



DIRECTOR GENERAL'S REPORT TO THE 2008 TRILATERAL MEETING

PLENARY MEETING

1 DECEMBER 2008

ROME, ITALY

MFO FY 2008: INTRODUCTION BY THE DIRECTOR GENERAL

THE MFO MISSION OF PEACE: PROVIDING STABILITY DURING A TIME OF TRANSITION, UNCERTAINTY AND CHALLENGE.

For the MFO, the period covered by this annual report, our Fiscal Year 2008 (1 Oct. 2007 - 30 Sept. 2008), was one of accomplishment.

We faithfully and fully performed our mission in a time of continuing challenge for the region and the broader Middle East peace process.

Notwithstanding our successful performance, we must not lose sight of the relationship between our mission and the broader challenges facing the region. While stability has been maintained, underlying tensions persist, fundamental problems remain unresolved, and the peace process remains stalled.

THE REGIONAL SETTING

In the wake of the dramatic events on the Gaza-Egypt border last January, the Governments of Egypt and Israel continue their efforts to identify interim solutions for Gaza. Problems along this critical border have a direct and significant impact on our operations.

Definitive and comprehensive peace between Israelis and Palestinians, and along Israel's northern borders, remains elusive; but I am a stubborn optimist, and I see the year ahead as providing promise and opportunity despite the dark clouds.

If a broader peace process is to be reinvigorated, new leadership in Israel and in the United States will need to re-engage next year with regional and global support. The most dangerous aspect of all

is a cumulative loss of hope by those who live in the region that real peace is still achievable.

The gift of peace is all about families leading normal lives, without fear for their security, with gainful employment and educational and employment opportunities for their children, and having good reasons to see their future optimistically. Breakthroughs that make a direct difference, that bring positive changes, economic improvement, and security to the daily lives of families in the region are the objectives; I believe they are within reach.

Dramatic and uncertain times in the region put a premium on the stability that the MFO offers.

WHERE THE MFO FITS IN

I believe there is a growing recognition of the important contribution made by the MFO to support the two Treaty Parties, whose relationship, after all, is the fundamental cornerstone of the entire peace process. We have seen increased interest in the MFO and enhanced support, along with recognition that some of the MFO's unique attributes could be positively adapted to assist peace in other regional contexts.

The last twelve months presented the MFO with unprecedented events: the instability and threat from Gaza heightened since the Hamas takeover, Hamas' instigation of a massive cross-border movement of people into the Sinai in January of this year, and an extraordinary series of financial demands on our budget. Despite these events, we discharged the mission defined by the Treaty of Peace, its Protocol and the Agreed Arrangements for Border Guard Deployment in the area opposite Gaza, we

facilitated liaison between the Parties, and we overcame serious fiscal challenges.

PERFORMANCE HIGHLIGHTS

- **I am pleased to report that we have had a safe and secure year.** Safety is a top priority, and, under the able leadership of the Force Commander, Norwegian Major General Kjell Narve Ludvigsen, we maintain command attention on safe operations and safe driving in the challenging conditions of the Sinai. Given the uncertain security situation along the Gaza border, the MFO has continued taking prudent measures to safeguard its members. Accordingly, force protection is now woven into everything we do, and with generous financial and other support from the U.S. Government and the U.S. Army in particular, we have been able to improve our force protection posture and capabilities further. We will continue to do so.
- **Throughout Fiscal Year (FY) 08 we successfully met the financial challenges of a weak dollar, record high oil prices, increasing inflation, and costs of completion of several large facilities projects.** We lived within our budget with only a small deficit after closing our books. The MFO has again demonstrated not just its operational dedication to the mission, but its prudent business judgment as a steward of the financial contributions of the three primary Funds Contributing States and the Donor States.

However, our challenges in FY 09 may be even greater. The global credit and financial crisis that has unfolded since September has created an economic situation that is more precarious and uncertain than any since the Great Depression. There has been extreme uncertainty in currency, equity and commodity markets. This poses unprecedented risks to the MFO, just

as it does to everyone else, and our financial planning for this year and beyond accordingly strains credible forecasting.

- **We are finishing several years' worth of major facility renovation and rehabilitation projects at both our camps.** These efforts would not have been possible without donor support. This work has been vital to maintaining safe operations and MFO readiness, assuring quality of life and services, and retaining and recruiting key civilian personnel. While we have many smaller projects that lie ahead, and maintenance is a never-ending task, we will soon be putting behind us the most extensive period of facilities and construction work since our inception 26 years ago.
- **We have expanded our donor base,** adding Spain. In addition, we are delighted to announce a new, multi-year funding commitment from the Netherlands.
- An appeal for additional funding to help bridge the budget gap projected for FY 09 brought about **much appreciated additional support from Norway and the U.S.**
- **A new arrangement has been agreed with the U.S. Army on the allocation of financial responsibilities for the operation of the eight UH-60A Blackhawk helicopters contributed by the U.S. Army to the MFO mission.** The significant and unforecast start-up costs of this deployment two years ago created a large and unexpected deficit in our operating budget, and only the effective and generous corrective action by the U.S. Army averted a larger budget crisis for the organization. The new arrangement makes long-term allocations of maintenance costs in accordance with predictable and transparent formulas and standard

U.S. Army rates that will promote clarity and stability in both MFO and U.S. Army budget planning. It also unifies day-to-day helicopter budget authority with maintenance and operational responsibilities within the U.S. Contingent, a coherent and logical outcome. **I am very grateful to the U.S. Army leadership for this win-win result.**

- **Our force protection posture continues to improve.**

- * We will increase our fleet of commercial, Fully Armored Vehicles (FAVs) with an additional six that have been procured utilizing donor funds. Delivery of the first two vehicles is expected later this month with the final four scheduled to arrive in February 2009.
- * The U.S. Congress has earmarked funds for the MFO to be devoted to meeting force protection and security requirements, and we have received generous indirect support from the U.S. Army (ARCENT) to improve physical protective measures at the camps and remote sites.
- * The U.S. Army continues to supplement our commercial FAV fleet with 22 Up-Armored HMMWVs (UAHs) maintained at its own expense, and utilized by the U.S. Contingent to support the MFO mission.
- * We have embarked on our next major Force project, an Operations Center that will be a true information and decision-making focus point in the MFO, enhancing our force protection responsiveness and situational awareness by replacing the MFO's dated technological capabilities with more modern information systems.

We hope to have real time vehicle and aircraft tracking as part of our enhanced capabilities.

- **My own personal diplomacy has been directed at enhancing ties between the MFO and our Supporting States.** One of my highest priorities has been to visit the capitals of our Participating and Donor States to ensure understanding of our current role and reinforce ties between the MFO and our family of troop providers and donors. When I visit capitals, in addition to foreign affairs and defense ministry calls, I am always open to outreach with parliamentary, think tank and academic contacts. In the United States, this has involved considerable investment of time with members and staff of the U.S. Congress, where the MFO has received true bipartisan support. U.S. Congressional understanding of what we do and how we do it facilitates the strong support we receive from the State and Defense Departments.

PARTICIPATION

During FY 08, the new Government of Australia recommitted its support to the MFO, New Zealand renewed its participation pledge while Colombia and Uruguay provided assurances of their long-term commitment. Participating States remained stable this past year, as shown in the table on the following page. Total military personnel strength today is 1673. The following changes are occurring:

- **We reviewed the level of Uruguayan logistical support in transport and engineering** against significant changes in our operating environment in the Sinai, such as a decreased responsibility to maintain unpaved roads and a greater use of contracted haulage and bus services between North Camp and South Camp. Working with Uruguayan authorities, we have agreed on a reduction in numbers that will change the Uruguayan contingent from

a previously authorized strength of 87 to 53 personnel by March 2009. I very much appreciate the cooperation of Uruguay in this step, which was the main topic for discussion when I visited Montevideo last August.

- During my visit to Bogotá, Colombia, also last August, **we reached agreement with Colombian authorities on an extension of the tour of duty of Colombian Battalion personnel** from eight to ten months. This may not seem significant, but it is. More frequent rotation disrupts the accumulated knowledge of the mission and the area of operations which helps keep soldiers effective and safe. This new rotation plan will maintain greater continuity of focus on the mission and retain mission skills. The Force Commander and I are very grateful to the Colombian authorities for taking this welcome step.
- A review of military police staffing requirements has led us to propose **a small reduction in the Hungarian contingent** of three positions. The military police role is an important one, well discharged by the Hungarian

contingent, a mix of Army and national police personnel. Careful analysis of staffing requirements has identified a few positions we could save. Especially in these difficult economic times, we must capture the savings wherever we identify any personnel in excess of requirements.

- Discussions with the Czech Republic on participation began last February in Prague, and included a visit to the Sinai by the Czech Ambassadors to Egypt and Israel in June. **I am pleased to announce that the Government of the Czech Republic has advised us of its intention, subject to the Czech Parliament's approval of the wider strategic plan on the involvement of the Army of the Czech Republic in foreign missions in 2009, to enter into negotiations with the MFO with a view to providing three officers to fill positions on the MFO Force Commander's staff in the Sinai.** We greatly appreciate this step towards political and operational support of the MFO by Prague and welcome for the first time a Czech representative as an observer to our annual meeting.

MFO CONTINGENT AUTHORIZED STRENGTH (AS OF 01 DEC 08)

<u>UNIT</u>	<u>MAIN DUTIES</u>	<u>STRENGTH</u>	
Australia	Staff	25	
Canada	Liaison, Air Traffic Control	28	
Colombia	Infantry Battalion	358	
Fiji	Infantry Battalion	338	
France	Fixed Wing Aircraft, Liaison	18	
Hungary	Military Police	41	
Italy	Coastal Patrol Unit	78	
New Zealand	Training, Transport	26	
Norway	Staff	5	
Uruguay	Engineering, Transport	69	
United States	Infantry Battalion	425	} 687
	Composite Logistics Battalion	222	
	Staff	40	
TOTAL		1673	

Figure One



MFO DONOR CONTRIBUTIONS (rounded)

	<u>Japan</u>	<u>Germany</u>	<u>Switzerland</u>	<u>Netherlands</u>	<u>Norway</u>	<u>Spain</u>	<u>U.S.</u>
FY05	\$300K	€ 297K	CHF 250K	--	--	--	\$3.5M
FY06	\$270K	€ 300K	CHF 350K	\$644K	--	--	--
FY07	\$260K	€ 400K	CHF 310K	€ 500K	\$1.5M	--	--
FY08	\$249K	€ 400K	CHF 290K	€ 500K	\$1.5M	--	\$3.8M

Figure Two



This has been an active and very positive year in terms of MFO relations with our Participating States, all of which I have visited over the years. I again thank them, from the heart, for their steadfast contributions, most of which date back to the inception of the MFO. They have entrusted their sons and daughters to us and to our mission of peace, and that is a great honor as well as a great responsibility.

DONOR STATES

During FY 08 we continued to receive donor support from Switzerland, Germany and Japan, our longest-standing donors. I want to underline just how loyal these donor relationships have been: Japan is our original Donor State, going back to our FY 89; Germany has been a donor since our FY 92; and Switzerland since our FY 95. Their steady political and financial support for the MFO is never taken for granted, and I greatly appreciate this long record of support for our work.

Norway has underwritten most of the costs of the Civilian Observer Unit since FY 07 and will do so again this FY 09. In addition to that support, Norway has also made a one time additional contribution for FY 09 of approximately \$2M to help us

close the wide budget deficit we projected, bringing their total contribution for this FY to approximately \$3.5M. This is a very generous response to an appeal I made to ensure we have the fiscal means to support the mission in the face of great financial uncertainties this FY. Since our inception, Norway has provided political, donor, and staff support, including the current and several previous Force Commanders and key Force operations and liaison staff. **I am extremely grateful to Norway for their continuous and important contributions to our work.**

The Netherlands has donated funds since our FY 06, for specific projects like FAV procurement in FY 08, the renovation of North Camp's water supply system in FY 07, and the FY 06 start-up costs of several aspects of our then new mission relating to Egyptian Border Guard Force deployment opposite Gaza. **Earlier this year, the Government of the Netherlands proposed that funding be provided on a multi-year basis, and I am pleased to announce that this has now been formally approved in The Hague. As a result, for this and the following three fiscal years the Netherlands is committed to provide an annual contribution of \$675K. This is welcome both as a symbol of strong**

Dutch political commitment to the MFO and the peace, and as a very practical and important financial contribution, the more so given our challenges this FY.

Spain has generously made a contribution towards FAV funding. Behind this is a senior policy-level decision to engage with the MFO, on which I hope a closer relationship will build and continue. I visited Madrid in September 2008 and initiated a discussion of several possible areas of expansion and continuation of this commitment which remain under consideration. We welcome Spanish representation for a second year at our annual meeting.

The MFO has worked hard at building a strong base of support and we are very grateful to our entire donor family. (The

table on the preceding page shows donor support to the MFO for the period FY 05 - FY 08.)

I believe this past Fiscal Year, the last full Fiscal Year that I will oversee as the MFO's Director General, has provided the MFO with a solid operational, financial and diplomatic basis of support on which to move forward.

It has been a great pleasure to serve as Director General and I wish to thank all the nations who support the MFO and the peace. And, most importantly, I want to thank the MFO's military and civilian members and numerous contract staff who do the day-to-day work carrying out and supporting the MFO's important mission. These last few years could not have been a success without you.



OPERATIONS

FORCE PROTECTION

We remain committed to keeping our military and civilian personnel safe as they carry out our mission. As noted in last year's report, our personnel are most vulnerable when traveling, and the area that poses the most concern to their safety is that immediately opposite Gaza in northern Zone C. Travel in this area is conducted by convoy, utilizing a combination of MFO-purchased FAVs and U.S.-provided UAHs. The latter vehicles also provide emergency response capabilities at both camps.

