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ECONOMIC FACULTY**



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FOREIGN TRADE IN BAHRAIN

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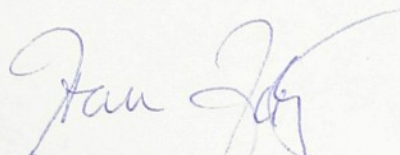
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In Liberec 4.1.2002

A handwritten signature in blue ink is written over a horizontal dotted line. The signature is stylized and appears to be a cursive representation of a name.

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Introduction

In this work we will explore the existing relationships between the state of Bahrain and the world. The possibilities that exist here for new business contacts.

For easier orientation this essay has been divided into four major sections. In the first section we will concentrate on the economic situation in the state of Bahrain. The second section will be dedicated to the introduction into economics in EU. Mainly concentrating on the manufacture of machinery and equipments. In the third section is about economic relationships between the state of Bahrain and EU. Finally the fourth section is dedicated to the stock exchange and foreign trade and development of foreign trade in Bahrain.

GENERAL INFORMATION

Official Name: State of Bahrain

GEOGRAPHY

Area: 693 sq. km. (268 sq. mi.); about four times the size of Washington, DC. Bahrain is an archipelago consisting of 33 islands, only six of them inhabited.

Cities: Capital--Manama (pop. 145,000--1993 est.). Other city--Al Muharraq (81,000--1993 est.).

Terrain: Low interior plateau and hill on Main Island.

Climate: Hot and humid from May-September, temperate from October-April.

PEOPLE

Nationality: Noun and adjective--Bahraini(s).

Population (1996 est.): 586,000; 66% indigenous.

Ethnic groups: Bahraini 63%, Asian 19%, other Arab 10%, Iranian 8%.

Religions: Shi'a and Sunni Muslim.

Languages: Arabic (official), English, Farsi, Urdu.

Education: Attendance--73%. Literacy (1990 est.)--77% (male 82%, female 69%).

Work force (1987 est.): 197,000 (about 44% indigenous, 56% expatriate). Industry and commerce--74%. Services--19%. Agriculture--4%. Government--3%.

Most of the population of Bahrain is concentrated in the two principal cities, Manama and Al Muharraq. The indigenous people--66% of the population--are from the Arabian Peninsula and Persia. The most numerous minorities are Europeans and South and East Asians. Islam is the dominant religion. Though Shi'a Muslims make up more than two-thirds of the population, Sunni Islam is the prevailing belief held by those in the government, military, and corporate sectors. Roman Catholic and Protestant churches, as well as a tiny indigenous Jewish community, also exist in Bahrain.

Bahrain has traditionally boasted an advanced educational system. Schooling and related costs are entirely paid for by the government, and primary and secondary attendance rates are high. Bahrain also encourages institutions of higher learning, drawing on expatriate talent and the increasing pool of Bahrainis returning from abroad with advanced degrees. Bahrain University has been established for standard undergraduate and graduate study, and the College of Health Sciences--operating under the direction of the Ministry of Health--trains physicians, nurses, pharmacists, and paramedics.

GOVERNMENT

Type: Traditional emirate (cabinet--executive system).

Independence: August 15, 1971.

Constitution: May 26, 1973; suspended August 26, 1975.

Branches: Executive--Amir (chief of state), prime minister (head of government), Council of Ministers (cabinet). Judicial--independent judiciary with right of judicial review. Appointed Consultative Council (40 members) may review and propose legislation.

Subdivisions: Six towns and cities.

Administrative divisions: 12 districts.

Political parties: None.

Suffrage: None.

Bahrain is a monarchy ruled by Shaikh Hamad Bin Issa Al-Khalifa, the Amir of Bahrain, who has been in power since March 1999. Geographically, the country is a group of islands off Saudi Arabia - close enough to be linked by a causeway, which connects it to the mainland of the Arabian Peninsula.

In a ruling handed down in March 2001, the International Court of Justice resolved the territorial dispute between Bahrain and Qatar over the Hawar Islands and other neighboring islands. Sovereignty over the Hawar Islands was awarded to Bahrain, while Qatar retained the neighboring islands of Zubarah and Janan. The Hawar Islands are located directly to the north of Qatar's main onshore oilfield, Dukhan, which has raised interest in oil exploration there now that the dispute has been resolved.

The country's economy depends heavily on the oil industry, but it also is an important centre for financial services and banking. Oil prices affect Bahrain's economy both directly, as revenues, and indirectly, due to banking and export links to neighboring Persian Gulf countries which depend on oil revenues. Bahrain's economy was helped by the rise in oil prices in 1999 and 2000, and real gross domestic product (GDP) grew by 5.0% in 2000. Real GDP growth for 2001 is projected at 4.7%.

ECONOMY

GDP (1995): \$5 billion.

Growth rate (1995): 4%.

Per capita GDP (1995): \$8,262.

Natural resources: Oil, associated and non-associated natural gas, fish.

Agriculture (1% of GDP): Products--eggs, vegetables, dates, fish.

Industry (39% of GDP): Types--manufacturing (21% of GDP), oil (16%), aluminium, ship repair, natural gas, fish.

Services (42% of GDP): Banking, real estate, and insurance.

Public administration (18% of GDP).

Trade (1995): Exports--\$4 billion: petroleum and petroleum products (80%), aluminium (7%), fish. Major markets--Saudi Arabia, U.S., Japan. Imports--\$3.6 billion: machinery, industrial equipment, motor vehicles, foodstuffs, and clothing. Major suppliers--U.S., U.K., Japan.

Official exchange rate: 0.377 Bahraini dinar=U.S. \$1 (fixed rate set in 1971).

Bahrain has a mixed economy, with government control of many basic industries, including the important oil and aluminium industries. Between 1981 and 1993, Bahrain Government expenditures increased by 64%. During that same time, government revenues continued to be largely dependent on the oil industry and increased by only 4%. The country has run a deficit in nine out of the last 10 years. Bahrain has received significant budgetary support and project grants from Saudi Arabia, Kuwait, and the United Arab Emirates.

Bahrain's small economy is basically strong, despite the budget deficits. It is so small that it suffers from virtually any change in the region or world. Privatisation, which could help reduce Bahrain's deficit, is moving ahead. Utilities, banks, financial services, telecommunications, and other areas will shortly come under the control of the private sector.

The government has used its modest oil revenues to build an advanced infrastructure in transportation and telecommunications. Bahrain is a regional financial and business centre.

Regional tourism is also a significant source of income. Bahrain benefited from the region's economic boom in the late 1970s and 1980s. During that time, the government emphasized infrastructure development and other projects to improve the standard of living; health, education, housing, electricity, water, and roads all received attention.

Petroleum and natural gas, the only significant natural resources in Bahrain, dominate the economy and provide about 60% of budget revenues. Bahrain was the first Persian Gulf state to discover oil. Because of limited reserves, Bahrain has worked to diversify its economy over the past decade. Bahrain has stabilized its oil production at about 40,000 barrels per day (b/d), and reserves are expected to last 10-15 years. The Bahrain Oil Company refinery was built in 1935, has a capacity of about 250,000 b/d, and was the first in the Gulf. After selling 60% of the refinery to the state-owned Bahrain National Oil Company in 1980, Caltex, a U.S. company, now owns 40%. Saudi Arabia provides most of the crude for refinery operation via pipeline. Bahrain also receives a large portion of the net output and revenues from Saudi Arabia's Abu Saafa offshore oilfield.

The Bahrain National Gas Company operates a gas liquefaction plant that utilizes gas piped directly from Bahrain's oilfields. Gas reserves should last about 50 years at present rates of consumption.

The Gulf Petrochemical Industries Company is a joint venture of the petrochemical industries of Kuwait, the Saudi Basic Industries Corporation, and the Government of Bahrain. The plant, completed in 1985, produces ammonia and methanol for export.

Bahrain's other industries include Aluminium Bahrain, which operates an aluminium smelter--the largest in the world with an annual production of about 525,000 metric tons (mt)--and related factories, such as the Aluminium Extrusion Company and the Gulf Aluminium Rolling Mill. Other plants include the Arab Iron and Steel Company's iron ore pelletising plant (4 million tons annually) and a shipbuilding and repair yard.

Bahrain's development as a major financial centre has been the most widely heralded aspect of its diversification effort. In 1973, the Bahraini Monetary Agency was formed to provide oversight for the banking and financial sector. Since 1983, the regional economic climate in which these institutions operate has become less favourable because of the region's economic downturn. Banks, including some from the United States, have reacted by scaling back their operations or leaving the area. This decrease in business confidence was exacerbated by the Gulf war. Nevertheless, more than 100 offshore banking units and representative offices are located in Bahrain, as well as 65 American firms. Bahrain's international airport is one of busiest in the Gulf, serving 22 carriers. A modern, busy port offers direct and frequent cargo shipping connections to the U.S., Europe, and the Far East.

Mainly because of its small population and small size, Bahrain plays only a minor importance in international economy. The economy is heavily oil dependent, but the government looking for new sources of income.

The relatively high living standard of Bahrain is based upon oil revenues, as oil was discovered in 1931, but in the 1980's revenues started to decline. Resources are expected to dry out in 2010.

