



Risk Advisory

Helping our clients evaluate,
manage and mitigate risk

For many of you, the Middle East is a region of great potential, but also of risk and uncertainty. Perhaps to a greater degree than in other regions, outsiders must balance Western standards and methods with international tensions, which can manifest themselves in long-arm sanctions. In order to benefit from the region's many opportunities, foreign businesses must avoid the numerous pitfalls surrounding them, including security threats, patchy infrastructure and different local customs.



"...outsiders must
balance Western
standards and
methods with inter-
national tensions..."

In this edition of Risk Advisory, our specialists provide first-hand insights into the changing landscape of the Middle East. Dr David Claridge introduces the region and comments on the issues we have confronted, which also affect you. Luke Roberts considers how sectarian violence is likely to shape the future of Iraq, while Lucy Norton analyses the changing risks of doing business with Iran under President Ahmedinejad. Finally, Stuart Seymour shares his perspectives on Riyadh.

I hope that our first-hand experiences help you to appreciate and consider the region in all its complexities. If you would like to discuss any of the issues raised in more detail, please do not hesitate to contact the authors directly; contact details are provided at the end of each article.

Bill Waite
Group Chief Executive

IN THIS ISSUE:

- 2 Challenges and rewards of doing business in the Middle East
- 4 Iraq: Sectarian violence and the Samarra attack
- 5 Iran's changing business risks
- 6 Spotlight: Riyadh



Challenges and rewards of doing business in the Middle East

David Claridge, Janusian Security Risk Management

As business risk consultants, we regularly advise our clients on the challenges of doing business in the Middle East, in order to help them steer a steady path through the variety of security and commercial threats that the region presents. At the same time, The Risk Advisory Group is steadily building its own presence in the region, which means that we regularly find ourselves confronting issues comparable to those of our clients.

Inevitably, our business follows both capital flows and risk, and there are plenty of both in the Middle East in 2006. High oil prices coupled with increasing political and economic liberalism in many Gulf States has led to an influx of capital into the region. Take Saudi Arabia as an example: the governor of SAGIA, the Kingdom's investment authority, recently announced that foreign direct investment in his country increased 30 fold in 2005. Continued extraordinary growth in Dubai, which has reached an apparently unstoppable critical mass after 30 years of planning and development, has spurred others in the region to follow suit. Bahrain and Qatar are rushing to compete. Jordan has been experiencing a boom as Western business chases high risk but high reward opportunities in Iraq, while at the same time the Iraqi business elite has settled for the relative peace and quiet of Amman. Even a pariah like Iran has begun to re-attract European investment in the last five years, despite an increasingly tense relationship between the Islamic republic and Western governments.

Meanwhile, the Middle East remains a crucible of global geopolitical instability. Looming confrontation with Iran over its



nascent nuclear capability is going to be the major international issue of the coming months. The abject failure by the US-led multinational forces to contain insurgency and terror-

ism in Iraq (or to show any signs of doing so soon) and that conflict's continuing potential to suck in neighbouring states (including Iran) leads to gloomy assessments of Iraq's near to mid-term future. Mass protests across the Islamic world following the publication and republication of cartoons depicting the Prophet Mohammed led to attacks on European interests. The election of Hamas in the Palestinian elections has led to further destabilisation of an already precarious situation and Israeli refusals to make revenues available to the Palestinian authority, and the decision by several foreign governments (including the US) to review aid provision to Palestine, have the potential to reignite confrontation. Once again, Iranian influence appears, this time offering to substitute Western aid to the Palestinians.

"...the persistent threat of terrorism in the Middle East continues to dominate corporate security strategies..."

Terrorism risk is a particular concern for businesses operating in the region. The recent terrorist attacks against a Saudi Aramco facility in the Kingdom may be the beginning of a renewed campaign by Al Qaeda in the Arabian Peninsula, and the multiple bombings in Amman in November of last year are clear evidence that overspill of terrorism from Iraq is already a reality. Most terrorism analysts agree that it is remarkable that Dubai, which is so symbolic of Western influence and decadence in the region, has yet to experience an Al Qaeda-style terrorist attack. Bahrain, Qatar and Yemen have had their own taste of jihadist activity in recent years. Although attacks are relatively infrequent, the persistent threat of terrorism in the Middle East continues to dominate corporate security strategies.

