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HIGHLIGHTS

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I Political Developments

1. Wide-ranging purge and detentions in Saudi Arabia: On 3 November, in a dramatic coup within the royal family, engineered by King Salman and his son, Crown Prince Mohammed bin Salman, eleven princes, along with four sitting ministers and several former ministers and officials were detained. Prince Miteb bin Abdullah, the commander of the National Guard, the country's powerful domestic security force, was summarily dismissed and detained, so that force has now come under the control of the crown prince.

The abrupt sacking of Miteb removes an important centre of power that was so far outside the crown prince's control. Till now, it had been speculated that Miteb had not been removed because of the personal loyalty the National Guard would have towards him, given that the guard had been led by Miteb's father and former ruler, King Abdullah, since 1962. Perhaps, the crown prince now has reason to believe that the National Guard will be loyal to the monarchy rather than to a particular branch of the royal family.

The instrument used to effect these purges is the anti-corruption committee set up by the king on Saturday itself, with the crown prince as its chairman. The committee has very wide-ranging powers: it is empowered to investigate, issue arrest warrants and place tight controls over the funds of persons under investigation. It can also take "precautionary measures" while investigations are ongoing, including taking control of all assets of those being investigated. It is authorised to function outside the Kingdom's laws and rules. On 9 November, Saudi officials announced that over 200 persons had been detained as part of the anti-corruption drive.

King Salman, 81 years old, and for several decades an integral part of the Saudi system, has, since he took the throne in January 2015, overturned every norm on the basis of which his country has been governed. These norms had given the country unique stability and continuity in a region that, over the last seventy years, has witnessed coups, regional wars and fierce political and military conflicts.

The purge of the princes, unprecedented in recent Saudi politics, is possibly aimed at clearing the way for Prince Mohammed bin Salman to ascend the throne. There have been widespread rumours that this could take place early next year; alternatively, the king could continue to hold the throne but make his son prime minister, making the monarch a titular head of state for the first time in Saudi history.

However, that the monarch will abdicate in favour of his son was formally and firmly denied by senior officials on 13 November. Observers note that, with full powers now with the crown prince and potential

challengers detained, an abdication might not now be necessary. The commentator Simon Henderson has suggested that Prince Mohammed bin Salman has gathered around him a number of young princes and given them positions in government, thus ensuring support for himself within the royal family.

The names of all the detained princes have not been officially revealed, though they are said to include the high-profile billionaire prince, Alwaleed bin Talal. This prince has holdings in some of the world's major companies, including News Corp, Citigroup, Twitter, and several other media networks. While Alwaleed is not known to have made any controversial remarks on domestic politics, he has been seen as liberal in that he was a vocal supporter of driving by women in the country.

Besides Alwaleed, who owns the Rotana media group, the detainees include Walid Al-Ibrahim (son-in-law of former King Fahd) who owns the Middle East Broadcasting group (MBC). The arrest of the two media moguls suggest the crown prince's interest to bring all Saudi-owned media under his control.

The second development on 3 November was the sudden announcement in Riyadh by the Lebanese Prime Minister, Saad Hariri that he was resigning. Hariri had taken charge only in December 2016 after entering into a power-sharing agreement with President Michel Aoun. In his public remarks, Hariri said that Iran had planted "disorder and destruction" in his country and had made Hezbollah a "state within a state" in Lebanon.

Most commentators believe that Hariri was forced to resign by Saudi Arabia. Explanations offered for the Saudi action are: first, in order to confront Hezbollah, it was necessary to remove the non-Hezbollah elements in the Lebanese government; second, Prince Mohammed bin Salman would like to use Hariri to gain information about the financial dealings of the detained princes, and, third, Prince Mohammed is upset with Hariri for building close ties with other factions in Lebanese politics, his recent cordial meeting with the Iranian official Ali Akbar Velayati, adviser to Supreme Leader Khamenei, and his decision to send an ambassador to Damascus.

