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HIGHLIGHTS

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I Political Developments

1. Yemen: The United Nations Human Rights Council decided on 27th September to establish an international team of experts to examine abuses in the Yemen war and seek to identify those responsible. The decision has enabled Saudi Arabia to avoid a formal panel of inquiry like the one investigating the war in Syria.

The United Nations high commissioner for human rights, Zeid Ra'ad al-Hussein, will appoint "a group of eminent international and regional experts" to conduct a "comprehensive examination" of abuses by all parties to the conflict since September 2014. The experts will report to the High Commissioner within a year and discuss their findings with the Human Rights Council in September next year.

Earlier in September, Mr. al-Hussein, for the third year in a row, had urged creation of an international investigation panel as his office released a report presenting a litany of abuses by all parties involved in the conflict in Yemen which has caused thousands of civilian casualties and contributed to a staggering humanitarian crisis in Yemen, the Arab world's poorest country. Saudi coalition airstrikes were the leading cause of civilian casualties, Mr. al-Hussein had then noted.

Human rights groups regard the compromise arrived at in Geneva as a qualified victory. "It's a historic decision to put in place a mechanism that will bring scrutiny to all parties," said John Fisher, director of Human Rights Watch's Geneva office. Mona Sabella, an advocacy officer for the Cairo Institute for Human Rights Studies, said: "Many thought it impossible to challenge Saudi impunity for war crimes in Yemen. The creation of an international investigative body has shown that the lives of millions of Yemen people mean more than Saudi influence."

Separately, the Saudi ambassador to the UN, Abdullah Al-Mouallami, has warned that, if the international community does not pressure the Houthis in Yemen, there will be pro-Iranian theocratic regime in Yemen with a Hezbollah-type militia holding the reins of power. In his opinion piece in the New York Times, he added: "Peace will only prevail if Al Houthi rebels agreed to become a political party and disarm." If the rebels are allowed to maintain the status quo, Al Mouallimi warned, it would effectively mean the de facto partition of Yemen.

On 12 October, there were reports that Saudi Arabia, which controls the air space over Yemen, allowed a Russian medical team to rush to Sanaa to perform life-saving surgery on former president, Ali Abdullah Saleh, who is allied with the Houthis, arch-enemies of the Saudis in Yemen. Saleh's exact health issue is unclear, but it apparently is a result of the severe burns and other injuries he suffered during an assassination attempt in 2011. At the time, the Saudis had rushed him to a hospital in the kingdom, where his life was saved. He formally gave up the presidency the next year.

After the Russian doctors had saved Saleh, the Saudi press said: "Saudi-led coalition intervenes to save seriously ill Saleh's life!" The reports noted that this is the second time Riyadh had saved Saleh from his injuries. The most likely explanation for the Saudi initiative is to break the rebel alliance between Saleh and the Houthis, which has been fraying this year. The Saudis hope that if the rebels split, perhaps they and their partners can prevail against the Houthis.

The estrangement between the two rebel allies appears to be deepening. The Houthis unleashed a fresh round of verbal attacks on Ali Abdullah Saleh on 20 October, suggesting he should "be killed and hanged at the Gate of Yemen." Saleh was accused of treason by the rebel group and has faced a tirade of verbal attacks across rebel-owned media platforms.

A day earlier, Saleh's General People's Congress (GPC) had complained of humiliation at the hands of the Houthis, accusing the rebels of waging an "orchestrated campaign" against the former president. The Houthis in turn accused the GPC of breaking their pact with the Houthis and accepting money from the rival government of President Abedrabbo Mansour Hadi. The party's political leader Salah Sammad accused the GPC of "sapping internal unity" and paralysing the rebel government.

However, on 22 October, the Houthi media outlet, Al Masirah, denied that Saleh had been described as a traitor; it said such stories were "part of the allegations which target the unity of the Yemeni internal front against the foreign aggression against Yemen".

2. King Salman in Moscow: When Saudi monarch King Salman bin Abdulaziz landed in Moscow on 5th October, he became the first Saudi ruler to visit the Kremlin, signalling a new phase in bilateral ties after a chequered engagement over several decades.

