for the last 10 years, has played the major role in channeling Saudi funds into worthless U.S. Treasury Bills estimated at up to $6 billion. $7 billion of these Saudi funds also exist as direct short-term deposits with Chase, Citibank and Bankers Trust, while the rest is in Swiss financial institutions.

Meanwhile Arab bankers, despite their alliance with the New York banks, have been booted out of the Eurobond market. In 1974-75 the Arab houses managed or co-managed $2.9 billion, or 32 percent, of the value of international bond issues. In 1976, placements by the Arabs in the Eurobond market dropped to 7.5 percent. The reason for such a drop, according to Magdi Tamanli of Arab Financial Consultants, a Kuwaiti investment banking firm, is that the Arabs "were kicked out of lots of deals" last year as a result of conscious policy against Arab capital by the U.S. banks.

# Producing Nations Expand Oil Transport

The 1973 oil price rise resulted in a major slump in the oil tanker industry. By mid-1975 50 percent or 200 million tons of existing tanker capacity was laid up, and this reached 290 million tons within a year. In addition orders for more than 30 million dead weight tons (dwt) of oil tankers were cancelled in 1974. In Japan, once the largest tanker building nation, orders have dropped to half of that of 1974. Now almost all the Japanese shipyards face bankruptcy.

Nevertheless the Arab oil producing countries are moving into the tanker industry, providing capital to the European shipyards and concluding joint ventures with Japanese tanker companies.

The efforts by the Arab countries to form their own independent fleet to transport oil to Europe has been crystalized by the formation of two companies, the Arab Maritime Petroleum Transport Company (AMPTC), jointly owned by the governments of six Arab oil countries and the United Arab Shipping Company (UASC) established in January 1976, with allocated capital of $600 million and an expected fleet of 150 vessels by 1980.

Since 1973, the oil nations' share of the world's fleet has vastly increased. The tanker tonnage under the Arab flags has jumped from 1 million in 1973, to almost 6 million at present. Joint ventures with state owned European oil companies have been concluded. The most important example is the Iranian deal with the British controlled oil company BP concluded in 1975. Under this deal, the Iranian National Oil Company (NIOC) and BP established a jointly managed oil tanker fleet. Ten of BP's oil tankers were sold to NIOC and a similar volume of BP-owned tanker tonnage under the British flag was supplied in mid-1976 to the new Iranian fleet. This pool of shipping will be used by both parties and operated under joint management from London.

At present the Arab countries own 58 tankers accounting for 1.7 percent of the world fleet. The Arabs have an additional order of 24 ships, totalling 4.5 million dwt, due for delivery over the next five years, which would increase their ownership share to an estimated 2.5 percent: shipping experts think they will expand much faster. Ian Foster, managing director of London's Galbrath Wrightson Ltd., acting agent for Kuwaiti ships, sees their total share going to 10 percent while other British shipping consultants, H.P. Drewry Ltd., peg it at an eventual 20 percent.

One more sign that the Arab oil countries are serious about becoming a force in shipping is their intensive effort to train crews. In 1975 OPEC arranged to set up maritime academies at Jidda, Saudi Arabia; Basrah, Iraq; and Doha in the sheikdom of Qatar. Trainees are being sent overseas currently some 500 Arab and Iranian cadets are studying under the auspices of *Y-ard Ltd.*, a subsidiary of Scotland's Yarrow shipbuilding group.

The Middle East nations as a whole are moving to establish building facilities for ship-yards for the construction of oil tankers. At a major international shipping conference held in Kuwait Feb. 17-18, 1976, the chairman of the Kuwaiti Tanker Company noted Arab interest in developing a shipbuilding a repair capacity both because "this industry is considered one of the most important and strategic industries with regard to the aspirations of the Arab countries" and because it could "become the axis of development which creates large industrial opportunities" for the region.

As a result of the decisions made in 1976, the Arab countries have allocated millions of dollars for the construction of shipyards. Iran is constructing a repair yard and building complex at Bandar Abbas with a dry dock for VLCCs (tankers of unusual size and capacity - ed.) of up to 400,000 dwt and facilities for the Iranian navy.

Other projects include the Kuwait Shipbuilding and Repair Yard Company, with Kuwait Shipping Company (KSC) participation, designed to accommodate ships of up to 20,000 dwt and the construction of vessels 3,000 dwt. After the Kuwaiti Shipping Company decision to transfer its entire fleet to United Arab Shipping Co. (UASC) and participate actively in the management of UASC, authorized the Kuwait Oil Transport Company (KOTC), to acquire a building capacity for vessels in 2-25 dwt range in anticipation of large orders from the UASC. KOTC is both the largest and most experienced of the Arab tanker companies, and has been managed by British interest and control by the Kuwaiti government.

Iraq is developing a building and repair facility at Basra involving the construction of ships of 1,500 dwt. Saudi Arabia has entered into an agreement with Marcona Corporation of the U.S. for a joint project involving a steel plant and shipbuilding yard to be constructed near Jeddah. Saudi Arabia has also invested in the construction of a shipyard for vessels of up to roughly 60,000 dwt in Malta.