As mentioned earlier in this report, the MFO has ordered six additional FAVs with donor funding. These new vehicles, currently in production, will provide the MFO with increased capability in this area. Ongoing inspections with the manufacturer will ensure the FAVs are equipped and completed to Force requirements. We are also receiving, at no cost, surplus armored and unarmored vehicles being disposed of by the U.S. Embassy in Cairo.

Other recent force protection initiatives include the introduction of an under-vehicle camera surveillance system and the installation of combat observer posts at the main gates of both our camps.

The new surveillance system at both camps automatically screens underneath vehicles before allowing them to enter and also records license plate numbers. Previously, Force personnel could only look under a vehicle with the use of a hand mirror or by actually lying on the ground. The new system greatly reduces screening time and also makes the inspection process safer.

With the addition of new and improved combat observer posts at each camp, the Force will soon be able to monitor all activities in the vicinity of both camp

entrances from an elevated and protected location. The two posts are scheduled to be delivered and erected later this month.

STAFFING

Recognizing the increased workload placed on FIJIBATT as a result of convoy requirements in the northern area of Zone C, the Force reallocated battalion responsibilities in July of this year. As a result, responsibility for one remote site was relinquished by FIJIBATT and assumed by COLBATT. This checkpoint (CP), formerly CP1-E, has been redesignated CP2-C and the boundary between COLBATT and FIJIBATT redrawn. In addition, the North Camp Emergency Response Team provided by USBATT assumed responsibility for incident response within two kilometers of the camp's perimeter.

Internal organizational changes to the Force's Operations Branch were made in December 2007. This entailed redefining the position of the Deputy Chief of Operations (DCOP), staffed by a New Zealand Lieutenant Colonel, to the DCOP for Plans, with responsibility for coordinating and implementing operational planning within the MFO, and introducing the position of the DCOP for Current Operations, staffed by an Australian Lieutenant Colonel formerly filling the Deputy Chief of Staff position. The new branch structure provides greater control of current operations and allows for the improved coordination and planning of major activities. The two new positions are complementary and allow for a small degree of redundancy. **We would like to thank both Australia and New Zealand for agreeing to these staff changes.**

AN OPERATIONS CENTER FOR THE FUTURE

The Operations Branch is currently focused on the detailed planning of a new Operations Center (Ops Center) that will incorporate a modern suite of command

and control systems. The new Ops Center will enable real-time monitoring of the MFO's area of operations. This collective work environment will provide the Force with quicker and more accurate decision-making tools and improve response to emergency situations. Following extensive consultation at the Force during the past year, conceptual drawings were prepared and a comprehensive proposal presented to Rome HQ. Agreement to the project was provided in September 2008 and our new Chief of Staff, U.S. Colonel Casey Griffith, is to be commended for his efforts in moving this project forward. Funding is thanks to timely and generous supplemental support provided by the U.S. Government.

A major component of the new Ops Center will be the ability to track vehicle and aircraft movements throughout our area of operations in real-time. The MFO has been in contact with the provider of a movement tracking system and arrangements are now in place to conduct trials. These trials will test existing satellite coverage and establish whether current availability is sufficient for our needs.

CIVILIAN OBSERVER UNIT (COU)

COU missions in the Border Guard Force Area of Operations (BGFAO) are a dynamic area of COU activity, necessitating increasingly intense and focused verification activities. During the year, the COU employed a variety of procedural and operational changes in the BGFAO and all four Treaty zones to enhance the security of its operations, including an increase in the use of FAVs for ground verification missions. Armed Egyptian police continued to serve as security escorts for ground missions in all Treaty zones in Egypt while armed Israeli liaison officers provided security for missions in Zone D.



COU reconnaissance activities in the BGFAO and Zone D are conducted by UH-60A helicopters. Reconnaissance over all other zones was performed using the French-provided CASA CN-235 aircraft.



COU personnel also completed a major project to initiate the use of up-to-date digital mapping data in MFO operations. This mapping project has enabled the Force to produce standardized maps for all Force offices and remote sites; has equipped the Force with a better capability to track vehicles and to conduct search and rescue operations; and has allowed the Force to provide much more accurate geographical location information to the Parties.

LIAISON

FOSTERING COMMUNICATION TO DEVELOP AND MAINTAIN MUTUAL UNDERSTANDING AND COOPERATION

By its very nature, the Liaison Branch is involved, around-the-clock, in most facets of MFO activity. These range from operational matters, dealt with principally by our team of Force Field Liaison Officers, to more strategic issues undertaken by our Chief of Liaison, a Canadian Colonel. Core responsibilities include facilitating meetings and encouraging dialogue, reaching out to both Parties as well as to our neighbors in the Sinai, and problem-solving.

FACILITATING MEETINGS AND ENCOURAGING DIALOGUE

Whether between the two Treaty Partners or between the MFO and each Party, bilateral meetings offer an important opportunity to engage in frank discussions, seek agreement on issues and further develop relationships. At the Force, frequent meetings take place on a number of levels. Notably, the MFO lends its good offices to accommodate meetings between both Parties' Liaison Chiefs, Major General Nagy Kamal (Chief, Egypt's Liaison Agency with International Organizations [LAWIO]) and Brigadier General Yossi Heymann (Chief, Israel Defense Forces Strategic Division [IDFSD]). As an impartial entity, the MFO provides the Parties with a neutral and confidential environment that helps to promote open conversations. The Liaison Branch



MFO Force Commander, MG Kjell Narve Ludvigsen (center) with the Joint Military Cooperation Committee (JMCC), 13 November 2008, North Camp

contributes to regional stability and security by stimulating dialogue and assisting the Parties to engage on issues. The Force Commander also engages in separate monthly meetings with both Chiefs. These meetings allow for consultation on Treaty matters and help maintain and promote trust and understanding between the Parties. On the operational level, MFO Liaison conducts weekly meetings with LAWIO regarding routine matters that help to clarify and resolve issues. Similar meetings are conducted with the IDFSD to resolve border-crossing and other issues which may impact on the MFO's operations.

OUTREACH

The MFO maintains outreach programs to foster relations with both Parties' liaison organizations as well as with our neighbors in the Sinai. These include organizing and contributing to professional development courses for the Arab Republic of Egypt (A.R.E.) and IDF military forces to ensure they maintain an understanding of the MFO's role in the region.



Major General Ludvigsen
greeting guests at the North Camp Iftar for
Northern Sinai officials, September 9, 2008

The Force Commander also meets with the Governors of North and South Sinai to foster good relations with these and other local leaders and to help maintain awareness of the MFO's peacekeeping role. Each year during Ramadan, the Force Commander invites the Governors and other local dignitaries to an Iftar – the evening meal to break the daily fast – at each camp. Additionally, the Force regularly conducts sports activities with representatives from A.R.E. 2nd Field Army, A.R.E. 3rd Army and the North Sinai Governate (a total of three events each year.)

PROBLEM-SOLVING

As in all working relationships, issues arise from time to time and it is often the responsibility of the Liaison Branch to work through these and resolve them as quickly as possible.

These core responsibilities, which form the nucleus of the liaison system, ensure that the special relationship developed over the last 26 years with the liaison agencies in both Egypt and Israel continues to grow.

ENGINEERING PROJECTS

This has been another busy year for the Force Engineering Office (FEO) with multiple projects in the areas of force protection, facilities renewal, and morale and welfare.

FORCE PROTECTION

With significant financial assistance from U.S. ARCENT, the FEO has assisted in a number of force protection projects to harden defenses at MFO sites in the Sinai. These projects (described more fully in the Operations section above) combine the efforts of the Force facilities staff and local



Force Engineering Projects: Water Distribution System, North Camp (top); Fire Detection System (center left), Multi-purpose Briefing Facility, South Camp (center); Food Storage Area, Main Dining Facility, South Camp (center right); and a New Hootch, South Camp (bottom).

contractors. Projects completed or nearing completion include:

- **Installation of under-vehicle camera surveillance systems**
- **Provisional design specifications for the new Ops Center**
- **Installation of two new Entry Control Point Combat Observation towers (Dec 08)**

FACILITIES

As noted in my introduction, we have nearly completed our efforts to rehabilitate numerous key facilities at both our camps after several years of work. Collectively, these projects have been a major undertaking in which the combined efforts of our procurement staff in Cairo, the Force and Tel Aviv, and our Force engineering staff have all played a significant role.

The MFO has forged links with a number of specialist consultants to advise on design and technical specifications, and then to supplement our own project staff by monitoring progress to ensure that, as far as possible, work remains on schedule and to standard, and that problems are identified and solved. Our procurement and contract staff in the Force has also prepared and managed the contracts for these projects to ensure that the work is completed under the most favorable terms for the MFO.

Projects this fiscal year include the following:

- **Twenty-eight new living quarters ("hooches") at South Camp.** As we found with the hooches at North Camp last year, those at South Camp were beyond economical repair and needed to be replaced.
- **New fire detection systems.** Commenced in FY 07, this project was completed this fiscal year. Faults in the previous fire detection systems at North and South Camps could not be repaired

and both systems had to be replaced as they were well beyond their useful life. With the assistance of an Egyptian fire detection system design consultant, we replaced both with modern, reliable and digitally based systems.

- **New water distribution system.** The original water system, installed more than 35 years ago, was unreliable and in need of constant repair. With Dutch support last year and funding from the MFO's Capital Asset Replacement Fund (CARF) this fiscal year, we were able to complete the installation of the new system alongside the old one and in August 2008 we transferred successfully to the new system.
- **Replacement of electrical fittings.** To date, we have replaced over 3800 light fixtures, 220 old air conditioning units, over 500 emergency lights and 855 smoke detectors with more modern and reliable models.

In addition, we embarked upon the following projects:

- **Soldiers' Accommodation.** We commenced a five-year project to renovate the washroom facilities within our soldiers' barracks on both camps. The washrooms had not been refurbished for several years and on-going maintenance costs were accelerating.
- **A Multi-purpose Briefing Facility at South Camp was extensively remodelled.** The facility, which also serves as the Non-commissioned Officer Club, was expanded to provide space for briefings, training and morale/recreation activities. As part of overall project work, the deteriorated roof, which dated from 1982, was replaced.
- **South Camp Main Dining Facility Refurbishment.** Mirroring work completed on the North Camp Main

Dining Facility in FYs 05-07, renovation work commenced this FY in the food receipt, storage and issue areas of our Main Dining Facility at South Camp to maintain proper sanitary conditions within the food preparation areas of our kitchen. As the project progressed, additional areas of the building were identified for refurbishment including the resurfacing of walls and floors, the correction of floor drainage, and the addition of hand basins at facility entrances.

- **Waste Water Treatment Plant (WWTP).** Work also commenced on the construction of a new WWTP at North Camp. The previous one had exceeded its original design life and was in need of replacement. The new system, expected to be completed in February 2009, will provide a more efficient handling of waste water from North Camp and will continue to produce recycled waste water for camp irrigation.
- **High Voltage Electrical Networks.** The existing electrical network systems at both camps require the replacement of a number of key components to assure future dependability. This need has arisen due to accumulated wear and tear over the 25 to 35 year service life of the existing materials as well as the effects of the harsh desert environment. In addition to outright replacement of certain portions of equipment such as fuses and circuit breakers, there is a requirement to extensively clean, refurbish and calibrate all existing items which will remain in service.

We have notified the Funds Contributing States of our intent to fund the last three projects (South Camp Main Dining Facility Refurbishment, WWTP and High Voltage Electrical Networks) from the CARF.

MORALE AND WELFARE

FEO has also completed a number of projects to refurbish facilities at the disposal of Force personnel to improve their health and well-being:

- **Renovation of various sports courts at both camps.** In all cases, the courts (handball, multi-sport, tennis) were worn-out and had numerous cracks and holes in their surfaces.
- **North Camp gym extension.** The gym at North Camp is a key facility supporting our troops' physical training requirements. Previously, training equipment was spread across areas where sports were played, in the way of individuals using the indoor soccer and basketball courts. The new extension was purpose-built to house a much-needed cardiovascular training room, thereby removing that equipment from other areas and improving overall safety.



A renovated North Camp court. North Sinai Governate and MFO teams participated at a recent Sports Day event.

INFORMATION AND COMMUNICATIONS TECHNOLOGY (ICT)

As reported last year, the ICT area in the MFO has undergone important management changes which **decentralized** ICT responsibilities and moved to **outsourcing** key support functions at each MFO location.

Early in my tenure as Director General, I noted that ICT operations in the MFO could be improved in many areas and took it upon myself to ensure that the MFO would become part of the 21st century. **I set a task of obtaining those ICT capabilities that would allow us to do our job professionally and cost-effectively while also providing our soldiers with up-to-date communications for morale purposes.** This last objective is particularly necessary when travel restrictions are imposed on our personnel due to security concerns.

However, due to budgetary constraints, these changes needed to be made without increasing funding. So I charged my

staff with "spending the same money but spending it better." This resulted in the conversion to our model reported last year which continues to prove effective with improved service for our users, increased flexibility in managing our ICT program and a better capability to carry out our mission.

Consequently, we have managed to:

- Outsource our Microsoft and SAP support requirements to specialized companies which work remotely and/or onsite as needed.
- Install a brand new Local Area Network (LAN) between North Camp and South Camp which will allow us to expand and improve our ICT capabilities within these sites without further LAN-related expense for at least the next five years.
- Enter into a leasing agreement for our PC requirements thereby capping our PC numbers. This agreement includes service, support and all software licenses consequently reducing our repair workload and also expense.