US commentator Paul Salem has suggested that Hezbollah presence in Yemen could have triggered Saudi confrontation against Lebanon. He believes Saudi Arabia fears that Hezbollah and Iran could build missile systems that threaten the kingdom from Yemen as they have done against Israel from Lebanon. In an interview on 13 November, Prime Minister Saad Hariri said that political accommodation with Hezbollah and its political allies could be resumed if Hezbollah reversed its intervention in Yemen. He did not emphasize Hezbollah's deployments in Syria nor demand it hand over its arms in Lebanon.

Salem points out that Hezbollah has been building up its presence in Yemen for some time and Hassan Nasrallah, its leader, has raised the Houthi cause and the war against Saudi Arabia there as a main cause for Hezbollah in recent speeches.

Hassan Nasrallah described Hariri's remarks accompanying his resignation as a "Saudi text and a Saudi statement", and said that politics in Lebanon had been moving in a cordial and constructive manner, with no threats or acrimony. He accused the kingdom of encouraging Israel to attack Lebanon.

The Hariri resignation is the first salvo in the competition to re-shape West Asian politics in the aftermath of the removal of the Islamic State from the regional configuration. From the US-Saudi-Israeli perspective, this means reducing, if not eliminating, Iran's influence from Syria and Lebanon. In addition, Israel is specifically interested in destroying Hezbollah as a military force in the region, while sections of the US administration would like to see Russia's influence reduced, though Trump's own view on this is not clear.

In the face of this challenge, Iran and Hezbollah are gearing themselves for a military engagement with Israel in Lebanon, while politically, Iran is seeking to ensure it continues to have strong ties with Russia in resisting the US (and Saudi Arabia) in Syria.

There are reports that in early September, Israel conducted its largest military exercise in 20 years at the Lebanese border, simulating a ten-day war with Hezbollah, with a view to obliterating the latter. Israel has also put in place its "Iron Dome" defence system to intercept Hezbollah missiles. Israeli media have carried reports that Israel has warned Russia that, if Iran continues to expand its presence in Syria, it will bomb President Assad's palaces.

Commentators have noted that an Israeli assault on Hezbollah will be fraught with considerable risk: the group has at least 10,000 battle-hardened veterans and about 150,000 advanced rockets, and may also be able to threaten Israel from the sea.

On 6 November, Saudi Arabia heightened tensions with Iran over the firing of a ballistic missile towards Riyadh airport by Houthi rebels in Yemen on 3 November, which was brought down by Saudi Patriot missiles before it could do any damage. Citing evidence that Tehran was behind the strike and labelling it a potential "act of war", the Saudi state news agency denounced the "flagrant military aggression by the Iranian-controlled Houthi militias" and said that an examination of the debris "confirmed the role of Iran's regime in manufacturing [this and a previous missile] and smuggling them to the Houthi militias in Yemen for the purpose of attacking the Kingdom, its people, and vital interests".

The statement accused Iran of violating United Nations Security Council Resolution 2216, which prohibits states from supplying weapons to Yemeni armed groups. "Iran's role and its direct command of its Houthi proxy in this matter constitutes a clear act of aggression that targets neighbouring countries, and threatens peace and security in the region and globally," the SPA statement noted. Iran's Revolutionary Guards and political leaders have rejected allegations of the country's involvement in the strike.

On the same day, Saudi Foreign Minister Adel Al-Jubeir said Saudi Arabia regarded the failed ballistic missile attack on Riyadh's international airport as an act of war by Iran and would take "appropriate" measures when the time is right. The Iranian Foreign Ministry spokesman Bahram Qassemi described Saudi claims about Tehran's involvement as "false, irresponsible, destructive and provocative".

Later, on 9 November, Al-Jubeir urged the international community to slap fresh sanctions against Iran, accusing its regional rival of supporting terrorism. "We would like to see sanctions on Iran for its support of terrorism and sanctions on Iran for violating the ballistic missile resolutions of the United Nations," Al-Jubeir said. The Kingdom's foreign minister added that the most effective way of dealing with Iran would be for the international community to hold Tehran accountable for "fixing" the nuclear agreement, supporting terrorism and for its ballistic missile programme.