Since 2011, Russia and Saudi Arabia have been divided over Syria, where the kingdom has been pushing for regime change. Russia directly entered the Syrian war theatre in 2015, ensuring that President Bashar al-Assad would not be removed by the opposition militia, most of them sponsored by Saudi Arabia and its allies.

The Syrian civil conflict coincided with the steady withdrawal of the United States from West Asia's conflict zones. This made Russia the principal military and political force in West Asia. It is also the driver of the Syrian peace process, in alliance with Iran and recently Turkey, that would also ensure a robust assault on the Islamic State and other rebel militia, the enforcement of "de-escalation zones", and dialogue between the government and Opposition groups.

King Salman joined a long line of leaders from Turkey, Syria, Jordan, Iran, Egypt and Israel who have visited Russia in recent times to seek the understanding and support for their regional interests. There are clear indications from Riyadh that Saudi Arabia has accepted that Bashar al-Assad will remain in office at least during a "transition" period, the length of which is not known.

But the King's agenda in Moscow went beyond Syria. It included the fight against the Islamic State, maintaining the integrity of Iraq amid sectarian divisions and Kurdish aspirations for independence, and, above all, stabilising the oil markets so that producers can once again generate the revenues required to sustain national interests. In all these matters, Russia and Saudi Arabia are on the same side.

Where Russia and the kingdom parted company was on Iran. King Salman reiterated in Moscow the Saudi position that, to achieve regional security and stability, Iran should stop its "interference" in the affairs of the neighbouring countries. This refers to Iran's burgeoning role in regional affairs, particularly through Shia proxies, in Bahrain, Iraq, Syria, Yemen and Lebanon. Mr Putin did not respond positively to the monarch's overtures.

In this context, US commentator Mark Katz has said that Russia's high profile in West Asia has "led to

expectations in Saudi Arabia that Russia will actually play the role of a great power by maintaining balance in the region". He adds that Russian diplomats have encouraged this belief by telling their Saudi (and Israeli) counterparts that, if they are concerned about the Iranian presence in Syria, they are better off with Russian forces there to keep the Iranians in check.

During the visit, the two countries signed a series of multi-billion dollar investment deals valued at \$ 3 billion, including one to create a \$1 billion fund to pursue energy projects. Other deals were a \$1.1 billion agreement for Russian petrochemical firm, Sibur, to build a plant in Saudi Arabia, and a joint Russian and Saudi investment of \$150 million in Russian private oilfield services firm, Eurasia Drilling Company Limited.

The King's visit has also taken bilateral ties into the new area of defence cooperation: Saudi Arabia plans to buy the Russian S-400 air defence systems, anti-tank guided missile systems and multiple rocket launchers. These contracts will include transfer of technology arrangements and manufacture within the kingdom itself. There are also reports that Saudi Arabia might be interested in acquiring Russian aircraft in use in Syria, the Su-30SM and Su-35S fighters and the Su-34 fighter-bombers.

In response to some American reports that this outreach to Russia has left the United States "out in the cold", Saudi writers have been at pains to clarify that the strengthening of Saudi-Russia ties does not imply a dilution of the Kingdom's relations with the US. However, while Saudi Arabia has every reason to be grateful to President Donald Trump for the fulsome support he has given to the kingdom's anti-Iran "Islamic Military Alliance" during his visit to Riyadh in May and the visceral animosity he has displayed for the Islamic Republic, there is considerable uncertainty about the future US role in West Asia and whether this will include a larger US military footprint. The kingdom has reached out to Moscow as the only active major power in West Asia that has built up a solid network of regional partners and is able to make a difference on the ground.

3. President Trump de-certifies the Iran nuclear agreement: On 13th October, the US President Donald Trump fired a robust salvo at Iran, calling its leadership a "rogue regime" and blaming it for "sponsorship of terrorism and continued aggression in the Middle East and around the world". Trump announced that he would not certify the nuclear deal, which, under US law, requires presidential certification of Iran's compliance every three months.