Today strong efforts have been put into making the emirate a commercial centre, where the location of the islands is central — in the middle of the Persian Gulf, and in the middle between

Western and Eastern airline destinations — as well as the proximity to Saudi Arabia (a causeway opened in 1986 have made Bahrain into a centre for leisure and pleasure for Saudis). First and foremost of the industries of Bahrain is the large oil refinery at the island Sitra, which processes local oil as well as oil from Saudi Arabia transported through pipe lines. Incomes from this refinery is already more important than the country's own oil production. The country has also a big aluminium smelter, getting its electricity from natural gas. Other industries are small scale, but a dry dock for super tankers brings in important revenues. Bahrain has also become a major regional banking and communications centre, as well as offering services for insurance and financing.

Agriculture is fairly small, but springs in the northern parts of the main island provide good conditions for food production. Large portions of the consumed foodstuffs are produced in Bahrain. The production of dates is at the level of 35 kg/inhabitant. Fishing brings in 11 kg/inhabitant.

The person of Bahrain enjoys good living standards, even if there are considerable differences between social groups. Housing and transportation is subsidized by the state. The levels of telephones are 1 to every 4 inhabitant, radios 2 to every 5 inhabitant, TV-sets 1 to every 3 inhabitant.

Exports: \$3.69 billion (f.o.b., 1993 est.)

Commodities: petroleum and petroleum products 80%, aluminium 7%.

Major Trade Partners: Japan 11%, UAE 5%, South Korea 4%, India 4%, Saudi Arabia 3% (1992).

Imports: \$3.83 billion (f.o.b., 1993 est.).

Commodities: No oil 59%, crude oil 41%.

Major Trade Partners: Saudi Arabia 47%, UK 7%, Japan 7%, US 6%, Germany 5% (1992).

External debt: \$2.6 billion (1993).

HISTORY

Bahrain was once part of the ancient civilization of Dilmun and served as an important link in trade routes between Sumeria and the Indus Valley as long as 5,000 years ago. Since the late 18th century, Bahrain has been governed by the Al Khalifa family, which created close ties to Britain by signing the General Treaty of Peace in 1820. A binding treaty of protection, known as the Perpetual Truce of Peace and Friendship, was concluded in 1861 and further revised in 1892 and 1951. This treaty was similar to those entered into by the British Government with the other Persian Gulf principalities. It specified that the ruler could not dispose of any of his territory except to the United Kingdom and could not enter into relationships with any foreign government other than the United Kingdom without British consent. The British promised to protect Bahrain from all aggression by sea and to lend support in case of land attack.

After World War II, Bahrain became the centre for British administration of treaty obligations in the lower Persian Gulf. In 1968, when the British Government announced its decision (reaffirmed in March 1971) to end the treaty relationships with the Persian Gulf sheikhdoms, Bahrain joined the other eight states (Qatar and the seven Trucial Sheikhdoms, which are now called the United Arab Emirates) under British protection in an effort to form a union of Arab emirates. By mid-1971, however, the nine sheikhdoms still had not agreed on terms of union.

Accordingly, Bahrain sought independence as a separate entity and became fully independent on August 15, 1971, as the State of Bahrain.

GOVERNMENT AND POLITICAL CONDITIONS

Bahrain is a hereditary emirate under the rule of the Al Khalifa family. The Amir, Sheikh Isa bin Sulman Al Khalifa, and his brother, Prime minister Khalifa bin Sulman Al Khalifa, govern Bahrain in consultation with a council of ministers. The government faces few judicial checks on its actions. Despite their minority status, the Sunnis predominate because the ruling family is Sunni and is supported by the armed forces, the security service, and powerful Sunni and Shi'a merchant families.

In 1973, the Amir enacted a new constitution, setting up an experimental parliamentary system and protecting individual liberties. But just two years later, in August 1975, the Amir disbanded the National Assembly. No date has been announced for the reintroduction of representative institutions, though a petition and other forms of protest have called for their return. In January 1993, the Amir appointed 30-member Consultative Council to contribute "advice and opinion" on legislation proposed by the cabinet and, in certain cases, suggest new laws on its own. Political unrest broke out in December 1994 and included sporadic mass protests, skirmishes with local law enforcement, arson, and property attacks. In June 1995, the first Bahraini cabinet change in 20 years took place, producing mixed public response. In 1996, the Amir increased the membership of the Consultative Council to 40 and expanded its powers. The first session of the new Council began October 1, 1996.

One central municipal council, the members of which are appointed by the Amir, administers Bahrain's six towns and cities. A complex system of courts, based on diverse legal sources including Sunni and Shi'a Sharia (religious law), tribal law, and other civil codes and regulation, was created with the help of British advisers in the early 20th century. This judiciary administers the legal code and reviews laws to ensure their constitutionality.

U.S.-BAHRAINI RELATIONS

When Bahrain became independent, the traditionally excellent U.S.-Bahrain relationship was formalized with the establishment of diplomatic relations. The U.S. embassy at Manama was opened September 21, 1971, and a resident ambassador was sent in 1974. The Bahraini embassy in Washington, DC, opened in 1977. In October 1991, Amir Isa bin Sulman Al Khalifa made a state visit to Washington, after which he visited other parts of the U.S. as well.

In 1977, the agreement establishing Bahrain as the homeport for the United States Navy's Middle East Force (MIDEASTFOR) was terminated. MIDEASTFOR was subsumed into NAVCENT, a part of U.S. Central Command in Tampa, Florida. Bahrain now is host to the Navy's Fifth Fleet.

The U.S. Department of Defence-sponsored Bahrain School remains, along with a small, administrative support unit. After the Gulf war, close cooperation between the two nations helped to stabilize the region. Bahrain has expressed willingness for cooperation with plans for joint exercises, increased U.S. naval presence in the Gulf and cooperation on security matters.

U.S.-Bahraini economic ties have grown steadily since 1932, when Americans began to help develop Bahrain's oil industry. Currently, many American banks and firms use Bahrain as a base for regional operations. In 1986, the United States displaced Japan to become the top exporter to Bahrain.

DEFENSE

Under the Ministry of Defence, the Bahrain Defence Force (BDF) numbers about 9,000 personnel and consists of army, navy, air force, air defence, and Amiri guard units. Separate from the BDF, the public security forces and the coast guard report to the Ministry of the Interior. Bahrain, in conjunction with its Gulf Cooperation Council (GCC) partners--Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates--has moved to upgrade its defences over the last 10 years in response to the threat posed by the Iran-Iraq and Gulf wars. Defence spending has increased by as much as 30% each year since 1980. In 1982, the GCC gave Bahrain \$1.7 billion to help improve its defences.

In the wake of the Gulf war, Bahrain has received additional military support from the United States, including the sale of eight Apache helicopters in the summer of 1991, and subsequent sales of 54 M60A3 tanks, 12 F-16C/D aircraft, and 14 Cobra helicopters. Joint air and ground exercises have also been planned and executed to increase readiness throughout the Gulf. Bahrain and the United States signed an agreement in October 1991 granting U.S. forces access to Bahraini facilities and ensuring the right to pre-position material for future crises.

FOREIGN RELATIONS

Bahrain plays a modest, moderating role in regional politics and adheres to the views of the Arab League on Middle East peace and Palestinian rights. Bahrain is a member of the GCC, established on May 26, 1981 with five other Gulf States. The country has fully complied with steps taken by the GCC to coordinate economic development and defence and security planning. However, Bahrain and fellow GCC member, Qatar, continue to argue over claims to the Hawar Islands.

Because of its small size and limited wealth, Bahrain has not taken a leading role in regional or international affairs. Rather, it generally pursues a policy of close consultation with neighboring states and works to narrow areas of disagreement. During the Gulf war, Bahraini pilots flew strikes in Iraq, and the island was used as a base for military operations in the Gulf.

Since achieving independence in 1971, Bahrain has maintained friendly relations with most of its neighbours and with the world community. In December 1994, it concurred with the GCC decision to drop secondary and tertiary boycotts against Israel. In many instances, it has established special bilateral trade agreements.

Bahrain-Iran relations have been strained since the Iranian revolution and the 1981 discovery of a planned Iran-sponsored coup in Bahrain. However, with the decline of Iraq as a regional power broker, Bahrain has begun taking steps to improve relations with Iran and increase regional harmony. These efforts have included encouraging Bahrain-Iran trade, although Bahraini suspicions of Iranian involvement in local unrest appear to have slowed these steps toward improved relations.