Observers have noted that the missile strike and the Saudi response are largely aimed at rallying domestic audiences. Experts have pointed that the Burkan-2H missile launched by the Houthis is well within their capabilities and they did not need Iranian help to launch it. The missile strike was a retaliation for the earlier Saudi attack on a marketplace in Saada. On the Saudi side, blaming Iran, amidst the domestic upheaval, is meant to mobilise domestic backing for the crown prince.

To add to regional tensions, on 11 November, Bahrain said an explosion which caused a fire at its main oil pipeline was caused by "terrorist" sabotage and linked the attack to Iran. "Terrorist acts witnessed by the country in the recent period are carried out through direct contacts and instructions from Iran," the statement quoted Interior Minister Sheikh Rashid bin Abdullah al-Khalifa as saying. In Tehran, Foreign Ministry spokesman Bahram Qassemi rejected the allegations as "false talk and childish accusations", the ministry said on its website.

The distinguished London-based Arab commentator, Abdel Bari Atwan, has warned that war is imminent: "Our region stands on the brink of war. ... It may be the precursor to scenarios for a regional war that could, without exaggeration, end up being the most devastating in its modern history."

He expects the crown prince to put together a coalition on the lines of "Operation Decisive Storm" against Iraq in 1991, and launch attacks in Yemen, Qatar and Lebanon, while a joint US-Israeli-Saudi force would attack Syria. This coalition will face an opposing coalition made up of Iran-Syria-Iraq-Turkey, with possible Russian support. This conflict will have cataclysmic effects on West Asia, threatening the interests of all regional powers.

Alireza Nader of the RAND Corporation has also warned about the possibility of war; he says: "An Israeli conflict with Hezbollah, supported by Washington and Riyadh, could quickly draw in Iran and spread to the Persian Gulf. A war between Iran and Saudi Arabia is likely to result in major economic devastation, disrupting energy supplies and throwing the global economy into another major recession."

Both regional and US commentators have noted the full support that has been extended to the Saudi

crown prince by President Trump and his son-in-law, Jared Kushner. The editorial board of the Washington Post has observed: "The young prince appears to have the full support of President Trump and senior advisers such as Jared Kushner, who visited Riyadh and conferred at length with the crown prince only days before the crackdown. If so, it's a risky bet."

The Arab writer Rami Khouri has said: "By far the most important dynamic within this broad regional picture is the convergence between the policies of the United States and Saudi Arabia, which essentially means the policies of President Trump and Mohammad bin Salman, with Jared Kushner greasing the wheels that bring these two men together... This unprecedented phenomenon of two inexperienced, brash leaderships in two of the world's most important countries working together to change the world is troubling and dangerous."

2. Kurdish Politics in Iraq: Barzani's decision to stand down after 12 years as president of the autonomous Kurdish region could reflect the end of an era in Kurdish politics. The announcement came a few weeks after the death of Jalal Talabani, leader of the rival Patriotic Union of Kurdistan (PUK). Barzani's legal term as president expired in 2015. The independence referendum he called for September 25 yielded a strong "yes" vote, but brought universal condemnation, except from Israel. This was followed by the ignominy of Iraqi forces retaking Kirkuk on October 16, cutting off the Kurds from approximately half their oil revenues.

The Kurds face two crises: one, relating to its leadership, and the second, their relationship with Baghdad. Barzani has indicated that he will stay on as KDP leader, with members of his family and clan in power. Later, he may be succeeded as KDP leader either by his nephew Nechirvan, KRG prime minister, or his son Masrour, the KRG security chief.

However, reformist parties are challenging the KDP-PUK duopoly that has dominated Kurdish politics and patronage since autonomy in 1991. The Gorran Movement, which has built support among young people since its founding in 2009, has decried the "destruction of our whole legislative establishment" by the two parties. Newey Nwe ("New Generation"), a group established by businessman Shaswar Abdulwahid, that had campaigned for a "no for now" vote in the referendum, has criticised "Barzani's dictatorship."

On the second issue of ties with the central government, Iraqi Prime Minister Haider al-Abadi is insisting that Iraq's federal authorities control all international entry points in and out of the Kurdish region, including airports, and that Kurdish Peshmerga should be under federal control or reduced in size. The situation remains delicate: Iraqi military officials and their Kurdish counterparts are in talks, under the auspices of the United States in Faysh Khabur, near Syria, to prevent further confrontations between them.