However, he has placed the onus of further action on the US Congress: within sixty days, Congress must decide whether to take any action or, alternatively, re-impose sanctions that had been lifted earlier when the agreement was signed in January 2016; this would place the US in violation of the nuclear agreement. Perhaps, anticipating difficulties in Congress, Trump has warned that, unless the deal was re-negotiated, "our participation can be cancelled by me, as president, at any time."

The president has also set out a comprehensive Iran strategy that includes: neutralising Iran's "destabilising influence" and its "subversive activities" and ending its missile development. The "malign activities" of the Islamic Revolutionary Guard Corps (IRGC) have been addressed by naming it a terrorist organisation. But, this has been done by the treasury department rather than the state department, perhaps to avoid retaliatory action by IRGC elements against US forces which are operating in close proximity in Iraq and Syria.

The official Iranian response has referred to the de-certification as a "strategic mistake" and evidence of "rogue behaviour". It has accused the US of promoting regional conflicts and having hegemonic designs. The nuclear agreement, it concludes, is a "valid international instrument" and an "outstanding achievement in contemporary diplomacy".

First responses to the Trump initiative have been negative. The EU foreign policy head, Federica Moghereni, has said that the agreement "does not belong to any single country and it is not up to any single country to terminate it." In a joint statement, the leaders of Britain, France, and Germany have said that "preserving the agreement is in our shared national security interest." The IAEA director general, Yukiya Amano, has refuted Trump's allegation that Iran had prevented IAEA weapons inspectors from entering military bases, saying: "So far, the IAEA has had access to all locations it needed to visit."

Most observers believe that the US stance brings little advantage to the US and several difficulties. Thus, by endangering the agreement, Trump has rallied his allies against him, even as he has undermined the

US's own credibility as a reliable interlocutor in the international arena. This is likely to adversely impact diplomatic efforts to address nuclear issues with North Korea.

Again, West Asia, already amidst serious armed conflict in Syria and Yemen and a sectarian stand-off between Iran and Saudi Arabia, has become much more dangerous. If the nuclear deal fails, Iran could revive its nuclear programme which, even if peaceful, would ignite the fears of its enemies, Israel and Saudi Arabia. The latter are already fuelling Trump's anti-Iran bellicosity and, with rightwing allies in the US, are deliberating provoking a crisis that could lead to a pre-emptive assault on the Islamic Republic. Iran on its part has mobilised its own allies, Syria, Iraq and Turkey, and, with its battle-hardened militia, Hezbollah and the Peoples' Mobilisation Units from Iraq, is well-placed to defend itself.

4. Qatar: In response to the four-month long economic blockade, Qatar's sovereign wealth fund is reducing some of its high-profile foreign investments to buttress the domestic economy. The Qatar Investment Authority, which has reduced its direct holdings in Credit Suisse Group, Rosneft and Tiffany & Co. in recent months, is considering selling more of its \$320 billion of assets, which includes stakes in Glencore and Barclays, and channelling the proceeds into its home market.

Created in 2005 to handle Qatar's windfall from liquefied natural gas sales, of which it is the world's biggest exporter, the QIA and other Qatari investors have amassed holdings in Hollywood, New York office space, London residential property, luxury Italian fashion and even a soccer team. The QIA ranks as the ninth largest globally, according to the Sovereign Wealth Fund Institute. After a dip in transactions in 2015 and 2016 as oil prices slumped, the fund regained its appetite for deals late last year, investing in Turkey's biggest poultry producer, the Russian energy company Rosneft, and U.K. gas company National Grid, all within a couple of months.

The fund is also considering selling some of its extensive property portfolio, especially in the U.K. where it owns stakes in London's Savoy Hotel, the Shard skyscraper and the Olympic Village, according to another person familiar with the matter. The QIA also wants to sell an office building in London's Canary Wharf financial district that is leased to Credit Suisse.

5. Iraqi forces take Kirkuk from the Kurds: On 9th October, Iraqi forces began an operation to seize the Kurdish-held city of Kirkuk and its surrounding oil fields. In a brief statement released to the state-run network, Iraq's prime minister, Haider al-Abadi, ordered troops to impose security in the area "in cooperation with the people of Kirkuk and the peshmerga," or Kurdish fighters.