"SPENDING THE SAME MONEY BUT SPENDING IT BETTER"

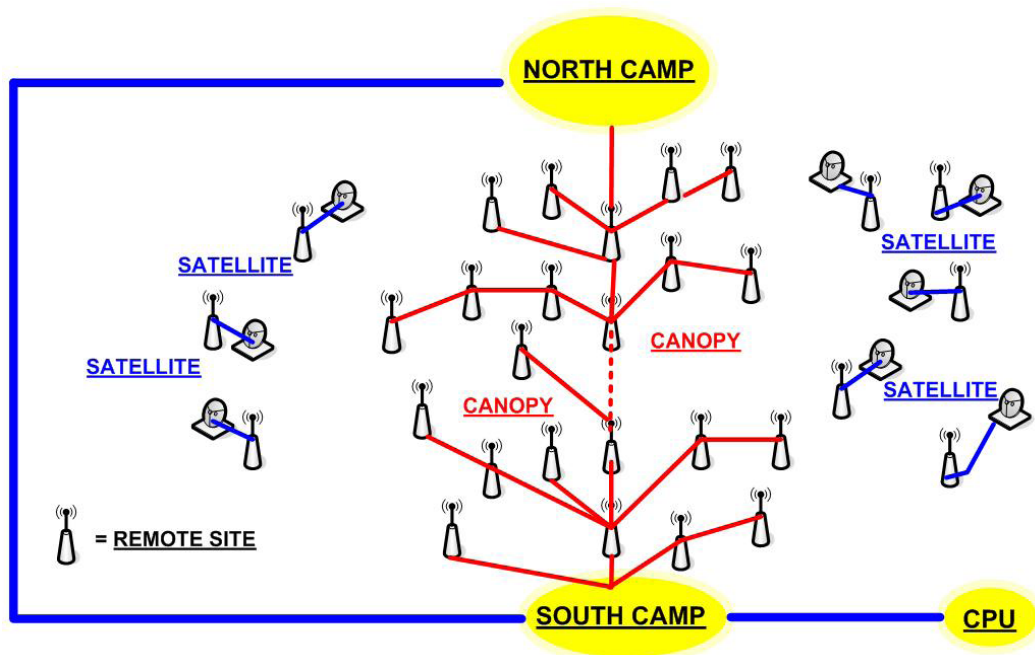
EXPENSE CATEGORY	FY 05 ACTUAL	FY 06 ACTUAL	FY 07 ACTUAL	FY 08 ACTUAL	FY 05-08 CHANGE	%
Staff Compensation	1,229.6	1,021.4	964.8	695.4	(534.2)	-43.4%
Supplies & Materials (Outsourcing)	596.9	608.9	352.6	1,557	960.1	160.9%
Equipment	572.3	893.3	481.5	158.4	(413.9)	-72.3%
Communications - External	634.5	868.6	1,010.9	627.6	(6.9)	-1.1%
TOTAL	3,033.3	3,392.2	2,809.9	3,038.4	5.1	0.2%

Amounts are in thousands of dollars

Figure Three

- Enter into a lease agreement for the replacement of all radio requirements, providing the Force with the most recent technology and better products along with servicing and support.
- Enhance our communications network to cover "dead spots" within the Sinai by use of low-orbit satellite communications – Iridium.
- Increase the bandwidth into both camps by ten, allowing better redundancy and enhanced Internet communications.
- Introduce ADSL connectivity to a vast area of North Camp.
- Install a new wireless data/voice network ("Canopy") within both camps and extend that capability to five remote sites and two permanently manned Temporary Observation Posts within the BGFAO.
- Procure and enter into a contract for the expansion of the Canopy project to cover a further fifteen remote sites and make them part of the MFO-wide network.
- Connect eight remote sites which will remain outside the Canopy system to the MFO network by satellite communications.
- Install a new weather system at both camps which provides wind speed and direction, and barometric information to ground offices for transmission to aircraft operators.
- Create an "MFO Information Channel" for television transmissions at both camps of issues and matters of interest to MFO members. Not only does this system disseminate information better, it also eliminates use of the LAN for this purpose, thereby decreasing the drain on our limited bandwidth.
- Upgrade numerous aspects of our TV and radio stations including the installation of uninterrupted power supplies on existing radio equipment to prevent damage from power outages and the supply of more powerful transmitters to South Camp's TV and Radio stations.

MFO REMOTE SITE CONNECTIVITY



As shown in the table on page 14, total expense for the MFO ICT effort has remained very steady as these notable improvements have been brought on line. The table also shows the reversal of our previous reliance on ICT staff in favor of outsourcing to partner companies. This outsourcing makes available expertise more varied and deeper than what we could economically hire ourselves. The leasing of ICT equipment like PCs, radios and servers reduces our costs, evens out annual procurement, avoids maintenance and licensing costs, and assists us in controlling equipment numbers.

As we look ahead, these steps have given us the means to support and plan for the deployment of a state-of-the-art Ops Center which will enhance our force protection and safety tremendously. The situational awareness of the Force will be greatly enhanced when all the ICT resources we are acquiring converge in the Ops Center to provide the Force Commander greater and more reliable information and visibility.

We will continue to look at outsourcing key support functions and equipment as well as new leasing initiatives for ICT operations.

- In addition to replacing what is now an old and poorly configured server network, a proposed lease of MFO server needs will also allow us to replicate our data in a manner that will ensure emergency recovery, and maintain continuous workflow at our sites in the event of communications or server failures.
- We will also continue to seek the most appropriate staff and support structure within the ICT branch, combining direct hire civilians, contract hire civilians, military and out-sourced support providers.

ICT's business is always changing and growing. Our soldiers arriving today are



much more computer savvy and expect to have good, fast Internet connections for both work and leisure time. All MFO members want accurate and reliable communications equipment for official use and for staying in touch with family and friends back home as well as access to TV, radio, and movie entertainment. As their expectations grow, so does the challenge for us to meet them.

FORCE MEDICAL OFFICE (FMO)

The FMO provides basic medical and dental care for all our personnel in the Sinai. Staff consists of 1st U.S. Support and Infantry Battalion personnel as well as medical staff from Colombia, Fiji, Hungary, Italy and Uruguay. For urgent care there is a medic on 24-hour clinical duty and a physician and dentist on call at all times. Each camp is equipped with a clinic that has laboratory, pharmacy, and X-ray machinery. Physical therapy, preventive medicine, veterinary services, and community wellness counseling are provided as well.

The FMO also maintains medical assets (first responders or medics) at all our remote sites. Conditions above the level of these assets are referred to the staff physician at the clinics.

Medical cases that exceed the capability or specialization of our clinics are referred to regional civilian medical facilities. Ground and air evacuation is available at both camps and all remote sites. There are twelve ambulances, eight UH-60A helicopters and a CASA CN-235 aircraft within the MFO to support medical evacuations.

The MFO uses a network of civilian hospitals in the region that include: Herzliya Medical Center, north of Tel Aviv; International Medical Center, east of Cairo; Sharm el Sheikh International Hospital; Soroka Medical Center in Beersheva; and Joseftal Hospital in Eilat. Referral hospital determination is on a case-by-case basis depending upon the severity of the patient's condition, closest location, level of necessary specialty care and evacuation asset status. Partnerships with regional hospitals have been expanded to facilitate the best possible medical care.

During the past year, the Force Medical Office has initiated several new projects including patient visit and consultation tracking, patient satisfaction surveys, MFO health status and trend reporting and evaluating regional hospitals.

Additionally, new services were offered to MFO members in stress management (mind-body skills courses), musculoskeletal manipulation, infrared-energy medicine (treatment of strains/sprains, fractures, nerve impingements, acute/chronic pain) and acupuncture. New equipment was also

acquired during the past year including an electronic medical record system, a dental panoramic X-ray, web-assisted radiological interpretation (MEDWEB), and Anodyne treatment units (infrared-energy).

PERSONNEL

During FY 08, a number of staffing changes were made at the Force to improve our operations and mission support. In addition to personnel changes already noted above, a review of the Liaison Branch was conducted which redefined the role of the Egyptian Special Assistant thereby reducing the position's administrative tasks and increasing involvement in field operations. The same review also identified two other positions that were required in the critical area of Arabic translation and interpretation. Although only one of these positions has been staffed to date, it has proven to be very beneficial to the Force by enhancing relationships with ARE authorities and the local population.

Over the past seven years we have created approximately three Contract Hire Civilian (CHC) positions a year, both to fill new requirements and to fill selectively converted non-essential Direct Hire Civilian (DHC) positions. This past year, two new CHC positions were approved, one for Force Exchange warehousing and the other for radio technical support. Along with recent steps to outsource several key functions, we believe we have successfully rationalized technical and lower level supervisory staffing at the Force, achieving one of the aims of this program when it was established nine years ago. The current pace of the CHC program accordingly, is slowing. For each CHC position, we advertise and recruit on the open market in Egypt, as well as consider local personnel who have worked with Care Services.



MFO CONTRACTS

MFO Contracts are managed by our staff in the Rome Headquarters, the Force and our procurement personnel in our Cairo and Tel Aviv offices. Force Contracting staff continue to manage some twenty contracts providing for routine operations support and, as mentioned above, facilities maintenance, with an annualised value in excess of \$9M.

The drive to greater out-sourcing within the ICT area, as already mentioned, has also increased the demands on our Cairo and Tel Aviv staff to identify suitable and qualified contractors and then assist with the post-award contract management. Although the introduction of serviced lease agreements for communications equipment has had its challenges, now with three such agreements in place providing network services, computers and radios, the MFO is starting to see the benefits. In addition, our well-established practice of contractor pre-selection, competitive bid evaluation and final negotiation continues to ensure that the MFO adopts contracts with the most advantageous terms.

The MFO's most important support contract, however, remains the MFO's operations and maintenance contract held



for over 25 years by Holmes & Narver Inc. (HNSI), now part of the government service arm of AECOM, together with their labor sub-contractor based



in Cairo, Care Services. The contract is administered by the Force and is currently resourced by 54 HNSI and 473 Care Services authorised positions. Last January we re-negotiated this contract to strengthen the quality assurance

program. Throughout the negotiations we were very conscious of the inflationary pressures faced by the Egyptian sub-contractor and we were pleased to achieve an overall 5% (\$1.37M) cost reduction based upon the initial proposal from HNSI. In addition, and as a cost-saving measure, we extended the present contract up until 30 September 2012 to enable the sub-contractor to amortize overhead costs throughout this longer contract period. **We remain deeply appreciative of the ongoing commitment of both HNSI and Care Services to the MFO mission.**

HQ staff also carried out several internal functional reviews during the year, including procurement and, specifically within the Force, the Military Police Unit, the logistics transportation system, remote site supply services and field engineering maintenance. We reviewed our procurement process to ensure that MFO procurement is conducted within our regulations. The number of personnel provided for Force Transportation now takes into account the recent services out-sourced through commercial bus and haulage contracts. The reduction in field engineering personnel takes into account our increased use of contractors when needed to meet peaks of activity, as we did in establishing in 2006 additional fixed sites for our new Border Guard Force mission, and the reduction in need for unpaved road maintenance.

MFO PROCUREMENT

This year proved to be challenging for our purchasing offices as prices soared in a number of key areas and we struggled to stay within budget.

- Particularly hard hit were our food purchases. The worldwide cost of food spiraled at the start of 2008 and

we were forced to be more innovative and make major changes in food procurement. The weakness of the U.S. dollar contributed to making some regional purchases uncompetitive with U.S. sources. Consequently, we moved to importing an increasing amount of frozen and dry goods from the United States. Our previously employed method of "Just In Time" regional purchasing had to be exchanged for a methodology of bulk buying in order to take advantage of prices on a day-to-day basis in line with the fluctuation in world food prices.

- Bulk fuel expenses accelerated, not only because the cost of crude oil rose to \$145 per barrel but also due to increased consumption. Our aviation fuel consumption increased by 64% with the substitution of a CASA CN-235 for the Twin Otter previously in service. Our diesel consumption rose to compensate for disruptions in commercial power at North Camp that increased the use of generated power and also because of force protection measures which mandated convoys that added vehicle mileage.



**Brent Crude Oil Prices
January 2007 - July 2008**

- Moreover, rising fuel costs were passed on to us by suppliers for ocean freight and by bus and truck contractors. We are continuing to roll back fuel

surcharges accepted when oil prices peaked during the FY.

- There were major and unusual price increases experienced this past year in several basic locally-purchased commodities including cement and reinforced steel. These in turn caused an escalation in costs of several of our infrastructure projects.

Working as a team, the Force and our buying offices in Israel and Egypt cooperated to identify the best prices and to mitigate the impact of these negative trends whenever they could.

Under the leadership of the Chief of Staff and Chief of Support at the Force, a comprehensive review of our vehicle fleet is underway. Where possible, we are looking to reduce the total number of vehicles being used and readjust equipment specifications in order to reduce total operating costs. Also, the service life of some vehicles will be extended. We expect these changes to be incorporated into our vehicle purchasing during FY 09. Along with the benefit of lower capital expenses, any fleet reductions should also be reflected in less expense for vehicle maintenance and repair. Supply missions have already been rationalized, reducing mileage and demand for drivers.

FY 08 FINANCIAL RESULTS

Fiscal Year 2008 ended near break-even, with a deficit of \$40,900 when the books were closed. Complete, externally audited financial statements are provided during the Trilateral meeting and an electronic copy will also be posted on our website.