GULF CO-OPERATION COUNCIL OF THE ARAB STATES OF THE GULF

TABLE 1

Kuwait	Qatar	Oman	Saudi Arabia	Bahrain	U.A.E	Demographic Indicators	
1.41	1.89	3.13	2.78	1.62	1.86	(3) Net Reproduction*	
87	50	10	8	831	23	Population Density *	1995
102	55	12	10	933	25		2000
Hospitals & Health Centres							
93	29	168	2010	34	175		1995
...	29	168	2132	34	175		1996
3364	943	1800	29926	617	2814	Physicians	1995
4910	30306	623	...		1996
4910	1122	3958	37417	1725	6274	Beds	1995
4973	41916	1735	...		1996
Kuwait	Qatar	Oman	Arabia	Bahrain	U.A.E.	Economic Indicators	
G.D.P. (Billion U.S \$) at Market Price							
24.22	8.42	11.62	119.97	4.86	36.44		1994
26.54	7.52	13.77	125.17	5.05	39.1		1995
27.29	7.9	14.74	129.01	5.31	42.06		1996
Oil Production (000 Barrels Per Day)							
2006	420	812	8049	40	2166		1994
2002	422	860	8000	40	2180		1995
2000	470	900	8000	40	2190		1996
Consumption of Electricity (Million MW / H)							
19.5	5	5.8	82.2	4.1	20.7		1994
20.4	5.3	6.2	85.8	4.3	22.1		1995
...	5.7	6.5	89.6	4.4	...		1996
Water Consumption (Billion Gallons)							
57.1	20.4	16.1	222.6	24.4	114		1994
77.5	21.3	16.7	232.2	23.6	118		1995
...	21.9	17.5	...	23.6	...		1996
Exports (Billion U.S \$)*							
0.26	0.32	0.63	2.39	0.42	1.6		1994
0.23	0.2	0.27	3.59	0.47	1.6		1995
0.28	0.2	0.25	3.46	0.39	1.66		1996
Imports (Billion U.S \$)*							
0.61	0.28	1.27	0.66	1.6	0.74		1994
1.25	0.26	1.22	0.76	1.73	0.85		1995
1.31	0.28	1.28	0.89	1.74	0.89		1996

SOURCES: NATIONAL BANK OF BAHRAIN 1999

OIL

Bahrain has proven oil reserves of only 148 million barrels, all in one field - Awali. The Awali field was discovered in 1932, and was the first oilfield developed in the Persian Gulf. It currently is producing around 35,000 barrels per day (bbl/d) of crude oil. Production peaked at more than 75,000 bbl/d in the early 1970s, but the field is now nearing depletion. In May 2000, Bahrain awarded a two-year contract to CGG Corporation for a study of the future prospects of Awali. Both Texaco and Chevron are involved in exploration activity in Bahrain. Chevron holds a concession for areas offshore from Bahrain to the west and north of the island. Texaco is involved in exploration elsewhere in Bahrain, both onshore and offshore.

The main recent development for upstream oil development in Bahrain is the resolution of the Hawar Islands dispute with Qatar. The islands are located adjacent to Qatar's main onshore oilfield, which has generated interest in exploration now that Bahrain's ownership is clear, though initial survey data has been reported to be disappointing. Texaco and Petronas were awarded new exploration blocks offshore to the southeast of Bahrain in September 2001, which had been una warded previously due to the boundary dispute with Qatar.

More important than crude oil production, however, is Bahrain's refining industry. The country has a refinery south of Manama with a capacity of 248,900 bbl/d. The Bahrain Petroleum Company (Bapco) refinery was built in 1936, and has since undergone several modernizations. An \$800-million modernization program was begun in 1998, and is scheduled to be completed in 2004. Several foreign firms are involved in various aspects of the work, including Alstom of France.

Apart from the small amount from Bahrain, crude oil processed at the Bapco refinery is from Saudi Arabia, and reaches Bahrain through a sub sea pipeline. Saudi Arabia, as a support to Bahrain's economy, provides 140,000 bbl/d of output from its offshore Abu Safa field free of charge, and is paid for the rest. Bahrain exports most of the Bapco refinery's products.

The Bahraini government consolidated corporate structure of its state-owned petroleum sector in January 2000, merging the upstream Bahrain National Oil Company (Banoco) into Bapco. The physical merger of the divisions of the company is still in progress, and will be completed in 2002.

Bahrain also has provided official approval in 1999 for the proposed construction of a second 500,000-bbl/d refinery in Bahrain by the Saudi firm Petroma. While not formally cancelled, problems with arranging financing over the last two years have delayed the project.

NATURAL GAS

Bahrain has natural gas reserves of about 3.9 trillion cubic feet (Tcf), most of which consist of associated gas from the Awali oilfield. Bahrain produced 297 billion cubic feet (Bcf) of natural gas in 1999, all of which was consumed locally. Gas production and processing are the responsibility of the majority state-owned Bahrain National Gas Company (Banagas). Given Bahrain's demand for fuel for electric power generation, unless offshore reserves are located in the next few years, Bahrain will need to become a gas importer.

Qatar, which is planning to build a pipeline for export of gas to Kuwait, has had discussions with Bahrain about the possibility of connecting a Qatar-Kuwait pipeline to Bahrain. Discussions are continuing, and Bahrain is reportedly considering importing up to 1 Bcf per day through the pipeline. A feasibility study for the project was commissioned in mid-2001.

OIL & INDUSTRY

TABLE 2

1995	1996	1997	Services
(000,US Barrels)			
40	39	39	Average Daily Production
14459	14124	14159	Annual Production
Crude Oil Runs to Refinery			
14468	14188	14152	Bahraini
77138	81092	77540	Saudi
Refined Products			
6697	6597	4274	Marketed Locally
91864	92779	88792	Exported
682699	870561	702795	Value of Oil Exp.(000BD)
486424	589226	547320	Value of Crude Oil Imported (000 BD)
(000,000 Cu.Ft.)			
355041	360600	375370	Gas Production
271983	279762	283568	Natural Gas
83058	80838	91802	Associated Gas

SOURCES: NATIONAL BANK OF BAHRAIN 1999

ELECTRICITY

Bahrain currently has an electric generating capacity of 1.1 gig watts (GW), and produced 6.2 billion kilowatt hours (bkwh) in 1999. Driven by population growth, Bahrain's electric power consumption is growing at an annual rate of around 5%. Recent capacity expansion has cantered on the Hidd power project. Phase One, built in 1999, added 280 megawatts (MW) of gas-fired generating capacity. The Phase Two expansion of the Hidd power project will add another 630 MW of gas fired capacity by 2004. A contract was awarded to Alstom in August 2001 for the construction of Phase Two.

Another priority is improving the country's transmission and distribution infrastructure. Contracts totalling about \$60 million were awarded to several foreign firms including Alstom, ABB, Fuji Electric, and Marubeni in March 2000 for upgrade work.

While the subject of privatisation has been discussed, it is not expected that Bahrain will move toward privatisation of its state-owned electric utility in the near future.

ELECTRICITY

TABLE 3

1995	1996	1997	Services
961	986	986	Installed Capacity (M.W)
4611.9	5016.1	5040.5	Units Produced (Million.Kw/H)
952	1050	1044	Maximum Demand (M.W)
209	212	226	Minimum Demand (M.W)
55.3	54.4	55.1	Load Factor
156667	163560	167684	No. of Consumers
4337	4226	4309	Annual Per Capita Consumption (Kw/H)

COUNTRY OVERVIEW

Head of State: Sheikh Hamad bin Issa al-Khalifa

Independence: August 15, 1971 (from United Kingdom)

Population (2001E): 645,361

Location/Size: Persian Gulf, 240 square miles

Major Cities: Manama (capital)

Languages: Arabic (English widely spoken)

Ethnic Groups: Bahraini Arab 63%, Asian 13%, other Arab 10%, Iranian 8%, other 6%

Religion: Shia Muslim 75%, Sunni Muslim 25%

Defence (8/98): Army (8,500), Navy (1,000), Air Force (1,500)

ECONOMIC OVERVIEW

Currency: Bahraini Dinar

Market Exchange Rate (10/01): 1 Bahraini Dinar = \$2.65 US

Nominal Gross Domestic Product (2000E): \$6.9 billion

Real GDP Growth Rate (2000E): 5.0% (2001E): 4.7%

Inflation Rate (consumer prices) (2000E): 1.8% (2001E): 2.0%

Current Account Balance (2000E): \$80 million (2001E): \$200 million

Major Trading Partners: India, Japan, Saudi Arabia, South Korea, United Arab Emirates, United States, United Kingdom

Merchandise Exports (2000E): \$4.79 billion

Merchandise Imports (2000E): \$3.72 billion

Net Merchandise Trade Surplus (2000E): \$1.07 billion

Major Export Products: Petroleum products, aluminium

Major Import Products: Crude oil, consumer goods

ENERGY OVERVIEW

Minister of Oil and Industry: Shaikh Isa bin Ali bin Hamad al-Khalifa

Proven Oil Reserves (1/1/01): 148 million barrels

Oil Production (2000E): 37,000 bbl/d (of which 36,000 bbl/d was crude oil)

Oil Consumption (2000E): 28,000 bbl/d

Net Oil Exports (2000E): 9,000 bbl/d

Crude Oil Refining Capacity (1/1/01): 248,900 bbl/d

Natural Gas Reserves (1/1/01): 3.9 trillion cubic feet (Tcf)

Natural Gas Production (1999E): 297 billion cubic feet (Bcf)

Natural Gas Consumption (1999E): 297 Bcf

Electric Generation Capacity (1999E): 1.1 gig watts (GW)

Electricity Production (1999E): 6.2 billion kilowatt hours (bkwh)

ENVIRONMENTAL OVERVIEW

Total Energy Consumption (1999E): 0.36 quadrillion Btu* (0.1% of world total energy consumption)

Energy-Related Carbon Emissions (1999E): 5.5 million metric tons of carbon (0.1% of world carbon emissions)

Per Capita Energy Consumption (1999E): 546.2 million Btu (vs.U.S. value of 355.8 million Btu)

Per Capita Carbon Emissions (1999E): 8.2 metric tons of carbon (vs. U.S. value of 5.5 metric tons of carbon)

Energy Intensity (1999E): 63,099 Btu/ \$1990 (vs. U.S. value of 12,638 Btu/ \$1990)**

Carbon Intensity (1999E): 0.95 metric tons of carbon/thousand \$1990 (vs. U.S. value of 0.19 metric tons/thousand \$1990)**

Sectoral Share of Energy Consumption (1998E): Industrial (67.6%), Transportation (11.8%), Commercial (6.5%), Residential (14.1%)

Sectoral Share of Carbon Emissions (1998E): Industrial (64.9%), Transportation (15.2%), Commercial (6.1%), Residential (13.8%)

Fuel Share of Energy Consumption (1999E): Natural Gas (85.0%), Oil (15.0%)

Fuel Share of Carbon Emissions (1999E): Natural Gas (81.1%), Oil (18.9%)

Renewable Energy Consumption (1998E): 0.00 trillion Btu

Status in Climate Change Negotiations: Non-Annex I country under the United Nations

Framework Convention on Climate Change (ratified December 28, 1994). Not a signatory to the Kyoto Protocol.