State-run TV said the initial assault by Iraqi troops, counterterrorism forces and federal police did not encounter resistance as they sought to reclaim areas seized by Kurdish forces in 2014. But there were unconfirmed reports of clashes with the peshmerga, who maintained defensive lines around Kirkuk and the oil fields. Military sources also reported exchanges of artillery fire, but those reports could not be confirmed.

In Washington, the Pentagon urged "all actors" in the region to focus on battling Islamic State militants and to avoid provoking disputes among Iraqis, but this call went unheeded.

In the event, the takeover of Kirkuk by the Iraqi army was accomplished quite swiftly, with the Kurdish fighters leaving the town without fighting. This became possible when Iran, led by Quds Force Commander Qasem Soleimani, reached an agreement between the leaders of the Patriotic Union of Kurdistan (PUK), the political enemies of Masoud Barzani, President of the Kurdistan Regional Government (KRG) and the Iraqi government regarding withdrawal of the PUK-controlled peshmerga forces from Kirkuk.

Israeli commentator Eldad Shavit has said that the loss of Kirkuk is a severe blow to the economy of the KRG and severely damages the ability of the Kurds to realize their aspirations for independence. The event also shows Iran's ability to promote its interests and strengthen its influence on the Iraqi government in general, and particularly the influence of the Revolutionary Guards and Soleimani.

Commentators have also noted that the Kurdish defeat at Kirkuk has again exposed the deep historic divide between the two Kurdish factions, the Kurdistan Democratic Party (KDP) of Masoud Barzani, at Arbil, and the Talabani-led PUK at Sulmaimaniyah. Observers have speculated that the defeat of the Kurds so soon after the independence referendum led by Barzani, would seriously weaken the KRG, which could collapse, or at least fracture.

There are also fears that a Kurdish civil war could break out as the main Kurdish rivals accuse each other of treason and responsibility for the region's woes. Most peshmerga fighters are loyal to one faction or the other. Today, commentators are talking about the possibility of two regional administrations replacing the KDP-dominated KRG.

Again, the KRG's cancellation of Kurdish parliamentary and presidential elections, which had been scheduled for November 1st, is likely to inflame tensions among the region's Kurds. The Gorran Movement ("Movement for Change") supporters are likely to be the most agitated. The party has the second largest number of seats in parliament, after the KDP, but, since it is a new political movement, no peshmerga fighters are loyal to it or its top leaders.

On 22 October, US secretary of state Rex Tillerson, who was visiting Riyadh to join the first Saudi-Iraqi Coordination Council meeting, said at a press conference that "Iranian militias that are in Iraq, now that the fight against Daesh [the Islamic State of Iraq and Syria] is coming to a close, those militias need to go home." He added: "Any foreign fighters in Iraq need to go home and allow the Iraqi people to regain control of areas that had been overtaken by ISIS and Daesh that have now been liberated, allow the Iraqi people to rebuild their lives with the help of their neighbours." Tillerson also said an effort to counter Iranian influence will help Iraqis begin to rebuild and restore their nation.

Some observers have pointed that, while there are pro-Iran Iraqi militia in Iraq, there are no Iranian militia in the country; there are just 30-50 Iranian advisers in Iraq, along with hundreds of Europeans of diverse nationalities. There are at least 5000 US troops in Iraq, but it is not clear if their presence is covered by the Secretary's remarks.

6. Syria: On October 17th, elements of the US-backed Syrian Democratic Forces (SDF) paraded through Raqqa's Paradise Square, declaring the end of ISIS's control of its "capital" in Syria. This followed the capture of Mosul, ISIS's capital in Iraq, by Iraqi forces in June. While there are still pockets of resistance in Raqqa and parts of Iraq, the so-called "caliphate" has ceased to exist, just over three years after it was proclaimed.

ISIS controlled Raqqa for three years, gaining notoriety for its grisly beheadings displayed on social media, and for its harsh rule. Fearing the spread of this menace, the US worked assiduously to put together a global coalition of more than 70 countries, and train and mobilize local armed forces in Iraq and Syria, under Operation Inherent Resolve.

