTO) and moving closer to a Free Trade Agreement (FTA) with the United States.

In the Question & Answer session that followed Al-Kurdi's remarks, several questions revolved around civil society, which Al-Kurdi described as "essential." He reiterated that the government is well aware of this issue and that the Consultative Council is studying a new law, currently in draft form, that makes it easier to establish civil society organizations.

On the issue of government decrees restricting certain jobs to Saudi nationals, Al-Kurdi suggested that the "Saudization" of the work force is essential to alleviating unemployment in a nation where Saudis hold only 15 percent of the jobs. This will be a gradual process, he said, and he wants to see a more scientific, "systematic approach to indigenization."

Al-Kurdi repeatedly emphasized how important it is for Saudi Arabia to study how other countries have dealt with reform in order to learn from them. He believes that the pace of reform must be up to each nation, not according to a timetable dictated by others.

As for the effect of home-grown terrorism on economic reform, Al-Kurdi said there has been no effect. "I think that reform started such a long time ago," he noted, "that people were set in their minds of the need for reform. I haven't seen a major psychological or economic impact of the terrorist attacks."

Al-Kurdi expressed deep concern about how U.S. visa policies have led to a significant drop in the number of Saudis coming to the United States, particularly among students, where the drop-off has been in the range of 30 to 40 percent.

Al Kurdi noted that the Saudi stock market has soared over the past year, despite the terrorist attacks and the war in Iraq. "It is unbelievable what confidence there is in the economy of Saudi Arabia and how these terrorist attacks failed to affect the thinking in the country," he suggested.

On the issue of anti-Americanism in Saudi Arabia, Al-Kurdi said he believes this is "only a phase" that the



Photo Courtesy of CIPE

Usamah Al-Kurdi reflects on the issues while Dr. John Sullivan, Executive Director of CIPE, looks on.

"Saudization" of the work force is essential to alleviating unemployment in a nation where Saudis hold only 15 percent of the jobs.

Usamah Al-Kurdi,
member of
Saudi Arabia's
Consultative Council

Kingdom is going through. He sees this sentiment as a reaction to the deteriorating situations in Palestine and Iraq, as well as a backlash against tough U.S. policies fashioned after the attacks of September 11, 2001. It is his opinion that only a very small minority of Saudis have given up on the United States and that, over time, the special relationship will be restored.

Al-Kurdi expressed deep concern about how U.S. visa policies have led to a significant drop in the number of Saudis coming to the United States, particularly among students, where the drop-off has been in the range of 30 to 40 percent. Al-Kurdi said he expressed these concerns recently to Alan P. Larson, the Under Secretary of State for Economics, Business & Agricultural Affairs, and Larson assured Al-Kurdi that the State Department is working to improve the situation. This is very important, Al-Kurdi pointed out, because these students have contributed greatly to the positive U.S.-Saudi relationship, particularly those students who have gone on to become leaders in Saudi society.

Al-Kurdi also responded to a question about the role of women in Saudi Arabia. He highlighted the growing influence of women in all aspects of Saudi society, and he cited women in his own family as examples. Among his five sisters, he said, all have degrees in higher education and are part of the Saudi workforce. This is just one example, he said, of the fact that "possibilities exist if women want to get an education and go to work."

Reform in all its parts is moving forward, Al-Kurdi concluded. "The determination is there. Everybody is pushing toward it – whether the Consultative Council, or the business community, or the government. There is a belief that it is time for reform, and it is proceeding." ♦



The maximum corporate tax rate is now 15 percent. There is a five percent across-the-board tariff for all goods, with the exception of humanitarian items, which are duty-free.

What was once Iraq's "black market" is now simply the retail marketplace. Today, 315 state-owned bank branches are fully operational, and 19 private banks now operate 140 branches across the country.

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of the most successful currency exchanges in modern history. As evidence, they cite the fact that, since its introduction, the value of the new dinar has appreciated by 35 percent and has doubled in value over the pre-war currency.

"This means that the Iraqi people have faith in the currency," says Greco. "Not just the currency as a store of value, but they also have faith in their future government to preserve that store of value." Greco and others say that the stability of the new dinar has also ruined the livelihood of illegal moneychangers and – with them – much of the country's black market.

"What was once Iraq's 'black market' is now simply the retail marketplace," says Merriam Mashatt, who co-directs the CPA's Private Sector Development office in Washington.