Our policy of prudent stewardship of the fiscal resources entrusted to us was severely challenged by the economic environment prevailing during the FY. Most of the year

witnessed record high oil prices; significant regional inflation; global increases in food, transportation and commodity prices; lower interest rates; and sustained weakness of the U.S. dollar, especially against the currencies in which we deal the most – the Egyptian Pound, Israeli Shekel and Euro. Only to a limited extent were we prescient in anticipating adverse trends to our budget which we started to develop nine months before the start of FY 08.

Our assumptions proved very quickly to be inadequate in dealing with the negative trends we faced on many fronts. We had to revise constantly our spending priorities and procurement sources as we progressed through the FY in order to ensure that operational requirements remained unaffected and that we could fully perform our mission.

Assisting us in meeting our goals was the availability of donor funds, and the MFO's CARF which was used to complete major facility renovation and rehabilitation projects at both our camps. Thankfully, the security of our Sinai staff, both military and civilian, was enhanced through a number

of force protection projects funded entirely by additional contributions from the United States. Generous "in kind" assistance from the U.S. Army also reinforced our security posture in the Sinai.

REVENUE

Actual FY 08 revenue was in line with our original budget estimates. At \$66M, the MFO's total FY 08 operating revenue decreased by approximately \$1M compared to the previous FY due to reduced interest income from amounts on bank deposit and the decision, explained later in this report, to treat the Netherlands' FAV donation as a restricted supplementary fund.

At \$21M, equal FY 08 contributions from Egypt, Israel and the United States remained unchanged from the previous FY. The Funds Contributing States met all monthly draws in a timely fashion, which I greatly appreciate. Please see the graph below for sources of MFO operational revenue in FY 08.

DONORS

Contributions from Japan, Germany, Switzerland and Norway were maintained

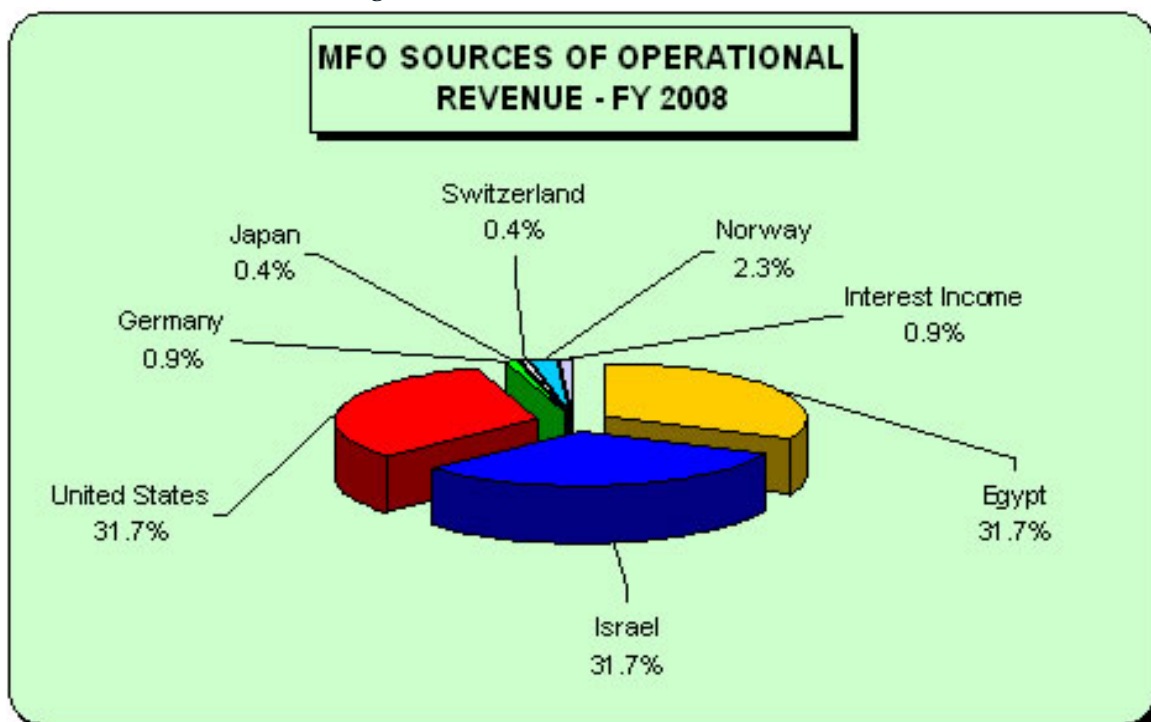


Figure Four

at similar levels to the previous FY. These contributions were treated as operational revenue:

- Japan contributed \$249K towards food and civilian salaries.
- Germany continued its increased support of the MFO with a contribution of €400K.
- Switzerland also continued its increased support of the MFO with a contribution of CHF 290K.
- For a second year, Norway contributed \$1.5M towards the cost of the Civilian Observer Unit.

The MFO also received supplemental, earmarked contributions in FY 08 as follows:

- The Netherlands confirmed funding in the amount of €500K towards the purchase of FAVs. Due to restrictions placed on the use of this contribution, and the fact that its application is not financial year specific, it was established as a special fund separate from our annual operational budget. This funding was very welcome in meeting the urgent force protection requirement for additional FAVs.
- An additional \$3.8M contribution from the United States for force protection needs.

I thank the Funds Contributing and Donor States for their contributions.

EXPENDITURE

Operating expenditures amounted to \$66M in FY 08. This does not include expenditures for supplementary, earmarked donations which are accounted for separately in our financial statements. Disbursements derived from these donations and expenditure from the CAREF raise this overall expenditure to over \$68M.

INFLATION

During FY 08, inflation in Israel, the United States and Italy was slightly higher than expected but below 5%. At approximately 19%, Egyptian inflation exceeded our budgeted expectations by a greater margin. The effect of higher than expected inflation on our FY 08 budget was \$3.7M.

CURRENCY EXCHANGE RATES

The MFO's annual budget is denominated in U.S. dollars, but a significant part of our annual expenditure is also made in Egyptian pounds, Israeli shekels, Euros and British pounds. When compared to our FY 08 budget assumptions, the U.S. dollar closed the FY nearly 16% lower against the Israeli shekel, over 4% lower against the Egyptian pound, nearly 3% lower against the Euro and over 12% higher against the British pound. Though the U.S. dollar rallied somewhat at year end, it dwelt at historically weak rates lower than our budget estimation for most of the FY. The net effect of these currency rate changes on our FY 08 budget was to reduce the purchasing power of our fixed income by an estimated \$1.1M.

KEY EXPENDITURE VARIABLES AGAINST BUDGET

Our annual budget is submitted four months before the start of each FY but preparation starts many months earlier. As part of the process, we establish assumed foreign currency exchange rates and national inflation rates for all budgeted purchases. In addition, we attempt to project realistic bulk fuel prices for the coming FY. As already noted, our pessimistic assumptions on all of these variables were exceeded, and we had to take early, decisive action to meet rapidly escalating oil, food, transport and commodity prices.

Prudent purchasing, personnel adjustments, a U.S. Army contribution towards our helicopter fleet maintenance costs higher than we had budgeted, and

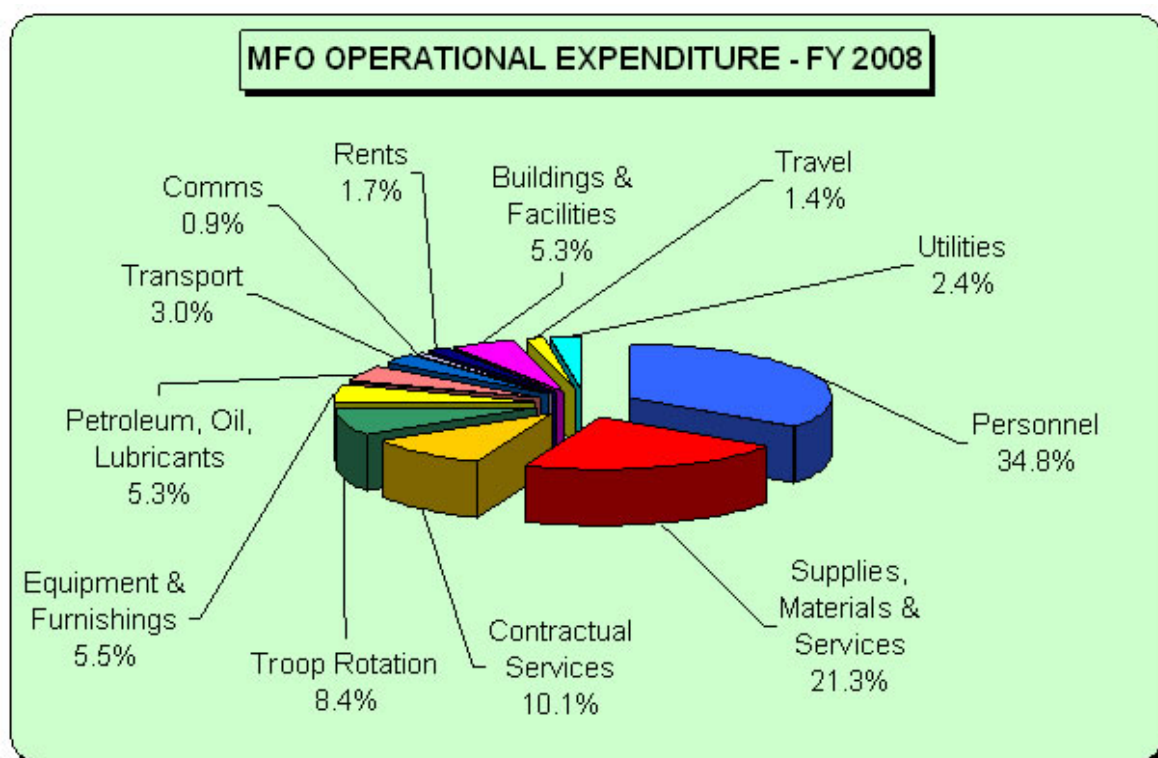


Figure Five

the positive input of supplementary donor funds enabled us to meet all adverse external financial influences, complete key facilities projects in the Sinai and partially replenish the CAREF.

Changes in our planned expenditure resulted in the following variations from the original FY 08 budget submitted in May 2007:

PERSONNEL

We realized savings of approximately \$1M in our FY 08 staff compensation budget. Most of this was achieved by reducing international civilian staff numbers just prior to the start of the FY by 11, a 22% reduction in total authorized civilian staff. Most of these positions were eliminated from the Information, Communications and Technology Branch as a result of our drive to outsource specialist technical support for IT systems. To contain negative currency exchange rate movements on staff compensation, we commenced, in December 2007, denominating employment

contracts for all new international civilian staff appointments in U.S. dollars.

SUPPLIES AND MATERIALS

Expenditure on supplies and materials was in line with the budget. Additional purchases of food and fuel at the fiscal year end, in order to take advantage of the best prices we had seen, were partially balanced by a U.S. Army offset credit for helicopter parts higher than we had budgeted.

FINANCE & ADMINISTRATION

Expenditure on finance and administration was \$780K below budget. This under spend was due to lower medical insurance costs for MFO military and civilian staff and other accounting adjustments.

PERSONNEL ROTATION

The exact dates of troop rotations are not known at budget preparation time, so we base our rotation budget costs on assumed dates. Exact rotation dates will vary and unexpected complications often arise. This can lead to the actual number of rotations varying from budget. During FY 08,

we scheduled rotations for troops from Colombia and Fiji that resulted in spending approximately 18 percent over our budget.

EQUIPMENT

The FY 08 equipment budget closed the year nearly \$1M under spent. Planned spending on vehicles was deferred towards replenishment of food and bulk fuel stocks at the close of FY 08 to lock in advantageous prices. Funds budgeted for food and bulk fuel purchases in FY 09 will be used to restore funding of planned vehicles purchases.

PETROLEUM, OIL & LUBRICANTS (POL)

When we prepared our FY 08 budget in early 2007, oil cost around \$50 a barrel. Expecting significant oil price increases during FY 08, we budgeted pessimistically for bulk fuel prices and increased our POL inventories at then lower prices prior to the start of the FY. As we progressed through the FY, oil prices surpassed our estimates and at one point hit \$145 a barrel. Certainly, our decision several years ago to reduce dependence on diesel powered generators for electricity and connect to the Egyptian electrical grid is now paying dividends.

By the end of the FY, bulk fuel prices had increased beyond our budget by 79% for diesel and 64% for gasoline. During the FY, we restricted spending in other areas of our budget in order to fund these unprecedented fuel price increases. The net result was an \$845K or 32% over spend compared to our POL budget.

ENGINEERING, FACILITIES AND EQUIPMENT

The original FY 08 budget (along with CARF reserves) funded the completion of a cycle of several years' worth of major facility renovation and rehabilitation projects at both our camps. The projects are described earlier in this report.

As noted in last year's Trilateral report, it was my intention to replenish partially the

CARF during the FY, should funding be available. By the end of FY 08, we were able to direct \$700K towards doing so. CARF balances are discussed in greater detail below.

INSURANCE

Insurance expenditure closed the year approximately 9% below budget due to an overly pessimistic FY 08 budget for personnel insurance.

USE OF RESERVE FUNDS

The MFO maintains two special funds, the Self Insurance Fund (SIF) and the CARF. These two funds provide, respectively, the ability to respond to significant uninsured losses and to replace aging capital assets. In both cases, interest income is credited towards general operating budget revenue.

SIF

The SIF is another tool in ensuring we can meet significant risk contingencies that are not covered by commercial insurance (please see the box on the following page explaining the MFO's insurance program) and beyond budgetary resources. The current SIF balance equals the agreed target amount of \$6.2M. The target amount of the SIF is related to certain of these potential events and liabilities that cannot be practicably or economically provided for by commercial insurance.