The US rejuvenated the Iraqi army, which was supported by American and Iraqi special forces and by Iran-backed militias. In Syria, the US opted to develop a composite army, the SDF, comprising largely of Kurdish militants with some Arab elements. These forces have decimated the structures of the "caliphate," and killed or dispersed most of its fighters. Raqqa was subjected to massive aerial bombardment that broke Daesh's ranks, but also destroyed large parts of the city and killed hundreds of civilians.

Brett McGurk, the US diplomat heading anti-Daesh operations in Iraq and Syria, said in July that the group's capacity to regenerate as a military force had ended. However, the continuing threat of extremist violence remains very real. Since the victory parade in Raqqa, hundreds of mines, explosives and suicide vests have been discovered, suggesting that the remaining extremists are well-equipped to inflict considerable damage on soft targets.

The most likely targets will be countries experiencing civil conflict and a breakdown in state authority, such as Iraq, Syria, Yemen, Somalia, Libya, parts of Nigeria and Egypt's Sinai Peninsula. It is noteworthy that in Syria and Iraq, where ISIS has experienced significant setbacks, it is still able to carry out lethal bombings in Damascus and Baghdad.

Civil conflicts in Syria, Yemen and Libya have destroyed the infrastructure of governance and civic life, leaving hundreds of thousands of people displaced and destitute. Several thousand residents of Raqqa are eking out a miserable existence in inadequately funded and poorly organized makeshift camps. While the US and its allies are focused on war, they have little interest in reconstruction and nation-building projects, so "liberated" towns are becoming recruiting spaces for new jihadists.

Besides weak central authority in Arab states experiencing conflict, regional sectarian and ethnic

divisions will ensure that extremist groups continue to attract youths propelled by a sense of grievance and victimhood. For instance, in the ongoing fight against ISIS remnants in Iraq, a leading role is being played by sections of the Iran-backed militias, with some of them using prominent Shiite symbols and slogans. This is bound to encourage some Sunni youths in the country to join extremist groups.

The most dangerous aspect of extremist violence is the role of lone-wolf actors who attack soft targets in various parts of the world, particularly Europe. Their earlier activities do not indicate any direct association with radical groups; they seem to be indoctrinated via social media. Though several lone-wolf attacks have taken place in the West, no clear profile of the perpetrators has emerged that would enable security experts to pre-empt their attacks.

Two years ago, former CIA chief Leon Panetta was quoted as saying: "I think we're looking at kind of a 30-year war... one that will extend beyond Islamic State (Daesh) to include emerging threats in Nigeria, Somalia, Yemen, Libya and elsewhere." This seems to be a very likely prospect.

II Oil-Related Developments

1. Oil prices cross \$ 60: Oil prices rose strongly on 26th October before breaking two-year-highs on the next day. Brent crossed \$ 60/ barrel to reach \$ 60.13, though WTI remained subdued at \$ 53.90. The price gains came after robust US demand data from the EIA, reports of declining inventories and rising confidence in an extension of production cuts by OPEC. Some analysts feel this might not be a long-term trend: in recent times, when prices have reached \$ 60, they have begun to fall due to increased US shale oil production.

However, there is greater certainty that Saudi Arabia and Russia are leaning towards agreeing to extend their production limits through the end of 2018, a move that could be finalized at the upcoming OPEC ministerial meeting in Vienna on November 30. With those two countries on board, it would be likely that the rest would fall in line. Russian energy minister Alexander Novak has warned that Russia would boost output by 100,000 bpd next year if the agreement lapsed.

Saudi Arabia has said it will continue to maintain production cuts: Saudi Aramco plans to pump about 9.77 million barrels a day in November, in what would be its smallest output since January 2015. That's about one million barrels a day less than the 10.72 million it pumped in November last year.

Discussing the long-term scenario, the Saudi oil minister, Khalid Al Falih has said population growth and rising living standards across most of the developing world would see energy demand continue to soar by about 45 percent by the year 2050. He added that, while new energy will continue to gain ground, the same sources that dominated global energy mix in the past will continue to account for the lion's share of supplies for the foreseeable future. According to him, by 2050, renewables will only account for about 10 percent of primary energy demand, and that petroleum, natural gas and coal would continue to account for about 75 percent of the supply of energy by 2050.