The apparent deepening of the clash of cultures between the Islamic world and the West, fuelled by resentment towards the war in Iraq and insensitivities of the Mohammed cartoon publications, is not reflected in the business community, where deals go on regardless. The forces of global interdependence are, it seems, unstoppable. But the spoils, so far at least, have not been widely distributed. Recent statistics from the UN's International Labour Office report that the Middle East and North Africa have the highest rates of unemployment in the world at 13.2%. As the region has one of the youngest populations in the world (in 2000, 58% were under 25), and the highest rate of youth unemployment, it is not difficult to understand how radical ideologies spread and prosper. The region's notorious internal security agencies may be all that is containing this head of steam.

Many Middle Eastern countries have weak regimes for the



protection of human rights, and corruption is commonplace. Both represent potential risks to Western companies operating in the region, although according to Transparency International, corruption is perhaps not as widespread as one may believe. TI's 2005 Corruption Perceptions Index certainly identifies some serious cases, with Iraq notably languishing towards the bottom of the global table but Jordan, Kuwait, Egypt, Saudi Arabia and Syria are in the top half. While not exactly a clean sheet, these and other Middle Eastern countries have made comparative gains over their positions in the same tables from previous years. Extra-territorial anti-corruption legislation and outreach activities by organisations such as TI seem to be having small but positive effects.

World Rank (of 159 surveyed)	Regional Rank (of 20 surveyed)	Country
28	1	Oman
30	2	UAE
32	3	Qatar
36	4	Bahrain
37	5	Jordan
43	6	Tunisia
45	7	Kuwait
65	8	Turkey
70	9	Egypt Saudi Arabia Syria
78	12	Morocco
83	13	Lebanon
88	14	Iran
97	15	Algeria
103	16	Yemen
107	17	Palestine
117	18	Libya
137	19	Iraq
144	20	Sudan

Table 1: MENA Corruption Perceptions 2005
Source: Transparency International Corruption Perceptions Index 2005
http://www.transparency.org/policy_and_research/surveys_indices/cpi/2005

Of course, any Western company operating in the region needs to understand and respect local business culture, but this must be balanced against compliance with the requirements of Western anti-corruption legislation. Business dealings in the region are usually heavily reliant upon patronage from influential members of society, and foreign investment has traditionally been channelled through local partnerships and commission agents. Responses to tenders in the Middle East are very often preceded by a period of lobbying and interaction that would be considered outside the bounds of normal practice in Europe or North America. Leveraging local relationships is critical to success in these circumstances, but the challenge for Western businesses is to ensure that patrons, local partners and agents act in compliance with wider corporate anti-corruption policy. Thorough due diligence prior to forming local relationships and rigorous risk and financial controls are the foundations of vital anti-corruption programmes.

In our experience, with the right controls in place, integration with local partners and staff pays huge dividends. Even in high risk and challenging environments like Iraq, with the right sources it is possible to effectively vet personnel to a high degree of confidence. However, the cultural gap between the Middle East's overwhelmingly Islamic culture and Western business practice should not be underestimated. The importance of family in all aspects of business is quite different in Arab culture, and personal relationships are con-

sidered to be the foundation of successful business. Properly established, these relationships also offer a degree of assurance when it comes to expanding networks outwards, either for the purposes of new business or recruitment of qualified staff. Concepts of loyalty and longevity of commitment are quite different to the contractual and process-driven nature of Western business culture. Even more than in the West, business success in the Middle East is driven by social interaction and trust. Working with local colleagues offers genuine insight into the routes to success, and the pitfalls to avoid.

At a time when relations between the Western and Muslim worlds have become significantly strained, it may seem counterintuitive to recommend greater integration. However, business strategies which recognise cultural difference but emphasise and support the strengths of each are most likely to succeed. Investment planning must consider the region's strategic importance, and the geopolitical challenges that this represents. Security planning must recognise the region's relative volatility. Business planning must ensure that the local partners and staff are the right people for the task, and that proper processes have been followed to avoid disrepute. But none of these challenges is insurmountable. Given the rewards that the Middle East offers to those who get it right, we expect to see continued significant investment into the region in the coming years.

