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From: Sullivan, Jacob J <SullivanJJ@state.gov>
Sent: Sunday, September 12, 2010 10:53 AM
To: H
Subject: FW: (The Daily Mail) How Blair rescued Palestine deal worth \$200m to his £2m-a-year paymasters

FYI

From: Sidereas, Evyenia M
To: S_SpecialAssistants
Cc: SES_DutyDeputies; SES-O_SWO
Sent: Sun Sep 12 03:46:23 2010
Subject: FW: (The Daily Mail) How Blair rescued Palestine deal worth \$200m to his £2m-a-year paymasters

Colleagues,

FYI, in light of pending phone call with Blair later today.

Regards,
Evyenia

MailOnline

Special investigation: How Blair rescued Palestine deal worth \$200m to his £2m-a-year paymasters

By [David Rose](#)
Last updated at 12:42 AM on 12th September 2010

Tony Blair mounted an intense political lobbying campaign to rescue a struggling mobile-phone business owned by a client of the bank that pays him a £2 million annual salary.

The firm, Wataniya, had already built a brand-new network in the Israeli-occupied Palestinian West Bank. But it almost collapsed before launching its service, jeopardising a £450 million investment, because Israel's government was refusing to let it use the frequencies it needed to operate. Acting in his capacity as the international Middle East peace envoy, Mr Blair helped to save the company by spending months putting pressure on Israel's prime minister and his colleagues in a bid to change their minds.

An investigation by The Mail on Sunday has revealed:

- Mr Blair spoke of the need to get Wataniya up and running in order to boost the Palestinian economy. However JP Morgan, the American investment bank that employs him as a consultant, has a financial stake in Wataniya through Wataniya's owner, the Qatar firm Qtel, which is an important client of JP Morgan.
- Financial documents show that back in 2007, JP Morgan had been one of four 'mandated lead arrangers' of a \$2 billion loan with which Qtel bought Wataniya from its original Kuwaiti owners. Last year, the bank joined a syndicate that lent Qtel a further \$500 million, and became a 'lead arranger' for a Qtel bond issue which raised yet another \$1.5 billion.

In these deals, JP Morgan would have been paid many millions of pounds in fees, and if the loans had gone bad, could have been exposed to substantial losses. 'Its original exposure was probably around \$200 million,' one Wall Street expert said yesterday.

Last night a bank spokesman refused to comment, or to disclose any further details. He did not deny that Qtel was a significant JP Morgan client. A spokesman for Mr Blair said he had no knowledge of any connection between JP Morgan and Qtel.

Mr Blair's lobbying campaign also helped to enrich the family of the Palestinian Authority president, Mahmoud Abbas – a central figure in the search for Middle East peace. A firm run by his son Tarek has secured a lucrative contract to provide advertising for Wataniya. Mr Blair's envoy role – for which, as he has often boasted, he is not paid a salary – has now been enhanced.

Earlier this month, Mr Abbas, Mr Blair and the most important man he lobbied, Israeli Prime Minister Binyamin Netanyahu, sat down together in Washington with President Obama to begin new direct peace talks.

Last night Mr Blair faced calls to publish full details of the myriad business interests that have netted him a personal fortune estimated to be at least £15 million since he left office.

He is paid not only by JP Morgan but also by the insurance giant Zurich, and his own private consulting firm, Tony Blair Associates, counts among its clients the royal families of Abu Dhabi and Kuwait.

A frequent visitor to Libya, he has used his personal friendship with the dictator Colonel Gaddafi to explore business opportunities there on behalf of JP Morgan.

David Davis, the senior backbench Tory MP, said: 'There are now clear questions about how he has used his powers as a peace envoy and whether that has benefited his commercial sponsors.

'He must now put all his financial affairs into the public domain. Only then can we be sure he has behaved in an appropriate manner.'

Mr Blair was appointed an envoy on leaving Downing Street in June 2007. He represents the 'Quartet' – the United Nations, the US, the EU and Russia. His special area of responsibility is the Palestinian economy.

With ten rooms permanently booked at Jerusalem's most expensive hotel, the American Colony, at an annual cost of £1.1 million, he spends a few days there each month.

As The Mail on Sunday reported last year, many Palestinian businessmen say his achievements have been limited. Projects he has loudly supported – such as an international business park near the holy city of Hebron – have come to nothing.

'But Wataniya is the great exception,' one leading West Bank entrepreneur said yesterday. 'Indeed, until he finally managed to sort it out at the end of last year, it was difficult to get him to engage with anything else.'

When Mr Blair arrived in the Middle East in 2007, there was only one mobile firm, Jawwal, operating in the Palestinian Occupied Territories, Gaza and the West Bank. But Wataniya had already purchased licences for £313 million from Mr Abbas's Palestinian Authority to provide a competing service.

In July 2008, Mr Blair brokered what Wataniya thought was a cast-iron deal with Israel to make the frequencies it needed available. In order to provide a modern 3G service to include mobile internet, Wataniya had been seeking a bandwidth of 4.8 megahertz.

On the strength of this agreement, it continued to build mobile-phone masts, switching centres and other installations it needed to operate, spending a further £100 million.

It was set to launch in June last year. Meanwhile, amid fierce local controversy, Wataniya managed to secure special additional loans from a US government programme that had been set up to help Palestinian farmers and small businesses – despite the backing it had from Qtel and, indirectly, banks such as JP Morgan.