Major Environmental Issues: limited natural fresh water resources are increasing dependence on large-scale desalination facilities.

* The total energy consumption statistic includes petroleum, dry natural gas, coal, net hydro, nuclear, geothermal, solar, wind, wood

and waste electric power. The renewable energy consumption statistic is based on International Energy Agency (IEA) data and

includes hydropower, solar, wind, tide, geothermal, solid biomass and animal products, biomass gas and liquids, industrial and

municipal wastes. Sectoral shares of energy consumption and carbon emissions are also based on IEA data.

**GDP based on EIA International Energy Annual 1999

OIL AND GAS INDUSTRIES

Organization: Bahrain Petroleum Company (Bapco); Bahrain Natural Gas Company (Banagas)

Major Foreign Oil Company Involvement: Chevron, Texaco, Petronas

Major Ports: Manama

Producing Oil Fields (production - bbl/d)(1999E): Awali (37,439 bbl/d)

Major Refineries (capacity - bbl/d): Manama (248,900).

In 1998, Bahrain Petroleum Company (BAPCO) unveiled plans to upgrade its ageing oil refinery at a cost of around \$800 million. The project had been fully awarded by mid 2000. The plan is aimed at upgrading the refinery's major products and to improve efficiency to make BAPCO more competitive. The site upgrade will involve several standalone projects. This should have the effect of making the onset of production into a more modular process, helping Bapco to start achieving returns within the shortest possible time.

INDUSTRIAL INCENTIVES

The department of industrial development

- a) Examines industrial investment opportunities, turns them into projects and profiles, then introduces them to national and foreign investors.
- b) Prepares pro feasibility studies for industrial projects and hold symposia for the promotion of these projects to national and foreign investors.
- c) Evaluate feasibility studies filed by the private sectors and offers technical advices on such studies.
- d) Explores and determine quality and quantities of local raw materials and suitability of such materials for industry.
- e) Determines location and areas for industrial projects in the industrial areas.

Incentives Given During The Construction And Production Phases Include:

- a) Exemption on custom duty on machinery spare parts, raw materials, semi manufactured goods and other production requirement.
- b) The supply of power, natural gas, refined petroleum products and the natural gas liquids at nominal price.
- c) Recommending custom duty on imported goods similar to locally produced items for a limited period of time, taking in to consideration the viability of the product in question from the point of view of quantity and quality.

Other Major Incentives

- a) No quantitative quotas on imports, no income tax on salaries, no exchange control restrictions.
- b) Additional advantages may be set for certain individual joint venture projects.
- c) Low rates of custom tariffs on imports.
- d) Exemption from exports duties.
- e) Establishment of projects with wholly foreign capital by special Emiri decree.
- f) Low rates of inflation.
- g) Excellent medical and educational facilities.
- f) Flexible immigration and employment rules.

1. BASIC INDUSTRIES AND FUTURE PROSOECTS

1.1 BAHRAIN MONETARY AGENCY

The Bahrain Monetary Agency has participated during 2001 alongside many Monetary Agencies, Central Banks and international financial centres in the Triennial Foreign Exchange and Derivatives Market Activity Survey conducted by the Bank for International Settlements. The number of Monetary Agencies and Central Banks that participated in this survey was 48, representing different countries and financial centres of which two were from Arab countries, Bahrain and the Kingdom of Saudi Arabia. The objective of the survey is to measure the size of foreign exchange and derivatives market activity on a global scale. The contribution of the BMA in this survey stems from it's dedication to the participation in such ventures reflecting Bahrain's role as an international financial centre and it's dedication to the concepts of transparency and data publication. The BMA also previously participated in two similar surveys in 1995 and 1998.

The survey is divided into two different parts as follows:

1. Foreign exchange and derivatives market turnover calculated on a daily basis for the month of April 2001.
2. Foreign exchange and derivatives market amounts outstanding at end-June 2001.
3. In accordance with the joint agreement between Monetary Agencies and Central Banks and the Bank for International Settlements, the BMA is pleased to announce the results of the first part of the survey as follows, bearing in mind that the joint release date for the second part is scheduled for early 2002.

Part One Results:

A. The sample:

The sample included in this part consisted of 37 financial institutions licensed by the Agency, representing 90% of total transactions in this sector. 9 commercial banks, 25 Offshore Banking Units, and 3 Investment Banks were represented in the survey.

B. Total Turnover:

Total turnover in foreign exchange and derivatives markets amounted to US\$ 67.0 billion in April 2001. The corresponding figure was US\$ 58.1 billion for April 1998, an increase of 15.3%.

C. Daily turnover:

Daily turnover reached US\$ 3.4 billion in April 2001. The corresponding figure was US\$ 2.9 billion for April 1998, an increase of 17.0%

D. Transactions by selected currencies:

The results of the survey indicate that the US dollar represented 75% of total transactions, the euro represented 13.9% and other currencies represented 6.8%. The Bahraini dinar accounted for 4.3% of the total value of transactions.

E. Transactions by type of activity:

Spot Market activity accounted for 45.9% of foreign exchange and derivatives market turnover in April 2001, foreign exchange swaps and outright forwards was 23.2% and 22.4 % respectively.

F. The Euro: Cash Change-over

Euro banknotes and coins will begin to circulate in the 12 participating European countries* on 1 January 2002.

1.1.3 Participation of the Bahrain Monetary Agency in the Foreign Exchange

Participation of the Bahrain Monetary Agency in the Foreign Exchange and Derivatives Market Activity Survey conducted by the Bank for International Settlements.

The Bahrain Monetary Agency (BMA) wishes to draw the attention of the general public of the transitional arrangements for the exchange of the present currencies of the twelve participating countries.

In the euro area countries, immediate steps will be taken from 1 January to withdraw the old 12 European national currencies from circulation. Early in the New Year these currencies will no longer be accepted for payment of goods and services and it is also likely that they will rapidly cease to be accepted anywhere in the world.

In Bahrain, members of the public requiring currency for travel to the euro area should be able to obtain euro banknotes from banks and moneychangers in the same manner as for other foreign currencies, although the new currency will not be available before 1 January. With regard to holdings of the 12 national currencies, members of the public should refer to their banks or moneychangers regarding the precise arrangements and costs, which may be involved in exchange of those currencies for euro banknotes.

However, in general:

1. People who are in possession of banknotes of the 12 European national currencies, and businesses which may from time to time accept payment in these currencies, are strongly advised to consider exchanging their holdings for Bahrain currency (or for other non-euro currencies), or paying them into a bank account, at the earliest opportunity. They are also advised to avoid any unnecessary further acquisition of the 12 European national currencies.
2. Although banks and moneychangers may continue to exchange notes of the 12 European national currencies for a limited period into the New Year, the rates for such exchange, or fees charged, may reflect the additional cost of returning the notes to Europe in order to obtain value.

3. In line with common practice for most foreign currencies, it is not expected that banks and moneychangers will exchange coins of the 12 European national currencies, or that they will stock euro-denominated coins.
4. Members of the public who expect to handle euro banknotes are advised to seek assistance from their bankers to familiarise themselves with the appearance of the banknotes and their incorporated security features.

* The twelve-euro countries are: Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal and Spain.

1.1.4 Listing of Leasing (Ijara Securities on Bahrain Stock Exchange)

This morning the Bahrain Government Leasing Securities, which mature in 2006, were officially listed on Bahrain Stock Exchange. Present at the listing were Mr. Khalid A. Al-Bassam, Executive Director-Banking Operations at the Bahrain Monetary Agency (BMA), and Mr. Ali S. Thamer, Acting Director for the Bahrain Stock Exchange, who witnessed the listing ceremony on the floor of Bahrain Stock Exchange (BSE).

On this important occasion, Mr. Al-Bassam said that BMA had issued on behalf of the Government of Bahrain these securities to the value of US\$100 million to provide for various infrastructure projects. At the same time these instruments are designed to create new investment opportunities for both financial institutions and private investors. He also added that the securities have 5-year maturities, starting 4th September 2001, and maturing on the 4th September 2006. The average annual lease return is 5.52% paid semi-annually with the first payment being on the 4th of March 2002 and the last payment is on the 4th of September 2006.

Mr. Thamer said that listing these securities comes as a result of the continuous co-ordination and co-operation between the BMA and BSE in developing the financial sector in general and the capital market in particular. This also comes in line with efforts for embryonic initiative for establishing the International Islamic Financial Market "IIFM" in which the BMA is working to establish in Bahrain in conjunction with several banks including the Islamic Development Bank and other central banks participating in the project. This will also be an encouragement for financial institutions to start issuing and listing tradable products compatible with Sharia'a, and at the same time servicing the funding requirements for those institutions, absorb the excess saving and liquidity and to develop the financial markets locally, regionally and internationally. It should also be noted that the Government of Bahrain has unconditional guarantee to buy the leased asset at maturity.