CARF

The agreed CARF target balance is \$4.2M and the current balance is \$3.4M. The CARF balance opened the year at \$4.1M, virtually at its agreed target amount. Total FY 08 expenditure against approved projects was \$1.4M. As noted above, we were able to direct funds totaling \$700K to replenish partially the CARF. We must continue our efforts to replenish the fund on an annual basis in order to provide a secure funding source for future unbudgeted renewal of key facilities, infrastructure, capital equipment and force protection.

THE MFO'S INSURANCE PROGRAM

We maintain commercial insurance for significant high value and catastrophic risks that would exceed the resources of our SIF. Our budget does not have the flexibility to respond to material claims that are not insured or covered by the SIF.

The MFO is a unique organization from a risk management viewpoint. We receive our financial support from governments, and place insurance with commercial firms, unaccustomed to insuring most governmental risks. Notwithstanding this, commercial insurance coverage, tailored to MFO needs and our legal status, has been part of MFO's risk management from its inception. While the Protocol requires only that the MFO maintain third party liability insurance for operation of motor vehicles in Egypt and Israel, the MFO has, for prudential reasons, historically carried commercial insurance to address the potential risks associated with its mission.

Our program currently maintains eleven policies, and in FY 08 the cost for premiums totaled \$3.5M. We use European and U.S. brokers and insurers, and their agents in Egypt, Israel and Italy. Current coverage is of three main types:

- **Liability and Contractual Liability.** This covers general, contractual, and third party aviation and motor vehicle liability insurance.
- **Property Coverage.** This is for aviation hull insurance covering the CASA CN-235 aircraft and property policies covering the MFO Headquarters in Rome and our office in Tel Aviv.
- **Medical and Life Insurance.** We provide coverage for MFO members in the event of illness, disability or death.

In deciding whether or not to consider commercial insurance, we assess risk and potential exposure against the cost of insurance at levels matching general commercial or industry practice, or government standards where relevant, for the risk. In most cases, general market rates and not MFO's own experience will determine premiums. In liability contexts we also take into account the availability of insurer defense obligations, which are a legal force multiplier for a small organization in a litigious world. Over the past ten years, the number of policies we have maintained and the cost of the program have been relatively steady at eleven different coverages with annual premiums in the range of \$3.2M to \$3.5M. In all cases, where MFO budgetary, self-insurance and commercial insurance resources combined would be insufficient to meet any particular legitimate claim or claims, eventual satisfaction of such claims would have to be by inclusion of claims payment in the next MFO budget. Despite the sad fact that we have experienced aviation and other losses in our history, this need has not occurred, and one reason is the commercial insurance program.

Let me provide a quick summary of completed and on-going demands on the CARF.

Completed:

- **Helicopter Facilities Adaptation to the UH-60A.** The small remaining balance from the \$803K placed in the CARF for this work was expended in this FY to complete the fire suppression system

being installed in the hangar at our North Camp.

- **North Camp Main Water Line Replacement.** As previously notified to the three primary Funds Contributing States, project costs beyond the €500K amount of the Netherlands' FY 07 contribution towards this project were funded by the CARF during FY 08. The value of CARF funding directed

to completing this high priority project amounted to approximately \$450K.

Ongoing:

- **South Camp Main Dining Facility Refurbishment.** CARF funding for this project in the amount of \$320K was notified during FY 08 and the first phase of this project was completed within budget. Renovation work revealed the need for immediate attention to other areas of the facility and these were notified for CARF funding in the amount of \$255K. Work on the second phase of this project commenced in FY 08 and is ongoing.
- **Waste Water Treatment Plant.** Work on this project, with an estimated total cost of \$691K, commenced in FY 08 and is proceeding on schedule. Expenditure during the FY amounted to \$309,000. We expect to complete the project in early 2009.
- **High Voltage Electrical Networks.** CARF funding for this project amounting to \$320K was notified during the FY. The majority of the work on this project was completed during the FY, with expenditure amounting to \$112K. Outstanding items will be concluded early in FY 09.

The CARF balance at the start of FY 09 is \$800K below its target amount. During FY 09, we expect to spend an equal amount to complete current projects. Unless we are able to replenish the CARF during FY 09, we face an estimated potential shortfall of \$1.6M in CARF funding by the end of the FY.

The FY 09 budget prepared last May once again could not address all mission requirements and also include a replenishment of the CARF. Nonetheless, I will seek to do so as circumstances permit. We must try to maintain a significant balance in this fund at or as close to the target amount as possible if it is to remain

a strategic asset to help us deal with unbudgeted major projects and unforeseen changes of circumstances.

USE OF SUPPLEMENTARY FUNDS

We have been provided with donations for certain agreed purposes by the United States, the Netherlands and Spain. These funds were not tied to a specific financial year.

U.S. DONATION

An original donation goes back to the end of FY 05 in the amount of \$3.5M, intended specifically to meet force protection requirements. Expenditure charged against this fund source totaled \$2.8M in FY 05, FY 06 and FY07 for a number of pressing BGF mission and security projects including two FAVs. The FY 08 opening balance was approximately \$0.7M. This remaining balance was fully spent and committed in FY 08 on additional force protection requirements.

In April 2008, the United States contributed an additional \$3.8M to our supplemental budget for force protection. These funds have been earmarked for our new Operations Center and other force protection needs.

NETHERLANDS DONATION

Funding in the amount of €500K was pledged by the Netherlands in FY 08 specifically for the purchase of FAVs, as discussed above.

SPANISH DONATION

The Spanish Government has recently confirmed its commitment to support the MFO with a contribution (in FY09) of €218K towards the purchase of FAVs.

These special contributions have been of immense value to the MFO, and I again thank each government for stepping forward at a critical moment to assist us in protecting and securing our personnel.

REGIONAL & OTHER DISBURSEMENTS

MFO expenditures continually return a great deal of money to the economies of both Parties. In all cases procurement is based on open competition of MFO-specified requirements. The dynamics of market forces play a major role in the selection of vendors and, inevitably, changes in economic and marketplace conditions produce shifts in the pattern of MFO expenditures over time.

In FY 08, our total disbursements amounted to approximately \$20.9M in Egypt and \$18.1M in Israel (in FY 07 disbursement amounts were \$20.4M and \$19M respectively). These amounts include expenditure from official MFO (including supplementary funds) and Force Exchange/Morale Support Program spending, for the period from 01 October 2007 through 30 September 2008.

In addition, significant MFO disbursements (\$13.9M) reached our third Funds Contributor, the United States. The MFO procured as well from several Participating and Donor States including France, Germany, Hungary, Spain, Uruguay and Italy, a Participating and the Headquarters State.

FY 09

The challenges we foresee in FY 09 are shifting along with the macroeconomic environment around us. That environment through most of FY 08 was one of record high oil prices, a historically weak dollar for most of the period, low interest rates, rising commodity prices and regional inflation. **As FY 08 ended and we opened FY 09, a witches' brew of financial and housing sector failures was propelling the U.S. economy into deeper recession, and the**

rippling effect on other economies did not give much credence to theories that Europe and Asia had "decoupled" from the North American market. The crisis is truly global.

The petroleum market in the face of a widening global recession sharply reversed course, and gave up half the record high barrel price seen in FY 08. The dollar also reversed course, and gained against most currencies. This trend was coupled with great market volatility and a profound uncertainty about the eventual depth of the economic recession. **This has made any kind of forward planning for FY 09, let alone FY 10, very difficult for all of us. This counsels for great prudence on our part in spending and planning as we match to our resources a budget we began to develop more than nine months ago in a totally different environment.**

In FY 09, budgeted contributions from the principal Funds Contributing States increase by \$750K to \$21.75M each. Total FY 09 MFO budgeted operating revenue is \$68.6M.

As we progressed further into FY 08, actual trends kept pushing possible FY 09 expenditures well beyond the level of funding we had budgeted for. **At one point in the summer, projecting then peak oil prices and record low dollar exchange rates into FY 09, we were looking at a potential deficit as high as \$9M.** To address this projected FY 09 deficit we immediately sought additional donor contributions and identified cost reducing measures. Additional help was generously made available from the U.S. Government in the form of supplementary funding amounting to \$3.25M.

The Government of Norway also generously pledged additional FY 09 funding of 10M Norwegian Kroner, bringing their total year's contribution to approximately \$3.5M. Spain's contribution towards FAV expense will be added to our

FY 09 revenues in the amount of €218K. Cost reductions include the logistical troop reductions mentioned previously, review of our vehicle fleet, measures to contain communications costs, and other steps.

As we look, cautiously in this uncertain environment, at the significant planning factors affecting this FY, I currently see:

- **Reduction in the price of petroleum, oil and lubricants.** Having reached a high of \$145/bbl last July, oil prices have abated considerably and are currently around \$50/bbl.
- **Inflation.** Inflation remains a concern. Regional food, commodity and transportation prices, and local labor rates will add approximately \$3.7M to our costs in FY 09.
- **Low interest rates.** Part of the economic stimulus has been a lowering of key interest rates. In terms of the MFO, this has meant that interest income from funds on deposit in bank accounts in FY 08 fell below assumptions made in our budget preparation, and this is likely to be the case again in FY 09. The decline in the CARF balance below its target level also generates less interest revenue.
- **The U.S. dollar.** During FY 08, the U.S. dollar fell against the currencies that we do business in – the Egyptian pound, the Israeli Shekel and the Euro. However, by FY end, the U.S. dollar rallied against the Egyptian pound and the Euro whilst still 14% lower against the Israeli Shekel. The U.S. dollar continued to gain value at the start of FY 09. However, we are also mindful of the current volatility in global financial markets and we must plan cautiously when estimating the forward value of the U.S. dollar against other currencies.
- **Costs of the UH-60A helicopter fleet.** FY 09 marks the introduction of an amended financial agreement between the U.S. Army and the MFO for helicopter fleet maintenance costs. The revised agreement replaces the previous reimbursable cost basis with a predictable and transparent formula based on U.S. Army flying hour rates. As noted previously, these changes will logically match the helicopter maintenance program and budget in the hands of the U.S. Army, and provide both parties with the fairness, clarity and predictability they seek. Although the annual cost to the MFO will still vary, this expense category will no longer be the source of extreme budget volatility. We are very grateful to the U.S. Army for the cooperation of all the leadership and functional Comptroller and aviation experts in making this possible.
- **Key Projects.** The previously noted completion of a cycle of key renovation projects leaves the MFO well placed to maintain its readiness to serve the Parties. With U.S. Government provided funding available for our remaining major project, the Operations Center, we expect the operating budget to cover other smaller future projects and regular maintenance.
- **CARF replenishment.** An unbudgeted replenishment of the CARF will again be made if and as that proves possible.

FY 10

If caution restrains us from confident projections of FY 09 performance, it is all the more difficult to forecast FY 10 trends. Nonetheless, the FY 10 budget cycle has already begun and we have coordinated funding levels with the Funds Contributing States.

Despite current planning uncertainties, I am determined to leave with an MFO operating budget that will sustain fully the mission. That means that annual Funds Contributing States contributions must be aligned to MFO's actual operating requirements and to inflation.

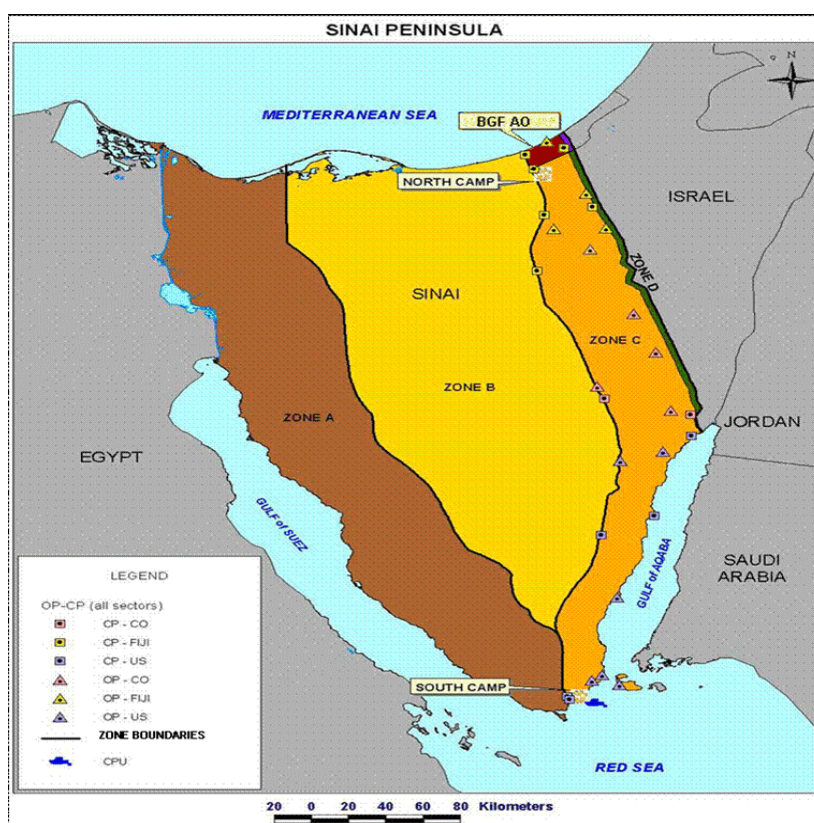
We must end reliance on Donor States to meet essential force protection costs and cyclical facilities and infrastructure renewal. We have benefitted greatly from generous, one-time contributions, but I do not think we should remain dependent on such generosity to meet recurring core mission requirements. Moreover, current economic conditions are inevitably going to affect the level of donations.