The commentator Gareth Smyth has observed that, with Abadi triumphant and the KRG struggling to pay its employees, "Kurdish leaders could instead turn on each other in a struggle to shore up their fiefdoms".

II Oil-Related Developments

1. Oil prices: Oil prices touched a two-year high on Friday, 10 November, with Brent reaching \$ 63.6 and WTI at \$ 56.82; prices have risen by about 14% over the last month. Prices have risen due to: drawdown in inventories, especially in the US; better compliance with voluntary production cuts by the Organization of the Petroleum Exporting Countries (OPEC); slower pickup in US shale oil production, and continued geopolitical uncertainty in West Asia following the shake-up in Saudi Arabia.

Analysts expect that oil prices could remain high in coming months due to three reasons: one, the kingdom's crown prince could translate the ongoing sabre-rattling against Iran into a region-wide conflict; two, the problems relating to the KRG in Iraq could disrupt supplies, and three, President Trump could impose new sanctions on Iran, targeting its oil supplies. Analysts also note that, if WTI were to cross \$ 60, there would be a surge in shale oil production, though it might take some time to enter the market.

2. ARAMCO IPO caught between US China Competition: In early 2016, ARAMCO had announced that 5 percent of its shares would be sold on the international markets, with suggestions that, with ARAMCO valued at about \$ 2 trillion, the 5 percent sale would yield \$ 100 billion and provide much-needed funds for the kingdom's ambitious Vision-2030 programme.

However, from the beginning of 2017, estimates of Saudi Aramco's market value have begun to decline. Appraisals now claim that the company's share capital is only worth \$1.5 trillion, then \$1 trillion. The consulting firm Wood Mackenzie estimated Saudi Aramco's worth at \$400 billion overall, bringing it closer to US-based ExxonMobil, whose market value is about \$ 350 billion.

Analysts blame this development on the pressure Washington is putting on Riyadh which in turn is in response to the pressure being exerted on Riyadh by China: the latter wants to buy oil from Saudi Aramco in renminbi instead of dollars. China is currently the world's biggest oil importer and is also the Saudi oil industry's biggest customer. Several oil exporters that sell to China have already partially or entirely begun to settle their accounts in renminbi, including Nigeria and Iran. Russia has also recently begun to sell some oil to China for renminbi, although only a small percentage so far.

Saudi Arabia, however, is heavily dependent on the US and, so far, has refused to settle its accounts in renminbi, encouraging Beijing to seek other suppliers to take Riyadh's place. Saudi Arabia used to be China's biggest foreign supplier of oil, but recently Russia has squeezed it out of that number-one spot.

The US, on its part, has sternly warned Riyadh to refrain from any move to replace the dollar with the renminbi in its transactions with China, lest other players in the oil market follow suit. Reducing the market value of ARAMCO is one source of pressure on the kingdom.

Another complication that has now emerged is that China has offered to directly buy out 5% of Saudi Aramco, allowing the Saudis to forgo listing the shares on Western stock markets. China is also prepared to pay a "fair" price (about \$100 billion) for the 5 percent share on offer. The Chinese government has already announced that it is forming a consortium of energy and finance companies, with China's sovereign wealth fund, to purchase a chunk of the Saudi company. This move by China has neutralized the US threat to disrupt the sale of Saudi Aramco, though it is not clear that the kingdom will risk upsetting the US by taking renminbi for its oil sales.

In a recent move to compete with the US, the UK government has agreed to a \$2 billion loan guarantee for Saudi Aramco. According to Bloomberg, the unusually large export credit guarantee, designed to finance the purchase of British goods, is possibly an attempt to attract the IPO to the London Stock Exchange.

This UK loan guarantee follows a public plea on Twitter by U.S. President Donald Trump for Saudi Aramco to choose the NYSE for the international portion of the listing, saying he "[w]ould very much appreciate Saudi Arabia doing their IPO of Aramco with the New York Stock Exchange. Important to the United States!"

(The views expressed are personal)