1.1.5 Measures taken by the Agency

Measures taken by the Agency to combat Money Laundering and to prevent the abuse of the financial system by terrorists, criminals or parties subject to United Nations Sanctions.

Since the foundation of the Agency in 1973, Banking Control has sought to ensure that the highest ethical and business practices have been maintained in Bahrain in the financial sector. The circulars listed below are the principal means by which the Agency seeks to implement best international disclosure and monitoring practices from bodies such as the United Nations, the Financial Action Task Force on Money Laundering, the Basel Committee on Banking

Supervision, the Financial Stability Forum, the Organization for Economic Cooperation and Development, the International Monetary Fund and other fora.

The circulars below are mandatory on our licensees and are complemented by licensing requirements, prudential reporting arrangements and the law (in the case of anti money laundering measures). Licensees' compliance with the Agency's regulations is assessed via regular on-site inspections by Agency staff and through reporting accountants' reports where required. Additionally, banks' external auditors are required to confirm annually in the published accounts that there have not been any breaches of the Agency's regulations. Copies of these circulars are available on request from the Agency.

Contributing around 77% of GDP and 50% of employment in 1998, services is by far the largest economic sector in Bahrain. The main activities include financial services, government services, real estate, trade, and transport and communication services. Along with manufacturing, the development of the services sector forms an important part of Bahrain's diversification strategy. A financial service, especially offshore banking, is well developed and the Government has continued to pursue reforms to strengthen the financial services sector further. This was also the only sector in which Bahrain made commitments under the GATS and under the Fifth Protocol. Bahrain's banking sector is regulated by the Bahrain Monetary Agency (BMA), and investors must be licensed by the BMA to open banking units in Bahrain or offshore. There are no foreign ownership restrictions for offshore banks, whereas up to 49% of the total equity of a local bank may be held by foreign nationals (up to 100% is permitted for GCC nationals). The insurance sector, which is regulated and supervised by the Ministry of Commerce, is subject to similar restrictions with regard to foreign investment. Bahrain has also been developing its stock market, which began operating in 1989, and recent reforms allow non-Bahrainis to own between a 49% (maximum for non-GCC nationals) and 100% (GCC nationals and companies) of the shares of listed companies.

FINANCE

TABLE 4

1995	1996	1997	Services
19	19	19	Commercial Banks
2	2	2	Specialized Banks
47	46	45	Offshore Banking Units
43	40	41	Representative Bureau
27	29	32	Investment Banks
19	19		Working Insurance Companies
27	27	24	Money Changers
6	7	6	Money Brokers
9	9	10	Investment Advisory and other Financial Services
Bahrain Monetary Agency Assets & Liabilities (in 000,000 BD)			
502.18	483.98	527.4	Assets
353.7	350.2	388.01	Foreign Exchange
2.5	2.5	2.5	Gold
123.24	107.57	86.71	Claims on Res. Banks
14.7	16.7	43.7	Claim on Government
8.04	7.01	6.48	Other Assets
502.18	483.98	527.4	Liabilities
0	0	0	Foreign Liabilities
117.57	117.17	122.71	Currency Issued
116.43	90.83	111.36	Local Banks Deposits
9.48	2.59	1.08	Government Deposits
20	24.5	23.5	Liabilities to Non-Banks
1.91	1.58	1.03	Other Liabilities
236.79	247.3	267.71	Capital & Reserves
560.8	633.3	705.8	Actual State Revenues (in 000,000 BD)
318.6	393.4	422.7	Oil
242.2	239.9	283.1	Non Oil
626.1	627.3	703.6	Actual State Expenditures (in 000,000BD)
521.3	524	553.1	Recurrent Expenditures
104.8	103.3	150.5	Non Recurrent Expenditure
National Accounts (000,000 BD Current Prices)			
2199.4	2294.3	2387.4	Gross Domestic Product
1974.8	2034.6	2037.6	Gross National Product
3171.8	3126.9	3040.7	Per Capita Income (BD)

SOURCES: NATIONAL BANK OF BAHRAIN 1999

1.4 ALUMINUM AL-BAHRAIN

Alba's success as a primary producer of high-grade aluminium has brought significant economic benefits to the region and taken the country technologically into the 21st Century.

The mid 1960s, the Bahrain Government was seeking to diversify its economic base from a heavy dependence on oil. The aim was to establish a suitable industry, which would provide valuable export earnings, develop the country's resources and create training and employment opportunities for a large number of Bahrainis.

Bahrain was well situated geographically between the source of raw materials, particularly alumina from Australia, and the markets for primary aluminium in Asia, Europe and the Americas. Bahrain's prime advantage was its plentiful supply of gas from the Khuff field to meet the high-energy requirements of aluminium production

Aluminium Bahrain was therefore incorporated by Charter in 1968 and officially commissioned on 11th May 1971 as a 120,000 tonnes per annum smelter.

Today, the company produces more than 500,000 tonnes per annum, having expanded in 1981, 1990, 1992 and 1997 - making the smelter one of the largest single-site producers of aluminium in the world. The three shareholders are the Government of Bahrain (77%), the Saudi Public Investment Fund (20%) and Breton Investments (3%).

1.2.1 Aluminium process

Aluminium is the most abundant metallic element in the earth's crust with most rocks and clays containing aluminium oxide (alumina). However, it was not until 1886 that the production process known as electrolytic reduction was discovered, enabling aluminium to become one of the worlds most widely used metals.

The electrolysis takes place in a steel vessel called a cell. The cell, maintained at a temperature of about 965°C, is lined with carbon and contains a melt or electrolyte of molten cryolite. Carbon blocks are suspended above the cell and partially immersed in the electrolyte to act as anodes while the carbon lining of the cell acts as a cathode.

Alumina is fed into the electrolyte and separates into positively charged ions of aluminium and negatively charged ions of oxygen. Direct current applied across each cell moves the ions in opposite directions. The oxygen rises to the anode where it burns the carbon to form carbon dioxide. The molten aluminium settles at the bottom of the cell where, at regular intervals, it is extracted - or tapped - using a vacuum crucible.

To sustain the electrolytic process, alumina is fed into the cells continuously - 365 days a year - to always maintain a sufficient quantity of dissolved alumina in the electrolyte.

The raw materials required to produce one tonne of aluminium are 1.9 tonnes of alumina; 418 kg of carbon (a blend of petroleum coke and pitch) and 17.5 kg of aluminium fluoride.

1.2.2 Power

To supply the energy needed for aluminium production, Alba has its own power station facilities with a total generating capacity of 1,504MW. Use is made of combined cycle technology which

allows Alba to achieve optimum power generation efficiency. In simple terms, waste heat generated by the gas turbines is passed through heat recovery boilers to produce steam to power the steam turbines.

The power plant also provides up to 275MW of electricity to the Bahrain Government during the summer.

1.2.3 Carbon

Petroleum coke is crushed and blended with pitch and pressed into green anodes. These are baked in kilns for 17 days at a maximum temperature of 1,250°C.

Once in the cell, the carbon anodes are gradually consumed during the electrolytic process and are therefore replaced approximately every 28 days. The remains of these spent anodes - the butts - are returned from the reduction areas and recycled.

Alba's carbon department provides a continuous supply of replacement anodes, producing some 457,000 tonnes of baked anodes each year.

1.2.4 Metal Production

Alba has four reduction lines with a total of 1,048 cells. It is here that the electrolytic process takes place.

Following the modernisation of all the original cells, all four reduction lines now share the same high degree of operational efficiency and environmental control. Using the latest technology, traditionally manual tasks have been automated resulting in significantly improved working conditions

1.2.5 Cast house

From the reduction lines, liquid metal is transported to the cast house where it is poured into mixing furnaces where elements such as silicon, magnesium, copper, iron, titanium or boron are added to meet the customers' required alloy specifications. The prepared aluminium is then cast either in solid mould ingots or direct chill (DC) casting machines.

The four types of products cast at Alba are:

1. Standard ingot - used for remelting;
2. T-ingot - a larger version of the standard ingot;
3. Billet - for extrusion of aluminium profiles or sections;
4. Rolling slab - used in rolling mills for plate sheet and foil.

In addition, liquid metal is transported from the cast houses to downstream industries located adjacent to the plant.

The Metallurgy department uses a wide range of sophisticated analytical instruments to ensure that only top quality products leave the plant. Metal purity levels of up to 99.9% are consistently achieved. Indeed, the cast house being awarded ISO 9002 certification in 1994 underlined Alba's commitment to quality.

1.2.6 Environment

A comprehensive environmental protection programme is an integral part of Alba and today the company is one of the Gulf's greatest environmental success stories.

This commitment to environmental protection has involved a concerted initiative to take advantage of the latest environmental control technology and monitoring techniques. For example, all the reduction lines are now connected to state-of-the-art fume treatment plants, thus virtually eliminating fluoride and dust emissions.

Alba's ongoing investment has seen the company invest around US\$350m in environmental protection projects alone since 1987.

In 2000, Alba was accredited with the Environmental Management System standard ISO 14001 an excellent plant wide achievement given the size and diversity of its operations.

Environmental awards include the Millennium Business Award for Environmental Achievement. Alba was one of only 12 companies in the world to win this prestigious award in 2000, which was presented by the United Nations Environment Programme in conjunction with the International Chamber of Commerce.

1.2.7 Human Resources

Alba is an investment in metal production. More importantly, it is an investment in people - the people of Bahrain.