In another step seen as a positive move toward Iraq's full economic recovery, the Central Bank of Iraq granted licenses last January to three foreign banks: Hong Kong Shanghai Banking Corporation, Standard Chartered and the National Bank of Kuwait. Today, 315 state-owned bank branches are fully operational, and 19 private banks now operate 140 branches across the country.

"I'm not sure if the number of bank branches in Iraq is a true indicator of the economic health of the economy, but rather it's a prerequisite," says John Sullivan, executive director of the Washington-based Center for International Private Enterprise (CIPE), an affiliate of the U.S. Chamber of Commerce. "Clearly, it's very good news: a viable banking system is very good development and one that we want to see accelerated."

Using the Rule of Law to Protect Business

In recent months, the CPA has implemented decrees intended to create a proactive environment for private sector development and foreign investment. With the passage of these new laws, Iraq joins the ranks of other countries in the region – Dubai and Bahrain, to name just two – whose legal frameworks serve as a healthy incubus for private sector development.

The Foreign Direct Investment Law – sometimes known as "CPA Order 39" – permits 100 percent foreign ownership in most sectors of the economy, apart from oil and extracted resources.

The Foreign Direct Investment Law allows unrestricted, tax-free remittance of profits, but prohibits non-Iraqis and foreign-owned companies from purchasing land. (However, land may be leased for up to 40 years.) The Investment Law also enables foreign companies to wholly or jointly own ventures in Iraq.

"CPA Order Number 39 is one of the most forward-looking laws in the entire world for attracting foreign investment," says Greco. "It eliminates the distinction between Arab and non-Arab investors. Now, all investors



An Iraqi child looks through the gate of her home in central Baghdad.

Photo by Thomas Hartwell, Courtesy of USAID

looking at Iraq are treated equally."

Iraq's tax and tariff laws have also been simplified through CPA decree. The maximum corporate tax rate is now 15 percent. There is a five percent across-the-board tariff for all goods, with the exception of humanitarian items, which are duty-free.

Lastly, the Company Law – which implements many elements in Order Number 39 – simplifies and streamlines corporate registrations and offers basic protections to overseas investors.

"I believe economic reforms implemented by the CPA have been useful, but I am much more interested in the degree to which the Iraqi private sector is allowed to take ownership and be really be engaged," says John Sullivan of CIPE. "And that's where I really think we need to do more work."

Sullivan notes that prior to the creation of new investment laws, the CPA was criticized by many parts of the Iraqi private sector. "The Iraqi private sector is not an homogeneous group; it has several different parts. One part, comprised of larger existing firms, was very upset because they could not compete for foreign investment."

Sullivan says much of the opposition to the new investment laws was the result of "people not really understanding what the laws did and what they said."

"This resistance was partly due to a lack of clear communication," says Sullivan, "and because vested interests felt quite threatened by open competition in an economy that had previously been protected."

"Iraq has been a kleptocracy for ten years," says Anthony H. Cordesman, senior fellow at the Washington-based Center for Strategic and International Studies. "At this point in time there is no aspect of the Iraqi economy that is operating on a modern or efficient level. And there are no economic institutions that do not require major reforms in order to create something approaching a more diversified economy."

Cordesman is not optimistic that Iraq's ongoing reform

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efforts will yield tangible results in the near-term: "I believe that it will take a minimum of five and probably 10 years to complete," says Cordesman. "In my view, there has thus far been no meaningful economic reform in Iraq because you haven't had an ability to establish a stable pattern of investment, you don't have a secure country, and you don't have secure lines of communication. What you have is a whole group of people benefiting from freer access to goods and vast in-country expenditures from the Coalition. But you have not had the time or the climate of security to make more than an initial start."

Iraq's Rich Tradition of Privatization

Under Saddam Hussein's heavy-handed regime, Iraqis still managed to have a small private sector. Some economists estimate that the country's pre-war private sector constituted nearly 30 percent of the national economy.

Unlike the narrowly focused private sectors in similar regimes, however, Iraq's entrepreneurs engaged in businesses that were broad-based and diversified, including agriculture, cement, chemicals, and textiles. This is good news for investors, because it means Iraqis are poised to build upon their rich entrepreneurial traditions.