2. ARAMCO IPO: Saudi Aramco has denied a report in the Financial Times that the company will shelve its plans to list part of the company on international indices in favour of private placements. The Financial Times had earlier reported that talks about "a private sale to foreign governments including China and other investors have gathered pace in recent weeks". Observers have noted that the key goal of the proposed IPO is to obtain \$ 100 billion for the Public Investment Fund (PIF); private placement could be easiest way to reach that goal. The FT report also speculated that the IPO could be delayed "to 2019 or later."

On 17 October, Reuters reported that Chinese state-owned oil companies, PetroChina and Sinopec, have written to Saudi Aramco to express an interest in a direct deal to purchase up to 5% of Saudi Aramco, in a move that would shelve the Company's plans to list on international markets in favour of a direct sale. If ARAMCO is valued at about \$2 trillion, as projected by Saudi Arabia, that would raise \$100 billion from Chinese investors directly.

In an attempt to stem speculation on the subject, Saudi oil minister Khalid Al-Falih said on 17 October, that

Saudi Arabia is still aiming to complete both international and domestic portions of the initial public offering of its state oil company in 2018. He however refused to comment on the offer from the Chinese companies.

III Non-Oil Economic Developments

1. Saudi economy contracts: Saudi Arabia's economy contracted by 1.03 percent in the second quarter of this year following a 0.5-percent contraction in the first quarter, as participation in the OPEC oil production cut and disappointing growth in non-oil industries weighed on the economy. According to Bloomberg, slow growth in the non-oil economy is insufficient to offset the impact of lower oil output or to reduce unemployment. There has been little momentum in the non-oil sector — its growth rate has been stuck at below 1 percent for a few quarters.

The Kingdom is said to be seeing "stagnation in non-oil activity": second-quarter data show still very lacklustre demand" even after the government reversed a decision to cut or freeze bonuses and allowances for state employees.

But, some observers believe there could some benefits for the kingdom over the longer term when recent decisions by the government to expand investment and development of its tourism industry, and to allow women the right to drive, may help the Saudi economy. For instance, remittances from paid foreign drivers in the Kingdom alone reach almost \$4 billion annually; the savings on drivers will boost household income for Saudi families.

2. Saudi crown prince announces mega-city: On 24th October, Saudi crown prince, Mohammed bin Salman, announced the launch of NEOM, a project that aspires to be the "safest, most efficient, most future oriented, and best place to live and work" in the kingdom. NEOM will operate independently from the "existing governmental framework." The project will be backed by more than \$500 billion from the Saudi government, the country's sovereign wealth fund and local and international investors. According to the prince, "NEOM will be constructed from the ground up, on greenfield sites, allowing it a unique opportunity to be distinguished from all other places that have been developed and constructed over hundreds of years."

Some 10,000 square miles (25,900 square kilometres) have been allocated for the development of the urban area that will stretch into Jordan and Egypt, creating "the world's first independent special zone stretching over three countries." The city will focus on nine industries: energy and water, mobility, biotech, food, technological and digital sciences, advanced manufacturing, media and entertainment. The focus on these sectors will stimulate economic growth and diversification.

Separately, in an interview, the crown prince also promised that the kingdom will return to a "moderate" form of Islam and that his country would be "open to all religions". The prince also said: "We will eradicate remnants of extremist dogma sooner than later." The editor of the London-based newspaper, Al-Sharq al-Awsat, Ghassan Charbel, commented that the kingdom was shaping "a pre-emptive action plan to protect youth from despair and frustration playing bait to push them a step closer to radicalization and anti-world nihilism."

The distinguished Saudi commentator Abdelrahman Al Rashed said that, with the "courageous statement" of the crown prince, "Saudi Arabia is leading a new current in the region and the Islamic world - a trend we can pin hope on in order to emerge from the extremist era that threatens the world."

(The views expressed are personal)