As the pioneer of industrial diversification in the country, Alba has always assumed the role of a trail-blazer - initiating strategies for Bahrainisation and human resources development, safe working practices, quality control and automation programmes to enhance the working environment of its employees.

The company has a dedicated Training Centre and provides a range of managerial, technical and general development courses throughout the year - facilitating training each year for around 70% of its workforce. Competency-based assessment and training forms the backbone for the development and subsequent promotion of operational employees and a long-standing commitment to the training of nationals means the company has a Bahrainisation level of close to 90%.

Alba was the first in Bahrain to implement a plant wide Information technology system which integrates all aspects of its operations.

Services to its employees include a comprehensive Medical Centre, subsidised canteens, an attractive savings benefit scheme, a well-equipped sports and leisure club, a unique housing scheme, transportation to work for all non-supervisory employees and a number of reward schemes including the Good Suggestion Scheme, Attendance Award and Gold Card scheme.

Alba pioneered the concept of joint consultation in Bahrain and today the Joint Consultation Committee plays an important role in the success of teamwork on the plant.

Families of employees are also supported through annual programmes including granting of scholarships, the distribution of comprehensive school kits to children aged 6-15, a work experience programme and a Summer Camp which enables employees' children to participate in a number of sports and leisure activities.

Alba also plays a key role in the community and economy of Bahrain, funding and supporting major events, exhibitions and sporting competitions each year.

1.2.8 Marketing

Alba is responsible for the worldwide sales and marketing of its metal for its shareholders the Bahrain Government and the Saudi Public Investment Fund.

Approximately half of Alba's metal (in the form of rolling slab, billets, ingots, T-ingots and hot metal) supplies the growing downstream aluminium industry in Bahrain. These companies include Garmco, Balexco, Medal Cables, Aluwheel and Bahrain Atomisers. Alba also exports to more than 25 countries throughout the world.

The promotion of value-added products such as billet and rolling slab was very successful throughout the year with a record amount sold of both these products.

Marketing continued to develop its markets both locally and overseas - balancing exports to 28 countries whilst meeting all the needs of the downstream industries in Bahrain.

Metal to Alba's downstream industries constitutes 46%, Other GCC Countries 14%, the Far East 21%, S.E. Asia 8% and others 11%.

2000 was Alba's first full year of being responsible for the worldwide sales and marketing of aluminium for its shareholders the Bahrain Government and Saudi Public Investment Fund.

Marketing is now fully integrated into Alba and the Board of Directors officially opened a new building for the department in November.

1.2.9 Projects

Alba will commission its 450,000 tonnes per annum coke calcining plant and 41,000 culm per day seawater desalination plant in the summer of 2001.

This will be the first coke calcining plant in the Middle East and will create more than 130 jobs at Alba's Marine Terminal.

Up to 1,500 people have been working on the plant at any one time. The kilns, coke coolers and incinerator sections were lifted onto their support piers early in the year and have since been welded together - with refractory work well underway.

Following on from the completion of the two 50,000 tonnes alumina silos in May, the conveyors and pneumatic ductwork for the alumina transport system were completed.

The new jetty facility received its first raw materials in the autumn, utilizing the new suction unloading system, belt conveyors and airside conveyors for transportation to the silos. The jetty can accommodate ships of up to 60,000 tonnes, a 50% increase in capacity.

Aluminium Products

TABLE 5

1995	1996	1997	Services
(In, 000 Metric Ton)			
219	205	178	Standard Ingot
1	...	0	Bus Bar
66	60	85	Rolling Ingot
104	117	150	Extrusion Billet
0.6	14	11	T.Ingot
62	69	87	Liquid Metal
48	38	63	Aluminium Coils
20	19	27	Aluminium Flat Sheets
44	40	40	Aluminium Circle Rods
9	14	17	Aluminium Conductors
11	10	14	Aluminium Profiled Allied
4	4	5	Aluminium powder
0.3	...	0	Alum. ultrafine powder
...	0.7	0.7	Alum. Pellet

SOURCES: NATIONAL BANK OF BAHRAIN 1999

Summary

These achievements include:

1. Winning a GCC-wide award recognising Alba's HRD commitment;
2. Winning the international Millennium Business Award for Environmental Achievement;
3. Re-certification to ISO 9002, a standard by which Alba has operated since 1994;
4. A record level of production - with net finished product standing at 509,690 metric tonnes;
5. Accreditation to the Environmental Management System standard ISO 14001;
6. Alba became the first company in Bahrain to fully implement a plant wide integrated IT system;
7. A Marketing building was opened in November.
8. A Technical Services Centre encompassing an R&D facility was opened;
9. A 450,000 tonnes per annum coke calcining plant and 41,000 cu. m. per day seawater desalination plant will be commissioned in the summer of 2001. This coke calcining plant will be the first in the Middle East;

Health, Safety & Environment:

1. The Medical team produced a First Aid Guide for distribution in the community;
2. The company achieved the Environmental Management System standard ISO 14001;
3. Alba was one of only 12 companies in the world - and the only one in the Middle East - to win the Millennium Business Award for Environmental Achievement;
4. Alba won an award for its endeavours to help people stop smoking;

5. Departments continued to achieve new safety records and - for the first time ever - Reduction Lines 1-3 and Reduction Line 4 both achieved one million hours without a Lost Time Accident;
6. The Board of Directors announced the building of a new US\$8m health centre on the plant;
7. Recycling schemes began for waste paper, cartons, scrap steel, plastics and timber.

Operations:

1. The detailed planning and engineering work was completed for the conversion of kiln 2;
2. Billet produced was a record 197,019 mt, 24,300 mt higher than in 1999;
3. Hot metal production at the end of the year stood at 509,038 metric tonnes (mt), 10,020 mt above plan and 6,375 mt more than in 1999;
4. Net finished product at the end of the year stood at 509,690 metric tonnes, 14,708 mt above plan and 8,769 mt more than in 1999;
5. Excellent metal purity level of 99.9% in the Reduction Lines;
6. Alba once again met its commitment to provide the national grid with up to 275MW of power as well as meeting the requirements of the smelter;
7. The Technical Services Centre, a purpose-built facility which not only houses the Environment, Metallurgy and Laboratory departments but also Research & Development was opened;
8. A new high-quality building for the Marketing Department was built;
9. In line with the objective to reduce the company's inventory, stock value was reduced during the year by 20%

Projects:

1. The new jetty facility, capable of receiving ships with a 60,000 tonnes capacity, received its first raw materials in the autumn, utilising the new suction unloading system, belt conveyors and airside conveyors for transportation to the silos.
2. Alba will commission its 450,000 tonnes per annum coke calcining plant and 41,000 culm per day seawater desalination plant in the summer of 2001. This will be the first coke calcining plant in the Middle East and will create more than 130 jobs at Alba's Marine Terminal.

Marketing:

1. The promotion of value-added products such as billet and rolling slab was very successful throughout the year with a record amount sold of both these products;
2. Marketing continued to develop its markets both locally and overseas - balancing exports to 28 countries whilst meeting all the needs of the downstream industries in Bahrain. Metal to Alba's downstream industries constitutes 46%, Other GCC Countries 14%, the Far East 21%, S.E. Asia 8% and others 11%.

Administration:

1. Alba confirmed its status as a leader in human resources development in the Gulf, winning a Gulf-wide award for its high level of Bahrainisation achieved through training;
2. The Alba Vocational Qualifications scheme was fully implemented;

3. Almost 1,700 of the 2,475 employees received training in, for example, enhancing their management, engineering, technician and craft skills during the year;
4. Three new SAP IT modules implemented for plant wide integration;
5. Major training areas also included for ISO 14001 and the coke calcining plant;
6. Alba celebrated 25 years of joint consultation on the plant;
7. Alba built shelters to protect all employees' cars in the main car parks;
8. Alba enabled 33 employees to take possession of their new homes which were built under the company's Albaskan housing scheme;
9. Alba organised a two-month summer camp for 400 children of employees.

1.5 OIL INDUSTRY

BAPCO was formed in 1929, as a wholly owned subsidiary of Caltex Petroleum Corporation, a joint venture of Standard Oil Of California (now Chevron) and the Texas Company (now Texaco). Caltex retained a 40% share in the company in 1981 but by 1997 the Bahrain government assumed total ownership. The refinery's current capacity is over 250,000 barrels/day, supplying a range of petroleum products for local and export markets. Approximately one-sixth of its crude oil is obtained from wells in Bahrain, the balance being supplied from Saudi Arabia through undersea pipelines.

1.3.1 Plant Upgrade Project Timescale

The project has a relatively lengthy time scale of six years. The plant upgrade was begun in 1998 and is due to be completed in all its aspects by 2004. The award of the various component contracts took two years.

1.3.2 Diesel Oil Sulphur Reduction

In May 1999 Bechtel Ltd was awarded a contract to conduct a study of the engineering work for a project to reduce the amount of sulphur in Bapco's diesel oil. The FEED (front-end Engineering Design) phase was completed in December 1999, and was followed by the EPC (Engineering Procurement and Construction) phase. The estimated cost of this part of the project is \$400 million. This stage of the project is expected to be completed by late 2002.

BAPCO is also seeking to further reduce the sulphur content in its diesel to 0.05% from the current figure of around 0.5%. In 1998, BAPCO awarded JGC Corporation of Japan a lump sum contract for an in-line blending project at a cost of around \$66 million. This was completed in the middle of 2000.

The project will enable BAPCO to optimise the production of on-specification finished products, improve safety in handling components and products and facilitate flexibility in changing the product mix to respond to market opportunities. BAPCO has approved a project to replace the 50-year-old generator control unit west gas compressors with a single rotary machine.