Abu Dhabi is now in preliminary negotiations with unnamed West German shipbuilding companies for invesments. Meanwhile Saudi Arabia has established a series of joint shipping companies with Japanese and European interest. These ventures include the Saudi Arabian Shipping Company, the Arabian Maritime Company, the Hispanarabian Tanker Company, the Saudi Arabian Maritime Company (Samarco), the Saudi Orient Maritime Company, and the Red Sea Saudi Arabia Maritime Company. Mitsui OSK of Japan holds 40 percent share in the Saudi Arabian Shipping Company. Samarco has the U.S. firms of Mobil and Fairfield Maxwell as shareholders. Research and Development Corporation has agreed with Tor Line of Sweden to create the Saudi Maritime Transport Shipping Company. P and O and Shell have recently agreed with a Saudi concern to create the Saudinaft Tankers Company in which each will have a 23.5 percent participation and both compa

The biggest project undertaken by OPEC is the Bahrain dry dock. With initial capital of $500 million allocated in 1974, the Bahrain supertanker drydock off Muharrag Island will be ready to go into operation by the end of this year. Lisnave of Portugal will manage the supertanker dry-dock in Bahrain which will have the ability of handling up to 600,000 dwt. It is expected that in five years the Bahrain dry-dock will be one of the largest construction sites for LNGs (tankers carrying natural gas), and LPGs (petroleum carriers).

Moreover the Arab countries have established strong connections with the Europeans on the question of gas transport. The high cost of building modern LNGs has pushed Arab companies to seek participation from European shipyards. In Kuwait for example, the Kuwait Gas Tanker Company with KOTC has four LPGs of 70,000 cubic-meter, each costing up to $90 million ordered from the French shipyard La Ciota with delivery due at the end of this year. Actually Kuwait is a major investor in La Ciota through their shared control of the Beirut based Intra-Investment Company. Discussions are taking place between La Ciota by the Middle East Gas and Petrochemicals for four more orders. La Ciota also based in Kuwait was formed by the Kuwaiti Government, Bridgestone of Japan and the Multinational Gas and Petrochemical Company, a subsidiary of Phillips Petroleum. In the meantime Middle East Gas and Petrochemicals has placed orders for at least three LNGs of 52,000-cubic meters and other LGNs up to 30,000-cubic meters with Japanese shipping yards.

In the area of gas transport, Algeria leads the Middle East. The Algerian National Company CNAN has two gas carriers with a capacity of 36,557 tons, and five other LNG carriers are due for delivery in the next year. However, Algeria's plans for the development of natural gas and petrochemicals transport have run in to problems because of the lack of funds, and the unwillingness of some European countries to take the lead in such projects. CNAN, has complained that their financing conditions are unfavorable compared to some European companies and has argued that the nations building the vessels — those who will be importing the gas — ought to revise their finance policies to make significant reductions in the cost to themselves of gas transport. A major new port for handling natural gas built by Philipp Holzmann of West Germany at a cost of $400 million, provided by the Banque Nationale d'Algerie and the Finance ministries of Kuwait and West Germany, will be ready to go into operation by the middle of 1978.

# Egyptian Economy On The Brink

## EGYPT

Egypt's economy is in a dismal state, crippled by massive indebtedness, the beginnings of Chile-style super-inflation, and the decay of its fixed capital and infrastructure. This state of affairs is in part a function of the progressive collapse of the dollar-based monetary system in the 1973-77 period and of Egypt's maintenance of an astronomical defense budget, currently eating away at 40 percent of annual revenues. The disintegration is more directly attributable, however, to the anarchy that has prevailed under the country's reckless "Open Door" economic policy of the past three years, a policy increasingly overseen and managed by Chase Manhattan and the International Monetary Fund.

David Rockefeller and the IMF are applying intense pressure on the Sadat government to implement the same austerity measures that provoked large-scale popular uprisings throughout the country in mid-January. Abdel-Moneim Kaissouny, the Chase-backed Deputy Premier for Economic Affairs who rushed through the January measures behind the backs of the rest of the Egyptian cabinet, is now in the United States for meetings with Chase and the IMF, and announced before leaving Cairo that the reform measures, including reduction of food subsidies by $1 billion and the conversion of the Egyptian pound to a unitary convertible (50 percent devalued) level, would be put into effect. Kaissouny is now slated to be head of an Egyptian version of New York City's Emergency Financial Control Board. The IMF wants to use April 22 Paris meetings of Egypt's creditors in order to form an EFCB-type oversight board to manage cuts in consumption.

Yet for the international business community to accept that Egypt is a country unattractive for development-oriented investment would be to accept a myth, notwithstanding official — if semi-confidential — assessments from Chase that Egypt is not viable for investors until it is radically "re-structured." Egypt has the incipient potential to be the industrializing heartland of the North Africa-West Asian region. Its strategic