"People like my father, who grew up in Baghdad, remember what it was like to have a market-based economy and a stock market," says the CPA's Mashatt. "I think there is a definite institutional knowledge and memory that exists in Iraq that is part of their history and past. Iraq had a well-educated middle class with a large entrepreneurial spirit. This is not something that the U.S. is imposing on them."

Security And Insurance: An Unfortunate Necessity

The tragic escalation of violence in Iraq is reminder that the country continues to be a dangerous to place to live and work.

"In post-conflict Iraq, security has been a major concern, but the overall situation is improving every day," says Richard Greco, director of the CPA's Private Sector Development Office in Washington. "A national defense force, a police force, units trained to protect facilities and other installations are coming into being. This takes time, and in the meantime we are tracking down and eliminating those elements, which for whatever reason, are resisting the stabilization of the country."

Many companies doing business in Iraq use private security firms to protect personnel and property. Iraq's best-known security company is Blackwater Security Consulting, a North Carolina-based company whose employees – many of whom are former U.S. military commandos – provide personal security for CPA director L. Paul Bremer, III.

Despite Iraq's economic history, Sullivan cautions that it is wrong to assume that a country with "private sector roots" and "market-based traditions" has a stronger potential of quickly becoming a market-based economy.

"A market-based economy is based on competitive laws, frameworks and rules," says Sullivan. "I'm not sure I would qualify the pre-Baath Iraq as a market economy. Certainly it was a private economy."

Sullivan suggests that there are four sectors in Iraq's emerging market: the State Sector, the "Connected" Sector ("comparable to Russian oligarchism or Asian 'relationship capitalism'"), the Small Business Sector, and the Informal Sector. Sullivan says a fifth sector, Privatized Sector, is awaiting emergence.

It's the view of Chris Exline, president of Home Essentials, a Dallas-based company that leases home furnishings in Iraq (see Inset), that Iraq's business climate currently favors the Small Business Sector. "They have the advantage of being able to react nimbly to changes in the Iraqi marketplace," says Exline. "Large businesses are often encumbered with so many levels of communication that they are slow to adjust to changes in the local situation, to make decisions quickly and to rapidly tweak product offerings."

Laying the Groundwork for Self Governance

From its inception in April 2003, the CPA chose to leave decisions associated with the privatization of Iraq's oil industry to the future Iraqi government. But it has made significant repairs to the country's oil infrastructure

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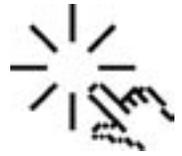
Other U.S.-based firms offering security services in Iraq include Sparta Security, USDID, Triple Canopy, Global, DynCorp International, Erinys International, Kroll, Global Risks Strategies, and Olive Security. All of these firms can be found on the Internet.

The average weekly salary for a private security guard is \$3,500. Security firms are responsible for an employee's incidental expenses (weapons, lodging, transportation, et cetera), plus medical and life insurance.

The security situation in Iraq currently makes it nearly impossible for an individual to obtain an insurance policy for accidental death or dismemberment.

The monthly premium for individual kidnap insurance is about \$5,000, it covers ransom and attendant costs of up to \$500,000.

"Kidnap and ransom insurance has been available for over 30 years, but never has it been more important than it is today," says Matthew Smerkanich, president of the Philadelphia-based Strategic Underwriters International. "Business for us right now is – unfortunately – very good. However, we believe that what we are offering is a valuable service."



Useful Web Sites

<http://www.cpa-iraq.org/>
– This is the home page for the Coalition Provision Authority (CPA), the temporary governing body designated by the United Nations as the lawful government of Iraq until such time as Iraq is politically and socially stable enough to assume its sovereignty. The site contains press releases, a library of rules and regulations, profiles of coalition partners, and links to sector contacts in the Basrah and Najaf governorates.

<http://www.export.gov/iraq/>
– This web site is for the Iraq Investment and Reconstruction Task Force at the U.S. Department of Commerce, which works closely with the CPA.

The site serves as a clearinghouse of information for any U.S. company interested in Iraq and offers the latest information on the commercial environment in Iraq and potential business opportunities. Links on the site take you to just about every U.S. Government agency working in Iraq.

Click http://www.export.gov/iraq/docs/iraq_useful_info.doc to read "Doing Business in Iraq," an essential document for anyone thinking about working there.