"...with the right controls in place, integration with local staff pays dividends..."

David Claridge is Managing Director of Janusian Security Risk Management, a subsidiary of The Risk Advisory Group. If you would like to know more about this topic, please contact him at claridge@janusian.com



Iraq: Sectarian violence and the Samarra attack

Luke Roberts, Janusian Security Risk Management

Sectarian violence is the most serious threat to Iraq's future. In the second half of February, the country has come closer to civil war than at any other time since the US-led invasion began in early 2003. Ever since the fall of Saddam, the gulf between the minority Sunni Muslims (15-20% of the population who have broadly lost power), and the majority Shi'ite Muslims (60% of the population who have gained power), has grown gradually wider.

Over time, religion-based factions in Iraq have acquired more moderate, secular support and sectarian groups have become more resolved in their animosity towards one another. Tit for tat sectarian murders have been a growing problem in Iraq since the end of the Saddam regime, but the last 12 months has seen an escalation in such violence. Most murders have been carried out on a local level and have occurred under the radar of the international media. They have formed the basis of a continuing, low level problem which has been especially evident in Baghdad's mixed neighbourhoods.

Religious violence in Iraq has had a recognisable pattern for over a year. Periodically there is a spike in sectarian killings; usually ignited by a single, sectarian-motivated atrocity which leads to a near-term spiral in violence. These periods of heightened activity tend to last no more than two weeks before returning to more baseline levels. Each time the violence drops again, we discover that the base-line level has lifted a notch.

At 6:45 am on Wednesday 22 February, extremists posing as Iraqi police destroyed one of Iraq's holiest Shi'ite buildings: the 1,200-year-old Askariya Shrine. This symbolic attack constituted the third major attack against Shi'ite targets in as many days and triggered unprecedented levels of sectarian violence across the country. A day before, in the al-Dora district of southern Baghdad, at least 21 people were killed and 27 wounded when a vehicle bomb targeted a busy Shi'ite market. Two days before the shrine was attacked, a suicide bomber killed 12 people and wounded at least eight others on a minibus in northern Baghdad's Shi'ite Khadamiyah district.



It appeared that political and religious authorities temporarily lost control. Throughout Iraq, Shi'ite mobs ignored public

appeals by religious leaders to remain calm and refrain from acts of vengeance. In the first 48 hours after the shrine was destroyed, gunmen murdered over 130 people throughout the country. The initial flash of violence gave way to further

"The perpetrators of the attack shifted violence to a new level..."

atrocities and large-scale public demonstrations across the country. Curfews effectively curbed but did not prevent violence in many tense areas across Iraq; periodic, extraordinary day-time curfews have continued in Baghdad.

To understand its significance, the reaction to the shrine attack must be viewed within the context of the broader conflict. Several developments increased social and sectarian tensions to breaking point in the weeks and months preceding Samarra. The destruction of the Askariya Mosque was merely the spark: evidence indicated that Shi'ite death squads working from within the Shi'ite-dominated Iraqi security forces and under the ministry of the interior have been murdering Sunnis in large numbers; the relationship between the Iraqi population and multinational forces has been damaged by the furore over Western publications of the Prophet cartoons; British troops have been attacked over the release of a video showing soldiers beating Iraqi youths and more US torture photographs from Abu Ghraib prison were released in Australia. Underlying this is the fact that months after the general elections, a government has still not been formed and looks unlikely to be finalised until at least May. When combined with the existence of an ongoing, low level sectarian tit-for-tat murder campaign, the poor security situation and the lack of infrastructure development, the prevailing tension was understandable.