We must fully integrate all force protection project and sustainment costs, and orderly facilities and infrastructure planning, into our regular operating budget. Inflation must be regularly factored in as well, and not left to periodic catch-up budgeting. Donor support will still be needed and welcome for special projects

and unforeseen contingencies, and to symbolize the political engagement of Donor States in the work of the MFO and the peace.

This realignment, starting with FY 10, will secure the MFO's ability to fulfill, from its programmed resources, its mission of peace, to meet its obligations to the Treaty States, and to maintain its readiness to serve. If the peace process resumes in earnest, as I hope, this readiness will be all the more essential to sustain.

It is with some nostalgia that I bring to a close this last report as Director General. But there is still much work to be done, and I will continue to work until my last day at the MFO with the Funds Contributing States, Participating and Donor States to ensure that the MFO handed over to my successor will be in the best possible position to maintain its record of achievement, service, and sound stewardship of the resources entrusted to us.



MFO FACTS AND FIGURES

THE MFO MISSION

Pursuant to the 1979 Treaty of Peace and its 1981 Protocol the MFO is required to:

- Supervise the implementation of the security provisions in Annex I of the Treaty;
- Use best efforts to prevent any violation of its terms;
- Operate Checkpoints (CPs), Observation Posts (OPs) and reconnaissance patrols along the International Boundary, Line B and within Zone C;
- Verify the implementation of Annex I periodically, at least twice a month;
- Perform additional verifications within 48 hours of either Party's request; and
- Ensure freedom of navigation through the Strait of Tiran.

Under Agreed Arrangements signed on 01 September 2005 and as amended on 11 July 2007, the MFO is responsible for:

- Monitoring the deployment of a designated Egyptian Border Guard Force along the Egyptian side of the border between Egypt and Gaza, in the northernmost part of Zone C;
- Verifying that the deployment is consistent with the terms agreed between Egypt and Israel, including the number, characteristics and location of personnel, weapons, equipment and infrastructure of the Border Guard Force; and

- Maintaining permanent, temporary and mobile sites in the area in which the Border Guard Force is deployed.

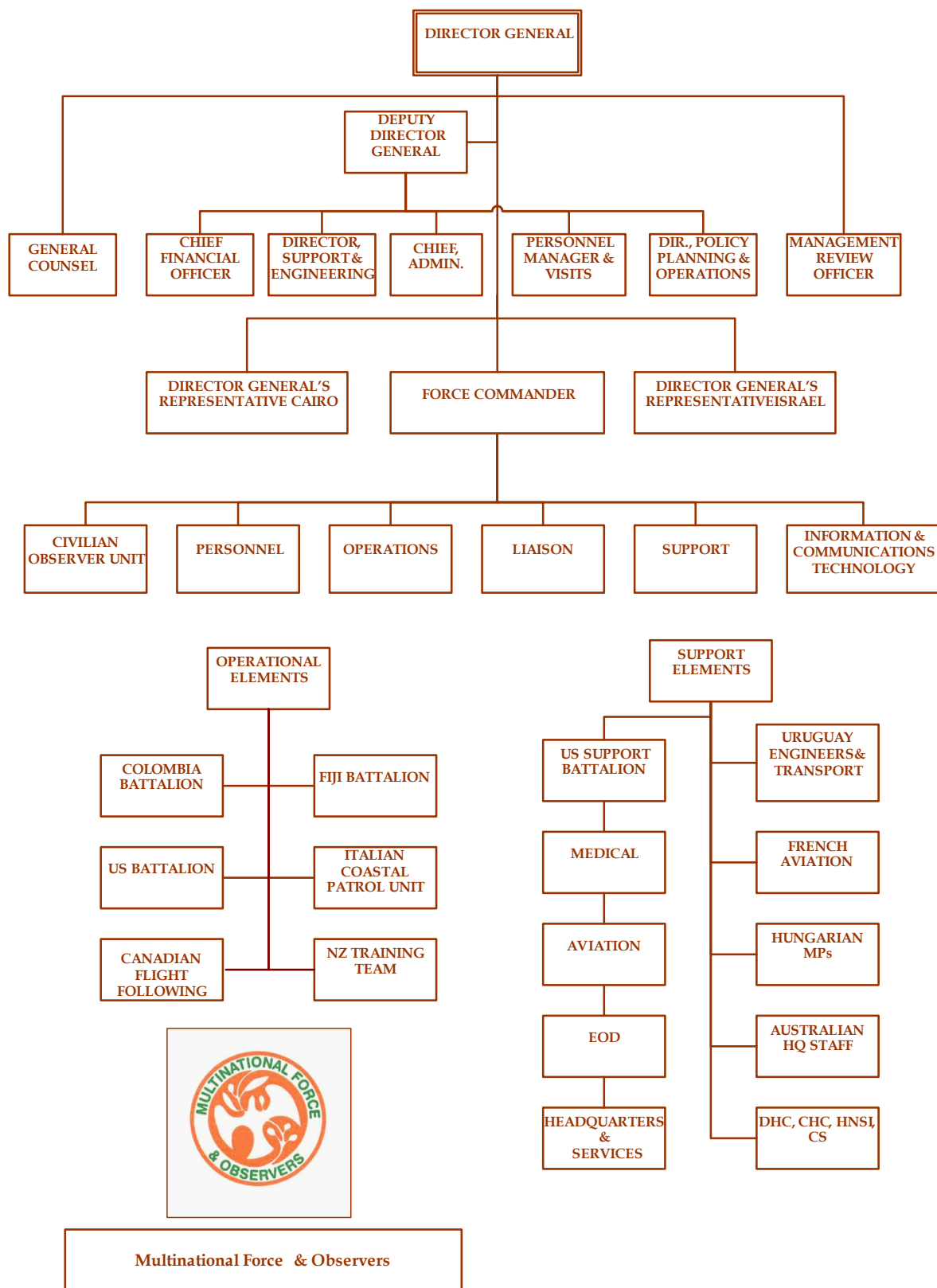
ROME HEADQUARTERS

The Headquarters in Rome provides policy, program and budget direction and supports the Force and Observers through its specialist staff (operations, logistical, legal, personnel, financial and other). Many programs are centrally managed in Rome, including international civilian staff recruitment and administration, troop rotations, management review, accounting and external audits, participation and donor agreements and related financial arrangements, litigation and claims, and commercial insurance.

The HQ maintains regular contact with Supporting State embassies, the Italian Ministries of Foreign Affairs and Defense, the Italian Navy, the U.S. State Department, the U.S. Department of Defense and certain U.S. military commands. The highly specialized 23-person HQ staff (ten international Direct Hire Civilians [DHCs] and thirteen national administrative and technical staff) supports the Director General in his responsibility for direction of the MFO and for determining the MFO's policies, programs and budget.

THE DIRECTOR GENERAL'S REPRESENTATIVES

The Director General's Representatives (DGRs), Mr. Normand St. Pierre in Cairo and Mr. Michael Sternberg in Israel, supported by their experienced staffs, represent the Director General to their respective host governments on policy matters and conduct liaison with the embassies of the MFO's Supporting States. Their offices support the Force in procurement, shipping and transportation, liaison, personnel movements and disbursements. They also provide other significant services such as coordinating and dealing with press interest in the MFO,



and with customs, police, airport and other authorities on routine, day-to-day business.

In FY 08, both DGR Offices successfully:

- developed cost effective commercial relationships in their respective logistic communities;
- supported the Force in arranging, hosting and participating in meetings to facilitate the MFO mission;
- enhanced outreach to the diplomatic community; and
- worked with host country security services to supplement force protection information.

Highlights of our MFO Israel Office include:

- organizing a series of meetings between Force aviation and Israeli civilian and military authorities;
- negotiating arrangements with the Eilat airport which facilitated the refueling of MFO helicopters and crew access;
- facilitating transit procedures for MFO members at two Israeli border crossings; and
- improving arrangements with Israeli airports to permit less costly and more time effective rotations when using the CASA CN-235.

On the logistics front, MFO Israel:

- negotiated a leasing contract for computers which has served as a model for other leasing arrangements;
- collaborated with Bezeq (Israel's telephone company) on a significant communication upgrade; and
- worked with Israeli Customs to process and ship to the Force over two thousand tons of material -- involving 600 air shipments and 100 sea shipments -- through its transshipment facilities.

MFO Cairo Office highlights include:

- coordinating new operational agreements with Civil Aviation Authorities at two main Sinai airfields used by the Force;

- facilitating fifty major rotations involving more than 2200 personnel;
- monitoring exchange rates and local interest bearing accounts;
- providing assistance to the CHC program by screening applicants for fifteen positions; and
- initiating the use of medical services at the International Medical Center in Cairo resulting in saved time and cost.

In the area of procurement, the Cairo Office assisted with many operational, facility and ICT projects as well as the recompetition of food requirements and the purchase of heavy equipment.

THE FORCE

The Force is the largest element of the MFO and is a joint organization with army, air and naval components. It is comprised of military personnel from eleven countries: Australia, Canada, Colombia, the Republic of the Fiji Islands, France, Hungary, Italy, New Zealand, Norway, the United States and Uruguay. The Force also employs international DHCs and Egyptian national Contract Hire Civilians (CHCs) who provide technical assistance in all branch areas as well as the expatriate and Egyptian national personnel furnished by our support services contractor, Holmes and Narver Services Inc. (HNSI).

The Force maintains two base Camps, North Camp near El Gorah and South Camp in Sharm el Sheikh, and operates 28 remote sites and two Temporary Observation Posts (TOPs) manned 24 hours a day spread over 400 kilometers in the Sinai. The 28 remote sites consist of 13 CPs and 15 OPs. These static sites are supplemented by additional TOPs staffed during daylight hours and Motorized Observation Teams (MOTs).

In addition to maintaining coverage of Zone C, Force units conduct regular training in the military skills essential to operational effectiveness, including joint

and combined training to improve inter-operability.

FORCE COMMANDER AND HEADQUARTERS STAFF

The Force Commander, Norwegian Major General Kjell Narve Ludvigsen, is responsible for the command, control and safety of the Force in our area of operation. The Force Commander is ably supported by a Headquarters Staff made up of officers and non-commissioned officers from all the troop-contributing nations. The MFO Chief of Staff, a U.S. Colonel, also serves as the Commander of all American soldiers in the Sinai. The Operations, Liaison and Support branches are headed by colonels respectively from Norway, Canada and the United States. Staffs are fully integrated and consist of members from all eleven contingents and multinational civilians. These dedicated staff sections operate twenty-four hours per day, seven days a week, 365 days a year.

OPERATIONS BRANCH

The mission of the Operations Branch is to plan, initiate and control Force Operations, Force Protection, and Force Training. Branch tasks include:

- round-the-clock control of the Operations Center;
- conducting mission-oriented training and exercises;
- evaluating the operational readiness of units;
- coordinating the investigation of treaty-related incidents;
- coordinating air and naval assets;
- coordinating emergency response; and
- conducting command and orientation briefings.

OPERATIONAL ELEMENTS

The **Fijian Battalion (FIJIBATT)** area of operations is in the northern sector of Zone C which encompasses the Border Guard Force Area of Operations and major border crossings at Rafah, Kerem Shalom and el Awga/Nizzana. The Battalion is composed of three rifle companies and a headquarters company. It has responsibility for five CPs and four OPs, two TOPs -- emplaced in FY06 with Dutch Government financial support for the BGF mission -- manned 24 hours a day and other TOPs manned during the hours of daylight. FIJIBATT also provides escort and patrols within and outside of its sector.



The "Desert Vikings" - The Force Commander (third from left) and the Norwegian Contingent



The Italian Coastal Patrol Unit

The **Colombian Battalion (COLBATT)**, composed of two rifle companies and a headquarters company, has responsibility for the Central Sector of Zone C. Within this sector, COLBATT staffs three CPs and five OPs. At NC, COLBATT also provides the Guard Force responsible for perimeter and main gate security as well as the Quick Reaction Force (QRF) which is used in emergency situations.

The **United States Battalion (USBATT)** is responsible for all operations within the Southern Sector of Zone C and the operation and security of MFO's South Camp. The Battalion is composed of four rifle companies and a headquarters company. USBATT staffs five CPs and six OPs and at South Camp provides perimeter security in addition to operating the entry control point and providing the QRF. **During January 2008, the 1-104 Cavalry of Pennsylvania replaced the 1-296 Infantry of Puerto Rico to assume USBATT responsibilities. Recently, in November 2008, the Pennsylvania National Guard Battalion was in turn replaced by the 1-145 Infantry from Ohio.**

The **Italian Coastal Patrol Unit (CPU)** ensures freedom of maritime navigation through the Strait of Tiran. Stationed at the port of Sharm el Sheikh near South Camp, the unit currently consists of three patrol ships (*ITS Staffetta*, *ITS Esploratore* and *ITS Vedetta*), their crews, a support element and a marine detachment to enhance CPU security. A fourth patrol ship, *ITS Sentinella*, is part of a rotational cycle of deployment to bring one vessel back to La Spezia, Italy for periodic maintenance.

In FY 08, the CPU logged over 4,388 hours on patrol, of which more than 1,501 were conducted at night. It also carried out more than 268 training and 16 familiarization activities. On 03 February 2008, during a patrol mission, *ITS Staffetta* provided assistance to a ship in distress, *MV Fatema M.*, in the vicinity of Tiran Island.

In November 2007 and April 2008, *ITS Sentinella* and *ITS Vedetta* rotated respectively through the Timsah Dockyard in Ismailia where each vessel underwent a 19-day period of dry dock maintenance. On 26 June 2008, *ITS Esploratore* replaced

ITS Sentinella as an MFO patrolling ship, and the *ITS Sentinella* returned to its home port in La Spezia for major maintenance.