One sign of increased investor confidence in Iraq is the amount of money – estimated by Iraqi banks at \$5 million a day – flowing into the country from Iraqis living outside the country.

Experts worry that Iraq's rate of employment – estimated at 50 percent by the World Bank and 72 percent by the CPA – is largely a product of reconstruction aid, and merely serves as a short-term panacea for the country's bigger economic problems.

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and how Iraqi oil is marketed.

CPA says its efforts have boosted Iraq's oil production to pre-war levels (about 2.5 million barrels a day), much of which (about 2 million barrels a day) is currently exported.

"We're working on helping Iraq to realize the potential of its oil industry," says Greco. "As Iraq makes its way to being a fully sovereign nation, it will of course realize that oil is one of its principle sources of wealth. We believe Iraq will take great care of that national resource and treasure."

U.S. experts believe investor confidence in Iraq will increase over the coming months as control of the country transitions from the CPA to a new government. According to an interim plan announced in mid-April by Lakhdar Brahimi, United Nations special envoy to Iraq, the U.S.-appointed Governing Council will be replaced after June 30 with a caretaker government led by a president and prime minister. The new government would serve alongside a consultative council, similar to Afghanistan's *loya jirga*.

One sign of increased investor confidence in Iraq is the amount of money – estimated by Iraqi banks at \$5 million a day – flowing into the country from Iraqis living outside the country.

According to sources at the CPA, investment money is also said to be pouring into Iraq from bordering countries possessing similarly forward-thinking economic environments. Iraq's recently liberalized banking laws allow investors – at home and overseas – to promptly transfer these funds.

Yet amid the optimism about Iraq's economic future, some economists worry that the CPA's infusion of \$18.5 billion reconstruction aid (coupled with another \$13 billion pledged by donor nations) is artificially stoking the country's economic engine. The Financial Times estimates that no more than 40 percent of the \$18.5 billion reconstruction fund will be spent on local contracts and salaries, with the remaining 60 percent spent on imported equipment and consultants.

Experts also worry that Iraq's rate of employment – estimated at 50 percent by the World Bank and 72 percent by the CPA – is largely a product of this reconstruction aid, and merely serves as a short-term panacea for the country's bigger economic problems.

Not surprisingly, the CPA's Greco is optimistic that the benefits of reconstruction spending are both near- and long-term. "With each contract that's awarded, there's tremendous potential for the hiring of local Iraqis. And it's not just the local Iraqi person who counts as a job being created, he says. "For every job created, a fraction of that counts toward a taxi driver, a waiter in a restaurant, a tailor to make clothes, and anyone else supported by the new salary and new job that has been created. There's a multiplier effect in job creation."

Economists who share Greco's views believe the proliferation – and prompt oversubscription – of Iraqi equity

funds are an additional indicator that investment will continue to flow into Iraq long after CPA reconstruction contracts expire. These equity funds – such as the London-based Merchant Bridge fund – enable investors to share risk in a diverse number of Iraqi industries.

But John Sullivan of CIPE worries that these statistics are relatively meaningless unless Iraq's new laws have real weight behind them. "It's not just what's written that counts; it's how the laws are implemented and enforced. Right now in Iraq there are no implementation and enforcement mechanisms in place."

Iraq's Investment Opportunities

According to a report recently published by the CPA, "Trade and Foreign Investment Opportunities in Iraq," Iraqi industries favored for economic development include: agricultural equipment, branded foods and beverages; fast food; construction; construction materials; consumer packaged goods; appliances; electronics; financial services; electrical infrastructure; franchising; healthcare; oil infrastructure; petrochemicals; telecommunications; water treatment and resources; and retailing.

Clearly, the industries targeted for redevelopment are diverse. According to Greco, this is part of the CPA's development strategy. "Frequently, economies that are principally based on one particular export – especially petroleum-related exports – can suffer economic malaise," says Greco. "Any sort of diversification of the economy can only be good."

Greco says there is a public misperception that the CPA will disappear after the handover to Iraq's Governing Council after June 30. "That's not the case," says Greco. "Certainly, sovereignty will be handed over to the Iraqi people. But America and the Coalition will still have some sort of presence, especially as we move towards an embassy-like structure in Iraq."