Samarra underlined the precarious nature of civil 'peace' in Iraq. The perpetrators of the attack shifted violence to a new level, focussed sectarian hatred and opened the doors to a wave of unprecedented religious fervour. The country is currently being held together because mainstream political and religious leaders have too much to lose if Iraq disintegrates; even radical Shi'ite cleric, Moqtada al-Sadr has urged restraint. It appears as though Iraq has temporarily avoided the onset of widespread civil war; however, the issues and frustrations which brought the country so close to collapse remain in place. We can expect further large-scale, symbolic atrocities over the coming weeks as Sunni extremist groups aim to maintain their momentum and pursue their ultimate goal of civil war.

Luke Roberts is an Intelligence Analyst at Janusian Security Risk Management, a subsidiary of The Risk Advisory Group. If you would like to know more about this topic, please contact him at roberts@janusian.com



Iran's changing business risks

Lucy Norton, *The Risk Advisory Group*

With international tensions rising in the wake of Iranian President Mahmoud Ahmedinejad's controversial nuclear strategy, it is worth considering how the business environment is changing for foreign companies in Iran.

Iran has great consumer potential with more than 52 million people under 30, a 5% share of global oil supplies and the second largest gas reserves in the world. It is this potential that has continued to attract multinational businesses to the country, despite the lengthy and complex procedures involved in negotiating and ratifying contracts. Larger companies have also had to contend with extraterritorial regulations imposed by the US, including the Iran-Libya Sanctions Act (ILSA) and the Foreign Corrupt Practices Act (FCPA). While neither has proved an insurmountable barrier for European businesses, both have been a constant source of risk and cost.

Despite these complexities, the companies which have persevered have been rewarded, most notably in the oil and gas sector but also increasingly in consumer markets such as automotives and telecoms. However, the risks attached to doing business in the country are changing although Iran's market potential remains strong; indeed, the upward pressure that the nuclear crisis is exerting on oil prices is helping to buoy the domestic economy.

Many threats have been exacerbated by the current crisis: non-US companies have always had to navigate US-led trade restrictions to do business effectively in Iran. In fact, the sanctions have played to the advantage of many European companies, allowing them to pursue huge commercial opportunities without US competition. However, while multilateral sanctions are not likely to be imposed for some time, if at all, non-US companies face greater compliance pressures. The US is believed to be in the process of investigating a number of European, American, Canadian and Japanese firms for alleged violations of trade restrictions. Although the EU has previously been able to insulate European companies from the full force of the ILSA, describing it as an unjustified cause of 'uncertainty and expense', the new international climate makes this argument increasingly difficult.

In addition to increased compliance risks, the financial risk borne by companies entering Iran cannot be overlooked. The country's oil-dependent and therefore unstable economy has always presented foreign exchange and repatriation concerns for investors. However, greater US scrutiny on international banks is closing credit lines to Iranian ventures, thereby increasing the cost of capital. Banks winding down

their operations in Iran in recent months include the UK's Standard Chartered, ABN Amro, Credit Suisse and UBS.

Companies must also be aware that Iranian politics and economics converge in foreign relations. Although the Islamic regime, which has been in power since 1979, has always tended towards expressing its political affiliations through economic ties, President Ahmedinejad's adherence to this mantra is a greater source of risk for companies.



President Ahmedinejad

The regime has stated that it is prepared to 'review' contracts in the light of political developments and it is likely that the cancellation of two large Turkish contracts last year had a political dimension. However, with Iran clearly committed to sustaining the current crisis, governments with economic ties to the regime, mainly the EU, Russia and China, are facing some tough choices. A dilemma also faces less central international players such as South Africa. The country's largest mobile telecoms company, MTN, recently secured the country's biggest FDI deal to date – a \$3.3 billion contract to develop a privately-run mobile network. South Africa, which abstained in the IAEA vote in September 2005, has traditionally supported Iran's right to uranium enrichment technology. However, US pressure on South Africa to refer Iran to the UNSC has increased in recent months. It remains to be seen which way the country will vote.

There were real hopes that a conservative government would simplify matters in Iran for both diplomatic efforts and foreign business. Khatemi's former reformist government had become impotent and ineffectual both internationally and at home. However, the shock victory of the intelligence services veteran Ahmedinejad over the pragmatic Rafsanjani in 2005 has created a whole new set of divisions.