The French Fixed Wing Aviation Unit (FWAU) operates a CASA CN-235 aircraft which is used for:

- COU aerial reconnaissance flights;
- regular passenger shuttles for staff members and visitors between North Camp and South Camp;
- VIP air transportation including high ranking visitors and senior leaders to bilateral or trilateral meetings in Cairo, Tel Aviv, Sharm El Sheikh and North Camp;
- inbound/outbound military rotations, particularly for U.S. soldiers; and
- familiarization flights for incoming crews.

The aircraft is also available for medical evacuation, if required, and to assist host nation search and rescue efforts.

In FY 08, the FWAU flew a total of 500 hours with the CASA. The aircraft has proven to be very reliable with a 97% operational readiness rate. During

this period, the CASA transported approximately 4000 passengers.

The **Rotary Wing Aviation Unit (RWAU)** maintains a fleet of eight UH-60A "Blackhawk" helicopters operated by the Aviation Company of the U.S. Army Support Battalion. The unit's split-based operations at North Camp and South Camp provide general aviation support for the MFO which includes COU reconnaissance and verification flights, command and control flights, visitor transportation, medical evacuations, search and rescue, duty investigator missions, security reconnaissance, site surveys, resupply of remote sites, OP/CP maintenance teams, and orientation flights. **The most urgent missions for the Aviation Company remain medical evacuations. In FY 08, 67.2 hours were flown in support of MEDEVAC missions.**

Since January, the Aviation Company has inducted two further aircraft into the U.S. Army RESET program in Germany. This program, in conjunction with a significant increase in repair part availability, has dramatically improved the operational readiness rate from last year to yield an



The French Contingent with the CASA CN-235



Rotary Wing Aviation Unit with UH-60A Blackhawks

impressive 96% readiness rate for those aircraft located in the Sinai. The last two aircraft to be RESET are scheduled to be transported to Germany in Spring 2009.

The **Flight Following Section at North Camp**, manned by **Canadian Air Traffic Controllers**, provides support to all MFO air operations on a 24 hour basis within the MFO area of operations and to visitor aircraft at North Camp. To ensure safe flight routing, the section works with civilian and military aviation authorities in both countries through the Liaison System. **During the past year, the Flight Following Section provided flight following, air traffic control, and advice for 1207 CASA movements, 3645 Blackhawk movements and 171 movements for other aircraft for a grand total of 5023 movements.**

The almost constant rotation of individuals, contingents and units requires extensive training to prepare and sustain them for MFO operations. This task is undertaken by the **Training Section**: a Canadian Major, an Australian Warrant Officer and the **New Zealand Training and Advisory Team (NZTAT)** which consists of one

officer and seven senior non-commissioned officers. The Training Team is responsible for planning and conducting courses to enable MFO personnel to successfully fulfill their missions within the MFO. The Training Section also conducts Operational Readiness Checks, no-notice inspections of remote sites, as well as command and control of the annual Force Driving and Force Skills competitions.

During the past year, training activity included:

- Training 144 Commanders in Remote Site Commander Courses;
- Training 80 Range Conducting Officers in Range Familiarization Courses;
- Training 45 Duty Investigators in Duty Investigators Courses;
- Training 34 Unit Driver Trainers;
- Training 38 Instructors in the Convoy Instructors Courses;
- Familiarizing 23 drivers on MFO Bus driving courses;
- Familiarizing 74 drivers in Fully Armored Vehicle driving courses; and
- Licensing 768 drivers.

The winners of the latest Force Skills Competition, held from 6-8 October 2008, are as follows:

SMALLER UNITS

- 1st Place: Australian Contingent
- 2nd Place: New Zealand Contingent
- 3rd Place: Italian Contingent

LARGER UNITS

- 1st Place: COLBATT Team 1
- 2nd Place: USBATT Team 2
- 3rd Place: COLBATT Team 2

OVERALL TEAM WINNERS

- 1st Place: Australian Contingent
- 2nd Place: New Zealand Contingent
- 3rd Place: COLBATT Team 1

The winners of the latest Force Driving Skills Competition, held from 31 March to 2 April 2008, were:

- 1st Place: Uruguayan Contingent
- 2nd Place: New Zealand Team 1
- 3rd Place: New Zealand Team 2

The **Force Military Police Unit (FMPU)** consists of Hungarian military and police personnel assigned to both camps. The unit is assisted at North Camp by Fijian and Colombian military police. The Provost Marshall of the FMPU advises the Force Commander on military police matters. The unit provides the MFO with crime prevention and investigatory expertise, carries out security checks and inspections at designated points, manages traffic on both camps, maintains records and reports of all investigations and provides escorts for visitors, MFO contracted buses and ammunition deliveries. FMPU stations are manned 24 hours a day at both base camps. **During FY08, the unit received new equipment -- radar guns, vehicles and satellite phones -- which helped to ensure MFO vehicles comply with relevant speed limits and increased the efficiency of daily traffic control duties.**

The **Force Protection and Military Information Office (FPMIO)**, led by a U.S. Major, consolidates information and news from a number of sources (the governments and liaison organizations of both Treaty Parties, the United States and other troop-contributing nations, both DGRs in Cairo and Tel Aviv, and the media) to produce force protection advice and issue comprehensive weekly travel advisories.

The **Staff Office for Press and Visits (SOPV)** is responsible for planning, coordinating and executing all official visits to the Force. For a list of this year's senior visitors, please see Annex A.

In addition, the SOPV processes visitor passes for both working and personal visits; oversees distinguished visitor accommodations; produces and publishes the *Sandpaper*, the Force's bilingual (English and Spanish) command information magazine; operates the Force's radio station (FM 105.7 - "The Heat"); and provides digital and video production support. The six-person office is led by a U.S. Army Major whose deputy is a Naval Lieutenant from Canada and includes three non-commissioned officers (Canada, the Republic of the Fiji Islands and the United States) and one enlisted U.S. soldier.

The **Force Safety Office (FSO)** monitors vehicle, occupational, environmental, and fire safety throughout the Force. The FSO plans, develops and promotes safety programs, oversees training, and executes risk reduction activities. It also analyzes vehicle accidents to determine driving trends, provides training to execute corrective measures that enhance safety and conducts monthly safety briefings for all Force personnel.

A review of established Force Safety policies and procedures is planned for the coming year. This will allow the Force to update the grading process used in determining the fire, environmental and occupational safety levels of each Force unit

MFO FORCE SKILLS



AUSTRALIA



CANADA

COLOMBIA



MFO FORCE SKILLS



Fiji

HUNGARY



ITALY



MFO FORCE SKILLS



NEW ZEALAND



UNITED STATES

URUGUAY



as well as to track trends across all aspects of Force safety.

THE CIVILIAN OBSERVER UNIT (COU)

The COU operates in all four Treaty zones. Accompanied by host country liaison officers, the COU conducts Treaty-mandated verification missions, including verification of the BGFAO under the relevant Agreed Arrangements, at least twice monthly, and reports the results of these missions to the Director General and Treaty Parties. The unit answers directly to the Force Commander; by agreement with the Parties, all 15 members are U.S. nationals. Half of its members are seconded from the U.S. Department of State, including its Chief who is also the Force Commander's regional political advisor. The other half is comprised of former U.S. military personnel recruited directly by the MFO. This combination of diplomats and retired military has proven to provide the right mix of skills for a professional verification team. **Norway contributes \$1.5M annually towards the operational costs of the unit.**

THE FORCE COUNSEL'S OFFICE

The Force Counsel's Office, staffed by two DHCs, provides legal advice, opinions and interpretation to the Force Commander and senior Force elements regarding issues arising under the Treaty of Peace, the Protocol and associated documents, as well as issues arising from internal MFO procedures and practices.

LIAISON BRANCH

The Liaison System was established in accordance with the Treaty of Peace and its 1981 Protocol to assess implementation of the Security Annex of the Treaty, resolve any problems that may arise in the course of implementation, prevent situations resulting from errors or misinterpretations, and refer other unresolved matters to higher authorities for consideration. The MFO's Liaison Branch works in close cooperation with LAWIO and IDFSD to fulfill these Treaty responsibilities while strengthening communication and coordination and promoting confidence-building.

The Liaison Branch consists of a Command Element with Liaison Officers at North Camp, a team of Liaison Officers and staff at South Camp and a permanent liaison presence at Ras Naqb/Taba. The branch is made up of officers and soldiers from nine of the eleven participating nations in addition to a small civilian cadre. All Field Force Liaison Officers have served previously in various peacekeeping missions worldwide. The knowledge and experience of the Liaison Branch, together with the dedication, cooperation and professionalism of their colleagues within LAWIO and IDFSD, have been essential to the success of the Liaison System.

Of fundamental importance as well are frequent personal contacts and reliable communications. There is considerable interaction between the MFO and the Receiving States: the Director General and



both Director General's Representatives are in contact with senior diplomats and military officials, the Force Commander is in regular contact with Major General Nagy Kamal, Chief, LAWIO and Brigadier General Yossi Heymann, Chief IDFSD; the MFO's Chief of Liaison is in frequent contact with his counterparts Brigadier General Ossama Abdelaziz and Colonel Shai Brovender; and the Force Field Liaison Officers are in daily contact with their counterparts located at Rafah, Kerem Shalom, Ras Naqb, Taba, and Sharm el Sheikh.

SUPPORT BRANCH

The operating environment of the MFO demands an exceptionally efficient, effective and integrated support system to feed, house, equip, and provision its two base camps, 28 remote sites and two TOPs that are manned around-the-clock. This work is accomplished by the combined effort of civilian and military professionals working in the Support Branch under the direction of the Chief of Support, a U.S. Colonel.

The team includes members of the U.S. Army Task Force Sinai and 1st U.S. Army Support Battalion soldiers, drivers from the Uruguayan Transportation and Engineering Unit and the New Zealand contingent, Canadian military, Direct Hire and Contract Hire Civilians, plus the expatriate and Egyptian national personnel furnished by our support services contractor, HNSI, in conjunction with their sub-contractor, Care Services.

DGR offices in Cairo and Tel Aviv provide assistance in their respective markets with procurement, customs, transportation, disbursement, and other logistics services.

The **1st U.S. Army Support Battalion (1SB)** provides a wide range of supply functions and services to the MFO. The Battalion is organized into four subunits: a Headquarters Company, an Explosive

Ordnance Disposal (EOD) Detachment, a Medical Company and an Aviation Company. The Aviation Company, EOD Detachment and selected Medical positions are manned by U.S. Army active duty soldiers. **90 soldiers – the Support Battalion Commander, primary staff, and medical, personnel, postal and supply specialists – are provided by the National Guard, currently from Iowa.**

- The **Headquarters Company** provides command, control, administration, and logistics support to the battalion and many services not only to the battalion, but to the entire Force as well. This includes a chaplain, military postal services, mortuary affairs services, and ammunition and explosive storage areas.
- The **EOD Detachment** rapidly responds to unexploded ordnance (UXO) hazards in the MFO area of operation which threaten MFO personnel and property. The detachment's MFO mission includes educating personnel about the types of UXO and explosives hazards they may encounter in the Sinai; conducting verifications of known hazard areas to determine location, quantity, and type of explosive contamination; and ensuring that accurate hazard area maps are available. The detachment maintains a main office on North Camp and a satellite office at South Camp. A member of the EOD also participates on the Emergency Reaction Team and, as needed, with the Operation Center's Incident Management Team.

This year, the EOD detachment responded to seven incidents involving conventional ordnance, ranging from small arms ammunition to tank rounds, as well as investigating suspicious items found in the vicinity of MFO facilities. The detachment also conducted site verifications of known hazard areas in conjunction

with semi-annual inspections and special route clearances following road washouts.

- The **Medical Company** operates treatment facilities at North Camp and South Camp as well as medical assets at remote sites. The Force Surgeon supervises medical operations at the two camp dispensaries which include Force Dental, Preventative Medicine, Veterinary, Physical Therapy and Wellness services as well as medical logistical support. U.S. Army 1SB personnel at the clinics support all MFO members and are augmented by doctors, dentists and medics from five other contingents (Uruguay, Hungary, Colombia, Fiji and Italy) as well as the U.S. Infantry Battalion at South Camp.
- The **Aviation Company** consists of both the RWAU discussed above and the Aviation Supply and Maintenance (AVSM) unit that diligently provides logistical support and maintenance for the MFO's helicopters. The AVSM office is responsible for overseeing the rotary wing budget, managing critical items, and expediting aviation part repair shipments. The company maintains a main office on North Camp as well as a satellite office at South Camp.



The **Force Transportation Office (FTO)** offers timely and efficient transportation support, with a main office on North Camp and a two-soldier satellite office at South Camp. The staff includes soldiers from Colombia, the Republic of the Fiji Islands, the United States and Uruguay as well as one Care Services employee. The FTO plans and coordinates air and sea movements for equipment rotating through the MFO; daily re-supply missions for all classes of supply to remote sites; passenger travel (official and personal); and receipt, delivery and shipment of unaccompanied baggage. The FTO is the technical representative for two MFO contracts: one that provides an on-camp travel agency and another that provides commercial bus services that connect the MFO's two camps and both camps with Cairo.