Doing Business in Iraq – A Long-Term Commitment

People who advise companies on how to do business in the Middle East say breaking into the Iraqi market has more than its share of challenges – including a risk to personal safety. Everyone seems to agree on one point at least: Enterprises hoping to invest or do business in Iraq must have a presence in the country.

"We tell people who want to get involved in Iraq that the best way is to go over there and sit across the table from potential customers and clients," says Mashatt. "It's very, very hard to do it from here in Washington or the United States."

For those interested in doing business in Iraq, the first step is a search of Internet sites [see Inset] that offer lists of potential Iraqi partners, as well as the names of firms that provide security and "due diligence" services.

There is no disputing the fact that the \$18.5 billion in reconstruction money is a one-time shot-in-the-arm

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for the Iraqi economy. But CPA planners prefer to apply the “glass is half-full” philosophy to Iraq’s redevelopment effort, reminding themselves: 1) Is the money being spent to help create businesses that are going to exist long after the CPA’s work is done? 2) Will the money create good, well-paying jobs?

CPA’s Mashatt says people thinking about doing business in Iraq should view their commitment as a long-term initiative, not as a short-term opportunity for quick profits. “There’s been, for want of a better phrase, a kind of ‘gold rush mentality’ in Iraq,” she says. “People should really view it as a long-term investment, an investment that will create a good corporate environment and a good corporate partnership in Iraq.”

In the final analysis, predictions about Iraq’s economic future are mixed. Anthony Cordesman of CSIS feels that, one year after the fall of Saddam Hussein, “many Iraqis – in terms of material benefits – are at least as well off or better off.” But Cordesman believes that a majority of Iraqis are deeply concerned that many of their jobs and economic benefits are the product of either a boom generated by the breaking down of barriers imposed by Saddam or by the deluge

of cash from the Coalition.

“I don’t believe the Iraqi people have the feeling of being secure, of knowing what their economic future is,” says Cordesman. “Within their unstable economic climate they’ve seen a rush of new service activity, which only distorts the economy rather than fixing it. Iraq is experiencing a one-time flood of imports and is dependent on a flow of development aid,” adds Cordesman. “This is not the best basis for achieving economic equilibrium.”

Chris Exline at Home Essentials is more upbeat: “It has never been anyone’s intention, I would hope, for the U.S. Government to continue to be the primary driver of this economy,” he says. “What the CPA has done is to serve as a catalyst for the creation of a whole, functional economy. At some point, businesses will take over. When this happens there will be a huge increase in direct foreign investment, and you will see Iraqi entrepreneurs create the engine that will drive not just the economy of Iraq but the economy for the entire region.” ♦

Tim Kennedy is a founding partner of the Strategic Policy Group, a research, analysis and strategic communications company based in Arlington, Virginia.

“Within their unstable economic climate they’ve seen a rush of new service activity, which only distorts the economy rather than fixing it. Iraq is experiencing a one-time flood of imports and is dependent on a flow of development aid.”

Anthony Cordesman of CSIS

Home Essentials Sees Market Potential in Iraq

Six years ago, Home Essentials, a Dallas-based furniture leasing company, innovated a way for multinational corporations to ease the burden on employees relocating overseas: instead of shipping household effects to their new home, families were provided with furnishings leased locally.

With dozens of Home Essentials showrooms firmly established across Asia and Australia, company president Chris Exline saw the reconstruction effort in post-conflict Iraq as an opportunity to break into the Middle East market. However, Exline admits his motivation to enter Iraq was not purely commercial. “We felt the United States was doing the right thing in Iraq. We supported the policy, and we wanted to see the policy flourish.”

In September 2003, commencing with a distribution center in Dubai, Home Essentials became the first furniture leasing company operating in the Middle East. Four months later, Home Essentials won its first-ever government contract with the U.S. Agency for International Development. It then opened a showroom in Baghdad, making Home Essentials the first American small business to establish on-the-ground operations in post-conflict Iraq.

Exline says that he eventually chose to partner with a small Iraqi company “that has an entrepreneurial spirit and standards of service for the customer that

are similar to ours.”

The Home Essentials president says transportation and logistics are his biggest challenges in Iraq, but adds that working with local Iraqis has been a pleasant learning experience. “The Iraqi workforce is very impressive,” says Exline. “What Iraqis may lack in education and training they make up for in motivation and resourcefulness.”