It would seem that Iran's inexperienced government is still cognisant of the country's need to retain trade ties with Europe and others to maintain economic growth. It is therefore likely that what Iran is really looking for is a deal. Foreign companies more than ever must understand the changing political landscape to effectively access Iran's huge economic potential.

Lucy Norton is an Associate at The Risk Advisory Group. If you would like to know more about this topic, please contact her at lucy.norton@riskadvisory.net



Spotlight: Riyadh

Stuart Seymour, Janusian Security Risk Management

Riyadh is one of the most misunderstood cities I have ever worked in. Some aspects of the city defy comprehension, especially the colourful driving habits which come to the fore daily. However, in this very conservative and private city, urban myths seem to grow faster than almost anywhere else I have been to in the Middle East. Perhaps the lack of official information is the tonic to the gin of apocryphal expatriate stories exported in similar quantities from the Kingdom as barrels of crude.

Although the visa process has improved since 2003, it is still a prolonged procedure with enough red tape to keep even the most stamp-happy bureaucrat fulfilled. Travellers to Riyadh must ensure that all their paperwork is in order before even considering departure. Do not rely on the fact that your tickets have been issued or that you have passed through airline 'check-in.' I am told that, same day, back-to-back flights from Riyadh to JFK are not fun. You should also be inoculated and certified for Meningococcal Meningitis (A, C, W(135) and Y); the alternative is an injection at the airport.

King Fahad airport is spacious though somewhat barren, so be prepared for a long wait at immigration. If you can have a fixer meet you airside so much the better, this will alleviate the inevitable fight at passport control with other weary passengers arriving from Bangladesh, the Philippines, India and Pakistan. It will also ensure that the 30-a-day habit, which you have been resisting up until now, does not materialise.

Taxis from the airport should truly be a last resort and ideally one would be met at the airport both for security and because of the driving conditions.

I was actually struggling with the phrase 'driving conditions' as this implies that there are at least some conditions or order to drive in. Maybe I am falling into the apocryphal gin, Riyadh does this to you, but I have seen 4x4s driving on pavements during traffic jams, cars reversing down the King Fahad Highway, and a truck stop in the left hand lane only to turn right without indicating. The best advice is to have a local defensively-trained driver for your visit. Travelling by road is where you will be exposed to the biggest risk. Your vetted driver will have the local knowledge



"Travelling by road is where you will be exposed to the biggest risk..."

to ensure that you do not end up in the wrong neighbourhood at the wrong time and will navigate you through Riyadh's seemingly never-ending game of dodge 'ems.

Different hotels in the capital have differing levels of security and the Intercontinental is one of the better ones in this respect. It is clear that staying in hotels poses a risk in the Middle East: they have long been a choice target for terrorists (Days Inn, Radisson, Grand Hyatt in Amman on 9 November 2005; Mövenpick and Gazalah Gardens in Sharm-el-Sheikh on 23 July 2005 and Tabbah Heights in Oct 2004). While hotels have not been targeted in the Kingdom yet, residential compounds have. Al Qaeda re-enforces success.

Targeting drivers as well as Al Qaeda and affiliated groups' methodologies demand lengthy analysis in their own right. Indeed, the threats in Riyadh are complex and I do not plan to elaborate on these here but it is worth noting that the risks posed by Al Qaeda and associated organisations co-exist with those of the radicalised individual who feels that he has to act despite not belonging to any group. We have seen evidence of individual attacks in the Middle East (Doha Players Theatre on 19 March 2005), not least within last year's spate of close quarter assassinations. The good news is that although the threat remains both clear and present, it is manageable with appropriate measures in place. Combined with recent successes on the part of the authorities, this means that that the 'deviants,' as they are referred to in Saudi, are certainly not the same force they were in 2003.

The traveller to Riyadh will find his hosts very hospitable but despite plenty of tonic, there will be no gin. Perhaps this is not such a bad thing.

Stuart Seymour is a Director at Janusian Security Risk Management, a subsidiary of The Risk Advisory Group. If you would like to know more about this topic, please contact him at seymour@janusian.com