BAPCO has implemented the production of unleaded gasoline, which involves the upgrading of catalytic reformer and facilities to import MTBE (methyl tertiary butyl ether) as blend stock, at a cost of \$6.9 million. This project was completed in the third quarter of 2000, enabling Bahrain to produce unleaded gasoline. There is also a scheduled \$21.5 million replacement of the gas compressors in 2001, which will improve process efficiency and reduce maintenance costs.

1.3.3 Bahrain national gas company

Despite its relatively diversified economy, Bahrain depends to a large extent on sales of petroleum and petroleum products for economic growth. The majority of its petroleum (almost 79%) comes from the offshore Abu Saafa oilfield in Saudi Arabia; at present, Bahrain receives all of the oil produced by this field, which is exported as crude. Bahrain also imports a significant amount of petroleum, mainly from Saudi Arabia; along with locally produced

petroleum, this is refined locally and exported. In 1998, petroleum and mining accounted for around 14% of GDP. The importance of the sector has been declining, however, prompting efforts to increase exploration in addition to diversification of the economic base.

The Supreme Council of Petroleum, headed by the Prime Minister oversees policy issues relating to petroleum and natural gas. Until January 2000, the state-owned company, the Bahrain National Oil Company (BANOCO), carried out the production and distribution of petroleum. In January 2000, BANOCO was merged with the Bahrain Petroleum Company (BAPCO), also state owned, which previously managed Bahrain's oil refinery. The new company BAPCO will henceforth be responsible for exploration, crude and refined oil production as well as distribution and marketing, both in Bahrain and abroad. Private investment is allowed in petroleum refining, and in petroleum extraction, through production-, sharing agreements with the Government of Bahrain; with the exception of Chevron Corporation, however, which is involved in exploration activities, there is no private investment in the sector. In an effort to further develop Bahrain's petroleum resources, the Ministry of Oil and Industry has signed agreements with foreign companies to conduct exploration activities for oil and gas.

Natural gas is used mainly for local industry and for reinject ion. As for petroleum, BANOCO (now part of BAPCO) has a monopoly over the production of gas, whereas the Bahrain National Gas Company (BANAGAS), owned by the Government of Bahrain, Caltex and the Arab Petroleum Investment Corporation (APIC), operates Bahrain's gas liquefaction plant.

Domestic prices of petroleum and gas are controlled; gas prices remain below international rates despite an 80% increase in the price to consumers in 1998. Domestic distribution of petroleum and natural gas products may be carried out only by BANOCO (now part of BAPCO) and BANAGAS, respectively

1.3.4 Bahrain Oil Field

Associated gas is collected from 16 well manifolds in the Bahrain Oil Field. The gas is separated in gas oil separators (GOSPS) at a controlled pressure of about 35 psig. The separated gas is sent to the six compressor stations.

1.3.5 Compressor Stations

At each compressor station, gas from several GOSPS is gathered into an inlet header and compressed by a two-stage centrifugal compressor driven by gas turbines to about 420 psig. The gas is then cooled by air fans to 110 °F, and dehydrated.

During the process some of the gas is condensed and sent to Banagas's Central Gas Plant (CGP). The compressed gas however contains some water vapour and acidic gases like carbon dioxide and hydrogen sulphide.

The water vapour may condense in the pipe line due to natural cooling and the free water, together with hydrogen sulphide and carbon dioxide present in the associated gas stream, will form corrosive acid. To avoid this the compressed gas is dried in a glycol dehydration unit before being pumped through gas pipelines to the CGP.

1.3.6 Central Gas Plant

The original plant was commissioned in 1980 with a capacity of 110 MMSCFD of Associated Gas.

After a series of plant expansions, BANAGAS now operates two process trains with a total gas throughput of 280 MMSCFD; of which 30MMSCFD is high pressure Arab Gas. The two process trains are identical and use refrigerated lean oil-heavy Naphtha to recover LPG from the feed gas.

Each train consists of condensate, absorption, fractionation, treating and intermediate storage sections:

Condense from the compressor stations including existing ones from gas absorption system enters the condense system where fluctuation in condense feed flow is absorbed and any solids and water are separated. The condense draw off from the condense system is fed to the Depropanizer for fractionation. The gas from the condense system is combined with the feed gas for the absorption system.

1.3.7 Treating Section

Propane and Butane contain contaminants such as hydrogen sulphide, carbonyl sulphide and mercaptans.

For the removal of carbonyl sulphide and mercaptans both Propane and Butane are treated in a fluidised bed of solid potassium hydroxide (KOH). Prior to this, Propane is treated by Diethanol Amine solution to remove hydrogen sulphide.

1.3.8 Intermediate Storage Section

Treated Propane and Butane products are routed to four horizontal tanks (bullets). After the product is circulated and analysed for purity and water content it is routed to two spherical tanks. If any product fails to meet the required specification it is returned to the Gas Plant to be reprocessed. Only " On-spec-products" are pumped from their respective spheres to the refrigerated storage at Sitra.

A very small quantity of Propane product is sold in the local market, after being loaded in pressurized trucks. Naphtha product is stored in three floating roof tanks. "On-spec" Naphtha is pumped directly to the Bapco Refinery for storage and subsequent export.

2. SMALL AND MEDIUM SCALE INDUSTRIES

State of Bahrain paid equal attention for the promotion of small and medium scale industries through private sectors participation. The initial development is meant for industries related to food, beverages, furniture and building materials, which essentially produced import substitution products. The establishment of hydrocarbons based basic industries gave impetus for production of plastics and metallic mineral and fabricated metal products industries. Further similar small and medium scale industries as ancillary industries to basic industries have also been established.

Recognising the employment potential of small and medium scale industries, the state of Bahrain issued law no.(11) of 1980 which have subsequently replaced by law no.(9) of 1995 to encourage investments from the private sector into small and medium scale industries. An industrial estate especially meant for small and medium scaled industries and provided with the required infrastructure and utilities were established at Al-Shorra in the outskirts of the capital city Manama.

The Department Of Industrial Development, Ministry of Energy, Electricity and Water is the focal point for the promotion of small and medium scale industries through private sector participation. As such (DID) is involved in studies as well as licensing and control of small and medium scale industries. (DID) is also involved in project evaluation and offering advice to private sector on various project proposals submitted to (DID). (DID) also coordinates with Bahrain industrial development bank and the environment department.

The Government's efforts for the promotion of small and medium scale industries have been successful as can be seen from 326 private sector establishment actually in production at the end of 1999.

Details of registered establishment, capital investment and number of workers according to industrial activity are as per the table and diagrams included here.

With the availability of more industrial raw materials from the expanding basic industrial activities coupled with attractive incentives offered by the Government of Bahrain, the state of Bahrain is a very ideal location for establishment of joint ventures in small and medium scale industries. Such industries can serve local, (GCC) as well as near by Arab and Asian market.

2.1 Establishment registered according to industrial activity

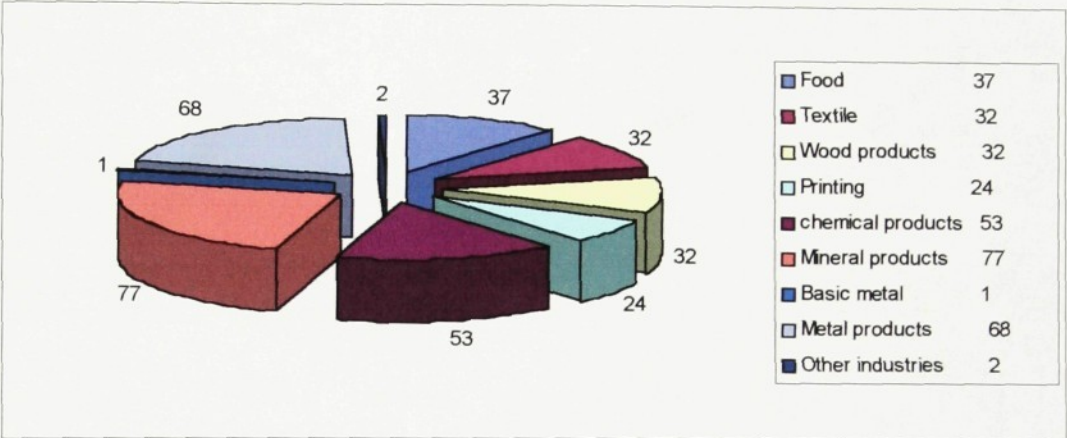
TABLE 6

ISIC Division	Industrial Activity	No. Of EST	Annual Production (000) BD	Capital investment (000) BD	National Investment (000) BD	No. of Workers
31	Manufacture Of Food And Tobacco	37	434485.7	883934.2	86.2%	2084
32	Textiles, Wearing And Leather Industries	32	274525.1	128039.2	96.4%	8690
33	Man. Of Wood And Products	32	108441.1	50423.3	96.1%	1442
34	Man. Of Paper And Paper Products	24	131199.0	164779.6	100%	1341
35	Man. Of Chemicals, Petroleum And Plastics	53	3191078.0	8436229.1	81.6%	3629
36	Man. Of Non-Metallic Mineral Prod.	77	377719.1	1235795.1	95.8%	3787
37	Basic Metallic Industries	1	660000.0	1493064.0	100%	1166
38	Man. Of Fabricated Metal	68	242017.4	777806.5	98.8%	1795
39	Other Man. Industries	2	32751.2	4791.0	63.3%	57
	TOTAL	326	5846416.6	13174862.2	86.7%	23991