Exline says business models that help companies succeed in the United States are equally effective in post-conflict Iraq. “You cannot sit in your office in Baghdad and wait for the phone to ring. You must go out into the marketplace, knock on doors, make cold calls, demonstrate your level of competency, establish a precedent of performance, and then cater to and nurture your customers.”

Exline says the most gratifying part of doing business in Iraq is seeing Iraqi entrepreneurs finally being able to achieve their goals. “These are people who have been starved for decades by the moral and fiscal bankruptcy of a dictator’s planned economy,” he says. “For the first time, they’re able to chart their own destiny. When American businesses arrive in Iraq, they will encounter hundreds of thousands of individuals who idealize what I perceive as our greatest American export: the free enterprise system.” ♦





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UAE & USA Sign Economic Accord

NUSACC Hails Agreement as a "Major Milestone"

The United Arab Emirates (UAE) and the United States have signed a Trade and Investment Framework Agreement (TIFA) to enhance economic cooperation between the two nations. In a ceremony on March 15, U.S. Trade Representative (USTR) Robert Zoellick and the UAE's Minister of State for Finance & Industry, Dr. Mohammed Khalfan bin Khirbash, pledged to work together to promote bilateral trade and investment.

"Today's signing is an important step in promoting America's export opportunities in the UAE, a top 30 export market," said Zoellick. "At the same time, increased trade and economic engagement with the United States can assist the UAE in its ongoing efforts to liberalize and diversify its economy."

The United States maintains a healthy trade surplus with the seven Emirates that make up the UAE. Last year, the U.S. exported \$3.5 billion worth of goods to the UAE, including machinery, aircraft, vehicles, medical instruments, animals, and foodstuffs. The UAE exported \$1.1 billion worth of goods to the USA, primarily fuel and apparel.

David Hamod, President of NUSACC, hailed the agreement as a "major milestone in the increasingly important relationship between these two allies. The



UAE has made great strides in diversifying its economy in recent years, and with this Framework Agreement in place, that trend should pick up even greater momentum." Hamod also expressed deep appreciation to the UAE for its efforts to work with the United States to combat terrorism, particularly since September 2001.

The TIFA creates a Joint Council that will tackle a wide range of commercial issues. The signing took place in mid-March, and Dr. Khirbash and his team were back in Washington to meet with their U.S. counterparts just over a month later. In part because of the forward-looking policies that the UAE has adopted in recent years in the form of intellectual property rights, minimal tariffs & duties, transparency, and the rule of law, FTA talks with the UAE are progressing ahead of schedule. ♦

NUSACC Co-hosts Reception For Arab Bankers

On April 28, the Export-Import Bank of the United States organized a very successful "Middle East Finance Roundtable" as part of Eximbank's annual meeting in Washington. Spearheaded by Joseph Grandmaison, an Eximbank Director, the Roundtable brought together more than 50 hand-selected bankers from throughout the Arab world and the United States. David Hamod, NUSACC's President, was among the participants.

Late in the day, when the Roundtable adjourned, delegates shifted to the Mayflower Hotel, where a first-class reception awaited them. NUSACC was one of the hosts, along with the Bankers' Association for Foreign Trade, the Coalition for Employment Through Exports, the National Foreign Trade Council, the Small Business Exporters Association, and the Washington Export Center. NUSACC is grateful for the opportunity to support the Arab bankers and to co-host the reception with such distinguished partners. ♦



Photo by Judy Hedlund

Philip Merrill, (right), Chairman of Eximbank, chats with Nofar Barbar, NUSACC Executive Committee member and Executive VP of Arab Bank plc.



Iraqi Bankers Coming to Town

A high-level delegation of 25 Iraqi private bankers will be coming to New York and Washington during the week of June 13 - 19. The U.S. Trade and Development Agency (TDA), in cooperation with the Coalition Provisional Authority (CPA), is sponsoring the visit to the United States in an effort to provide the bankers with a better understanding of banking procedures and trends in the United States. NUSACC and the Arab Bankers Association of North America (ABANA) are setting up most of the delegation's meetings with the business community.

On Friday, June 18, NUSACC and ABANA will be co-hosting a luncheon at the Cosmos Club in Washington in cooperation with the Bankers' Association for Foreign Trade, the Financial Services Roundtable, and others. For further information about this luncheon, please contact Christopher Ross at cross@nusacc.org. ♦