Launching this programme in 2007, the State Department said it was aimed at 'an olive grower who wants to expand operations, a young person with a small information technology company, or someone who wants to hire neighbours to produce and export Palestinian embroidery' – not a £450 million mobile network.

The US loans to Wataniya, though worth a relatively modest £11 million, deprived other enterprises of them.

Critics pointed to the fact that involved with Wataniya were leading members of the Palestinian elite around Mr Abbas. Its Palestine chairman is Mohammad Mustafa – his financial adviser and closest associate, who accompanies him on virtually every foreign trip.

'In the meetings he had with the Prime Minister, he brought it up time and time again, and kept pushing, pushing.'

In the late spring of 2009, Mr Blair's frequency deal unravelled. Claiming that the Palestinian Authority had failed to fulfil unspecified commitments, Israel refused to release the necessary bandwidth. Wataniya teetered on the brink of collapse as first the June and then a second October launch date, came and went, with the network still inoperative.

Alan Richardson, a Scottish engineer who had already set up a mobile network in Iraq, was Wataniya's Palestine chief executive until June this year.

'We invested according to a business plan that was based on false promises,' he told me last October. 'We cannot meet our subscriber targets with the frequencies they are offering.'

However, Mr Blair was furiously trying to rescue the company. 'From day one of this problem, he's been very proactive through his role as Quartet representative,' Mr Richardson said.

A senior Israeli official said last week: 'In the meetings he had with the Prime Minister, he brought it up time and time again, and kept pushing, pushing.'

One reason the Israelis advanced for not releasing the bandwidth was security – claiming it needed the frequencies for military communications. Another Israeli source confirmed that Mr Blair repeatedly raised the matter in meetings with Israel's defence minister, Ehud Barak.

Mr Blair made several public statements about the Wataniya frequency dispute, and did not mention JP Morgan at all.

'If we cannot get the proper frequency and it cannot go forward then we don't have proper competition on mobile telephony and we don't get the investment and jobs,' he said after the first launch was cancelled in June 2009.

'It may seem a small thing in one sense but it's very important for the Palestinian economy.'

Finally, after Qtel threatened legal action, Mr Blair got his way. Although Israel agreed to release only 3.8 megahertz at first, local sources say it has promised to expand this to 4.8 megahertz once Wataniya has 350,000 customers.

Wataniya launched on November 10, with Mr Blair at the opening ceremony. He said it proved that 'Palestine is open for business'.

Earlier this year, Mr Blair singled out the affair in a report he wrote on his envoy work to the Commons' Foreign Affairs Committee.

'Wataniya's launch is overdue, but extremely welcome,' he wrote, '[it] means the completion of a key milestone in the economic reform and state building agenda ... Wataniya is an example of a flagship project, which has a significant impact on people's perceptions and hopes for what a lasting peace might bring.'

Yesterday The Mail on Sunday asked Mr Blair's spokesman Matthew Doyle whether he had declared the bank's interest in his meetings with the Israelis.

He replied in an email, saying only: 'Tony Blair raised Wataniya at the request of the Palestinian Authority in his role as Quartet Representative. He has no knowledge of any connection between QTel and JP Morgan and has never discussed the issue with JP Morgan nor have they ever raised it with him. Any suggestion that he raised it for any reason other than the one stated to help the Palestinians or that in some way he has benefited from Wataniya is untrue and defamatory.'

Critics of the Wataniya mobile- phone project backed so strongly by Tony Blair claim it is marred by a longstanding feature of the Palestinian scene – cronyism, in which close associates of the ruling Fatah party leadership somehow manage to derive lucrative benefits.

In the case of Wataniya, the link could hardly be closer – for one big beneficiary of the firm's investments is none other than Tarek Abbas, the son of the Palestinian Authority president, Mahmoud Abbas.

American-educated Tarek runs Sky, the West Bank's biggest advertising agency. Last year, it was awarded a contract to be Wataniya's lead advertising agent, with both a monthly retainer and further payments for individual campaigns.

Palestinian business sources say that its work for Wataniya has been worth approximately £700,000 in the past 12 months – almost certainly, the biggest advertising 'spend' in Palestine.

Meanwhile, businessman Firas Nasruddin, a friend of both Tarek and his father, owns Hemaya, a security company staffed by men in sunglasses and black uniforms, some of whom are former fighters against Israel in groups such as the Al-Aqsa Martyrs' Brigades. Others are former Palestinian Authority police.

Hemaya has a contract to provide security for Wataniya personnel and installations.

It also serves several other firms that are supported by the Palestine Investment Fund, a large pot of money that is meant to be used to benefit the Palestinian people.

The fund has a 43 per cent stake in Wataniya. President Abbas's chief adviser Mohammad Mustafa is chairman and CEO of the fund, and chairman of Wataniya.

Wataniya's spokesman, Mohammad Nassar said last night he could not answer any questions about how the Sky and Hemaya contracts were awarded until next week, while Tarek Abbas's lawyer – who usually speaks on his behalf – could not be reached.

In an interview last year, Wataniya's former Palestine chief, Scot Alan Richardson, said there had been 'a straightforward contract process that went through all the normal procedures', adding that Sky and Hemaya had been given their deals because they represented 'best price, best quality'.

Wataniya, he said, operated in a 'fair and transparent manner'.

Nevertheless, the outcome means that as Tony Blair takes part in the renewed search for a peace deal, both sides will know that his support for Wataniya has produced sizeable benefits for President Abbas's family and friends.