SOURCES: NATIONAL BANK OF BAHRAIN 1999

2.2 NUMBER OF ESTABLISHMENT REGISTERED ACCORDING TO THE INDUSTRIAL ACTIVITY

FIG.1



SOURCES: NATIONAL BANK OF BAHRAIN 1999

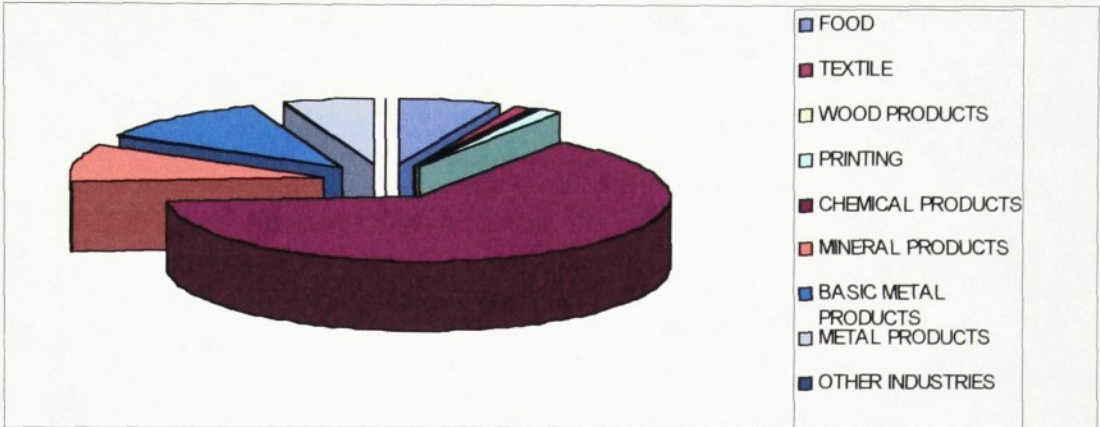
2.3 CAPITAL INVESTMENT ACCORDING TO THE INDUSTRIAL ACTIVITY IN BD.

TABLE 7

Food	884
Textile	128
Wood products	50
Printing	165
Chemical products	8436
Mineral products	1236
Basic metal	1493
Metal products	778
Other industries	5

SOURCES: NATIONAL BANK OF BAHRAIN 1999

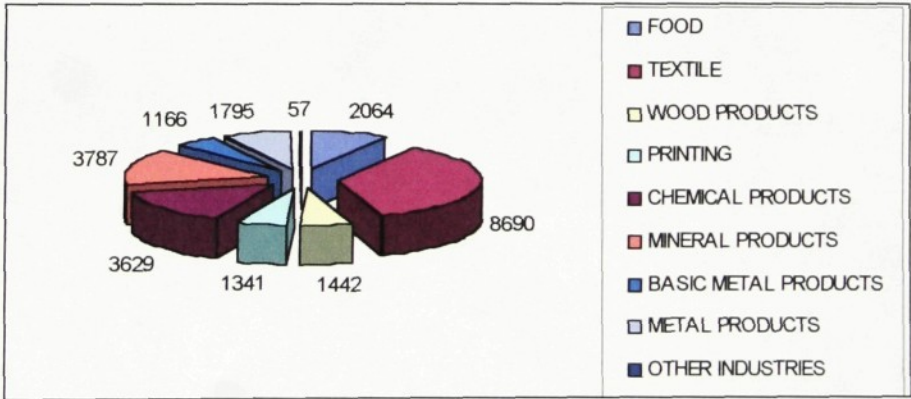
FIG.2



SOURCES: NATIONAL BANK OF BAHRAIN 1999

2.4 NUMBER OF WORKERS ACCORDING TO THE INDUSTRIAL ACTIVITY

FIG.3



SOURCES: NATIONAL BANK OF BAHRAIN 1999

3. ECONOMIC RELATIONSHIPS BETWEEN BAHRAIN AND EU.

3.1 EU-Bahrain Trade and Economic Relations

Bahrain and EU have enjoyed economic and trade relations spanning over several centuries. Since the oil boom of early seventies these relations received a new impetus. Relative prosperity and higher standard of living boosted global imports of goods and services including from EU. Government's policy of industrial diversification also played its role in enhancing economic cooperation between these countries. In addition, new job opportunities attracted a large number of EU expatriates to the Island.

EU and Bahrain signed an economic and technical cooperation agreement in April 1995 during the visit of the Amir to Belgium. Instrument of Ratification were exchanged in 1998. The first meeting of the EU-Bahrain Joint Economic and Technical Committee was held in Belgium in 1998 and the second in Bahrain in 1998. The third session is tube held in Belgium from 11th to 12th November 1998.

3.2 The figures of EU's total non-oil exports to and imports from Bahrain for the last five years are given below:-

TABLE 8

	1992	1993	1994	1995	1996	1997	1998
(Figures in Million Dollars) (Jan-June)							
EU's exports to Bahrain	73.2	87.79	98.39	89.76	96.39	95.48	44.77
EU's imports from Bahrain	32.5	62.10	101.0	102.9	84.69	136.09	30.97

SOURCES: NATIONAL BANK OF BAHRAIN 1999

3.3 The top five items of export from EU in1997 are:

- Textiles and related products (BD 9,812,385)
- Rice (BD 2,838,107)
- Wood and related products (BD 2,041,001)
- Vegetables and its products (BD 2,027,861)
- Meat and meat products (BD 1,449,334)

There are good prospects for export of EU products, particularly agricultural products, sanitary fixtures, drugs & pharmaceuticals, plywood, ceramic tiles, power generation and transmission equipment, light engineering goods, leather products, textiles and related products.

There is a large business community in Bahrain, which's engaged primarily in trading activity. They have invested in their business establishments and are regular stockists of EU products. These include agencies for Rama and Rowlex watches, televisions, etc. The following are the important joint venture projects planned to be set up in Bahrain/already operating in Bahrain:-

3.4 PROPOSED

- a) Nippon-Denro Ispat Group is setting up a sponge iron plant with a capacity of 1.2 million tonnes per annum. The investment will be US\$ 300 million. The construction work is expected to start early next year.
- b) Essar Group are setting up a colour coated steel coils and sheets plant in Bahrain with a capacity of 50,000 tonnes per annum. The estimated investment for this project will be US\$ 30 million. The Essar Group as yet don't have a local representative office.
- c) Oberoi Group of Industries is setting up a 200 room hotel in a joint venture with IBH Bahrain. The Bahraini partner will own 67% of the capital in the venture and the Oberoi will hold 33%. The hotel, which will cost US\$ 33 million, is expected to open in the year 2000.
- d) BITS: The Birla Institute of Technology (BIT) signed a Memorandum of Understanding (MoU) with the Minister of Labour and Social Affairs in April 1997, under which BIT will offer its technical courses in Bahrain. The BD 1 million project is being set up as an equal partnership joint venture between BIT and Mohammed Jalal and Sons. The Institute offers various courses in engineering sciences, which are most relevant to Bahrain's market needs. According to official sources, BIT would be the latest in a series of international training institutes of proven track record to make Bahrain their base. A delegation led by their Vice Chancellor visited Bahrain in August 1998 and reviewed progress with the Minister of Labour and Social Affairs.

3.5 Labour Relations:

Our labour enjoys a good reputation in terms of their conduct, loyalty, higher productivity and non-involvement in local affairs. There is a preference amongst Bahrain's to employ Europeans over others. This is despite their experimenting with other nationalities. Nevertheless with such a large EU labour force, labour problems are inevitable. These problems include revision of employment agreements, premature termination of services, non-payment of salary, lack of proper living conditions, excessive working hours, lack of adequate safety measures at work-site, work accidents and deaths. A sizeable part of the workload is inevitably taken up in handling such issues.

Another recurring problem is the treatment accorded to European housemaids by their Bahraini employers, although this is not so frequent.

3.6 Cultural Relations:

A Cultural Agreement between EU and Bahrain was concluded in January 1990. This was followed by a two-year Cultural Exchange Programme (CEP), signed in April 1997, during the first state visit of the Amir of Bahrain to Europe. The current CEP is being negotiated and is expected to be renewed shortly.

There are more than 22 registered European associations, clubs and religious bodies on this Island. They frequently undertake cultural activities of a high standard with the help of local talent and sometimes with participation of artistes from Europe. In fact, the European cultural scene is rich and diverse in Bahrain. In addition, there are five European schools in Bahrain.

Conclusions:

EU and Bahrain enjoy a trouble free and close political relationship as also a mutually beneficial bilateral economic cooperation. These need to be constantly nurtured through periodic exchanges and visits. Bahrain is a small country but one which is nevertheless important for EU. It is a voice of moderation within the OIC. Over 5400 Europeans make their living in the country. Culturally they are very close. EU also exports a comparatively large amount of goods and services to Bahrain. Since most of Bahrain's needs are met through imports, there exists a good potential for enhanced exports from EU. Our private sector has to play more active role in this area. Participation in exhibitions, bilateral business visits and consistency in quality and supply schedules can go a long way in promoting our exports. Policy of Bahrain Government to expand and diversify their industrial base offers a good opportunity for joint ventures especially in the small and medium industries. Implicitly, GCC markets are available to such joint ventures without attracting any duty; besides, they're being no restrictions on repatriation of capital and profits.

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