The FTO is comprised of four distinct sections:

- The **Rotations Section**, working in close collaboration with Rome HQ, ensures the unimpeded flow of contingent personnel, baggage, and equipment into and out of the Sinai. During FY 08, FTO successfully coordinated the movement of 100 inbound and outbound group rotations, comprising over 4,500 MFO personnel. The Rotations section works closely with Liaison staff in the DGR offices and FMPU to ensure that troop and equipment movements are efficient and in compliance with host nation requirements.
- The **Surface Section** manages ground vehicle assets and operators to meet the daily re-supply requirements of both camps and of the remote sites. They also coordinate the MFO shuttle services for official, morale, and medical trips in Egypt and Israel. Driving missions are conducted by the Uruguayan Transportation and Engineering Unit (TREU) and by drivers from the New Zealand transportation detachment. Deliveries include over 25 million liters

of water and over 6 million liters of fuel a year. On average, there are 120 resupply missions per week from North Camp and South Camp combined.

- The **Unaccompanied Baggage Section** coordinates and tracks inbound and outbound personal property and unaccompanied baggage shipments including receipt, delivery, pack outs, and claims processing. The section arranges an average of 20 pack outs and deliveries per week and works closely with Liaison and host nation Customs to reduce shipment clearing time.
- The **Travel Section** arranges transportation for temporary duty, emergency leave, repatriations, and individual rotations. The section also oversees commercial bus movements and CASA aircraft reservations.

Our small but effective **Food Services Section**, staffed by a Canadian Food Services Major and a U.S. Warrant Officer, constantly reviews the performance of our support contractor's food services. The section reports on the contractor's food storage and preparation procedures and develops control systems to ensure a high standard of meals and food service for the Force. Emphasis is always placed upon obtaining the best value for each food dollar spent. Food Services staff also visit our



remote sites each month to promote proper inventory management, storage and food preparation procedures.

HNSI, together with their sub-contractor, Care Services, provide the MFO with food services that include ration support to remote site kitchens, short-term food storage and preparation of all meals for a diverse and multicultural population of diners at the dining facilities in both camps. During the last 12 months, HNSI has provided about 3,500 meals per day and maintained an excellent level of diner satisfaction.

Vehicle Maintenance and Fleet Management is responsible for the care and distribution of all Force vehicles. Headed by a civilian Vehicle Maintenance Manager and staffed by two Canadian contingent members and civilian personnel, the group provides oversight of all aspects of mechanical repairs and vehicle allocation. Technical repairs are normally performed by HNSI and Care Services employees.

The total fleet, including a wide range of non-powered trailers, heavy earthmoving machinery and small utility equipment, numbers around 500 pieces. Six Ford FAVs, purchased with donor funding, will commence delivery in December 2008. Major vehicle purchases of Volvo Tractor units and GMC medium trucks in FY 08 have highlighted the complexity of modern computerized vehicle control systems and made apparent the need to recruit specific product-trained technicians. As a result, product training will form a major part of vehicle maintenance budget planning in the future.

Full service workshops operate at each camp to perform scheduled maintenance, repairs and, when needed, post-accident rebuilding. **In FY 08, the combined efforts of our personnel resulted in a mission capable rate in excess of 95%, matching FY 07. This is an exceptional performance**

given the challenges of Sinai roads and climatic conditions.

The **Force Engineering Office (FEO)**, managed by a civilian Force Engineering Officer, is responsible for real property maintenance, engineering projects and construction at both North and South Camps and at all remote sites. The Engineering Section is made up of 25 staff members – civilians from the United Kingdom and military personnel from Canada, the Republic of the Fiji Islands, New Zealand, the United States and Uruguay – and is further supported by HNSI expatriate and Care Services Egyptian contractor personnel.

The FEO mandate includes responsibilities for water filtration and treatment, waste removal, electrical power supply, physical works relating to force protection, the maintenance and repair of all buildings and fixed equipment, fire protection and prevention, and unpaved road maintenance.

The **Uruguayan Force Engineer Unit (FEU)** is responsible for the maintenance and upgrade of supply routes, remote site access roads, gravel roads within North and South Camps, helipads and force protection and other support construction activities.

Supply and Procurement is responsible for the provision of goods and services in support of the MFO mission. The MFO supply system, except for aviation, medical and ammunition requirements, is based on commercial sources of supply, primarily vendors in Egypt and Israel, but also the U.S. and other countries. The competitive procurement process, transportation to the camps of goods sourced in Egypt, receiving and warehousing, inventory management and on-camp distribution are managed by our civilian professionals. Commercial, logistics and finance functions rely on our SAP enterprise resource planning system. Orders for goods and services are placed through the two DGR offices or directly

with local Sinai firms. The system is closely watched from requisition to issuance of goods.

1SB personnel order helicopter material, most medical supplies and U.S. ammunition requisitions through U.S. Department of Defense systems. Other specialized procurement is handled by MFO HQ.

The Supply Branch also maintains an asset management system to ensure all MFO equipment is accounted for and repaired or replaced in accordance with good life cycle management practices. Inventory reduction and management remain a high priority at the Force.

The recruitment of a new Inventory and Asset Controller last year has improved controls considerably. The current inventory error rate overall in the Force is in the region of 1.5%. We have set a goal for FY 09 to reduce this to 1% or less.

The management of **MFO Contracts** is divided among Rome Headquarters, the Force and our offices in Cairo and Tel Aviv. Each location maintains records of pre-qualified contractors and carries out thorough pre-qualification checks when new contractors are sought. MFO policy calls for rigorous competition wherever possible and, by using careful bid analysis techniques, the most advantageous contracts for the MFO are obtained. Fixed-term, fixed-priced contracts, with strict warranty, performance and penalty clauses ensure that we obtain value for money.

The **Force Contracts Office** administers the MFO Operations and Support Contract presently held by HNSI, with sub-contracted Egyptian labor services provided by Care Services of Cairo. There are currently 54 HNSI and 473 Care Services positions authorized under this contract. The Contracts Office also manages the acquisition and administration of other contracted services.

This past year was dominated by the competitive placement of further facility infrastructure renovation contracts, including the replacement of North Camp's wastewater treatment plant, and extensive refurbishment to South Camp's dining and multi-purpose briefing facilities. All of these requirements were vigorously competed to ensure the best value to the MFO. In FY 08, the Force Contracts Office administered contracts with an annualized value in excess of \$9M, including the support services contract with HNSI.

The key challenge this fiscal year was the need to maximize the speed with which construction projects were competed to be able to lock-in costs in the face of rapidly rising market prices for construction materials.

PERSONNEL AND SERVICES

The **Personnel and Services Branch** within the Sinai is composed of the Personnel and Postal Section, Force Exchanges, Force Libraries, the MFO Club System, and the Recreation, Athletics and Entertainment Section. The Chief of Personnel and Services (CPS) is an MFO Direct Hire Civilian who manages all personnel and morale support programs. The CPS, along with a U.S. Army Deputy and a civilian Personnel Manager, provides administrative oversight of civilian employment processes. The personnel services team is a diversified

and multinational group of individuals comprised of military, expatriate civilians and Egyptian nationals.

Our current civilian personnel authorizations for the Force include 36 expatriate DHCs, 38 Egyptian national CHCs and the 15 members of the COU. Force DHCs are recruited from locations worldwide and currently represent seven different nationalities. Our CHC workforce is recruited within Egypt and provides technical expertise in the areas of finance, logistics, engineering, retail, library and communications and information systems.

A table with current military personnel levels from our eleven Participating States is found on page 4.

Our Morale Support Program (MSP) is vital to maintaining the well-being of our personnel in the Sinai. The MSP is tasked with the important mission of maintaining morale at our remote sites and camps. The effort and resources committed to these programs underline the MFO's pledge to take care of our dedicated personnel. Profits from the Force Exchanges and club systems provide necessary funding for the annual itinerary of tours, and for sports and recreational activities. A new FX Program Manager has revitalized the FX system. By reducing operating costs, profits have risen, thereby increasing available funding for morale activities for Force members.



MFO Morale Support Tours

The MFO is very grateful for the entertainment groups sent to the Force by the United States, Canada and Australia during the past year.

The Force Libraries continue to be a vital source of information and entertainment for our members. Remote sites are enjoying a steady supply of books, magazines, DVD movies and computer games that have helped contribute to morale at these remote locations during off-duty hours. The libraries on both camps continue to provide an excellent location for Force members to relax after work. Library support functions were expanded in an ongoing effort to improve services for our patrons. During the past year this included the installation of a coffee bar and wireless internet access. In FY 09, a language learning system, Rosetta Stone, will be installed to provide internet-based, voice recognition language training in 31 languages.

INFORMATION, COMMUNICATIONS AND TECHNOLOGY (ICT)

The **ICT Branch** provides the Force with voice and data communication systems in order to meet operational command and control, and morale and welfare requirements. ICT provides around-

the-clock services to North Camp, South Camp, 28 remote sites, two TOPs manned 24 hours a day, and the Coastal Patrol Unit. ICT provides, manages, repairs, and oversees the wide and local area networks; telecommunications and satellite services; operational VHF, HF, and UHF radios including flight following radio/repeaters for helicopter communications; and a network of distributed servers, MFO-owned personal computers, printers, and scanners. ICT also supports television, radio, and theater programs. The ICT branch, headed by a civilian Chief, is composed of DHCs, CHCs, Care Services employees and military personnel from the United States, the Republic of the Fiji Islands, Canada, and Australia. This staff of 33 is reinforced by a network of outsourced contractors who provide reliable support in areas as diverse as server maintenance, wireless Internet access, private branch exchange (telephone exchange that serves a particular office) and VOIP technology. Each MFO office has outsourced support, which works hand-in-hand with the ICT Branch to maintain communications and connectivity at its respective location.

Additional information can be found at our web site: www.mfo.org





ANNEX A: VISITS FY 2008

Our most senior civilian and military visitors from Supporting States this year included:

- From **Australia**: Lieutenant General Kenneth J. Gillespie, Chief of Australian Army.
- From **Canada**: Lieutenant General Michel Gauthier, Commander, Canadian Expeditionary Force Command.
- From **Colombia**: Mr. Juan Manual Santos, Defense Minister.
- From **Fiji**: Commodore Josaia Voreqe Bainimarama, Commander, Republic of Fiji Military Forces.
- From **France**: Hon. Mr. Herve Morin, Defense Minister; General Stephane Abrial, Air Force Chief of Staff; and Brigadier General Patrick Rousseau, French Air Force Command.
- From **Hungary**: Brigadier General Andres Zsinka, Ministry of Justice and Law Enforcement; Dr. Agnes Vadai, Senior State Secretary, Ministry of Defense; and Brigadier General Pal Lackner, Protestant Field Bishop.
- From **New Zealand**: The Right Honourable Helen Clark, Prime Minister and Lieutenant General Jeremiah Mateparae, Chief of Defence Force.
- From **Norway**: Vice-Admiral Jan Reksten, Commander of Norwegian Joint Forces.
- From the **United States**: Representative Steve Israel, U.S. House of Representatives; Hon. Mr. Mark Kimmitt, Deputy Assistant Secretary of Defense for the Middle East; Hon. Mr. Robert Danin, Deputy Assistant Secretary of State, NEA Bureau; Lieutenant General R. Steven Whitcomb, U.S. Army Central (ARCENT) Commanding General; Lieutenant General James Lovelace, Department of the Army, Deputy Chief of Staff, G3/5/7, and Commanding General, ARCENT; Major General Dennis Hardy, ARCENT Deputy Commanding General; Major General Michael Collins, Chief, Office of Military Cooperation-Egypt; Brigadier General Kevin A. Leonard, Commanding General, 1st Sustainment Command (Theater); Brigadier General Luis Visot, Deputy Commanding General, 1st Sustainment Command (Theater); Brigadier General Michael





Schweiger, Deputy Commanding General, 1st Sustainment Command (Theater); Brigadier General Harold G. Bunch, Deputy Commanding General, 1st Sustainment Command (Theater); and Brigadier General David Baralt, Adjutant General, Puerto Rican National Guard.

- From **Uruguay**: Hon. Dr. Tabare Vazquez, President of Uruguay; and Maj. Gen. Felicio De Los Santos, Commander, Peacekeeping Operations Command.

Supporting States and other diplomatic missions in Egypt and Israel had visitors to the Force. They included:

- The Ambassadors accredited to Egypt from Canada, Czech Republic, Colombia, France, Hungary, Norway and Uruguay.
- The Ambassadors accredited to Israel from Colombia, Czech Republic, Norway, the United States, and Uruguay.
- The Military Attaches in Egypt from Australia, Argentina, Brazil, Bulgaria, Burundi, China, the Czech Republic, Denmark, France, Ghana, Hungary, India, Italy, Japan, Morocco, the Netherlands, New Zealand, Pakistan, Poland, Republic of Korea, Romania,

Slovakia, South Africa, Spain, Sweden, Turkey, the United Arab Emirates, and the United Kingdom.

- The Military Attaches in Israel from Colombia, the Czech Republic, Hungary and the United States.
- United Nations Treaty Supervisory Organization: Major General Ian Gordon, UNTSO Chief of Staff & Head of Mission.

Visits from both Receiving States strengthen our cooperative relationships:

- Most notably, visitors include: Maj. Gen. Nagy Kamal, Chief, LAWIO; Maj. Gen. Ali Omar, Head of Delegation, Joint Military Committee Conference; Maj. Gen. Gamal Embaby, Joint Military Committee Conference; Maj. Gen. Yahia El Eraky, Border Guard Force; Brig. Gen. Ossama Abdelaziz, Chief Peace Branch, LAWIO; and Brig. Gen. Maher Kamel, Arab Republic of Egypt (ARE) Police from Egypt. And from Israel, Maj. Gen. Ido Nehushtan, Head of Planning Directorate; Brig. General Nitsan Alon, Head Operational Division, Israeli Defense Intelligence; and Brig. Gen. Yossi Heymann, Israel Defense Forces Strategic Division. The Parties have made use of our facilities on several occasions to conduct talks and maintain their close coordination.

