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## HIGHLIGHTS

- Political Developments
- Oil Prices

## I Political Developments

1. Iran: On 14 December, the US defence department displayed at a hangar at a joint base at Anacosta-Bolling, Washington, three intact Iranian weapon systems and debris from a fourth, apparently recovered from the battlefields of West Asia. Recalling President Trump's Iran strategy announced in October, the department spokesperson said these missiles were proof of Iran's malicious strategy, specifically "evidence of Iranian weapons proliferation in violation of U.N. Security Council resolutions 2216 and 2231". The weapons systems on display were retrieved from battlefields by U.S. partners in the region — primarily Saudi Arabia and the United Arab Emirates, the spokesperson said.

The four systems were a short-range ballistic missile, an antitank guided missile, an unmanned aerial vehicle and exploding boat technology. There were pieces of two Iranian Qiam missiles launched from Yemen into Saudi Arabia, one had targeted the Yanbu oil facility, while the other was aimed at King Khalid International Airport, Riyadh.

Another piece of equipment was an Iranian-made antitank guided missile called a Toophan, obtained by Saudi Arabia. The missile is a high-precision, direct-fire weapon with a range of about 2.4 miles. The Houthis in Yemen use these missiles to target infrastructure and vehicles. The display also showcased a Qasef-1 unmanned aerial vehicle operated by Houthi forces, which was recovered by Saudi Arabia. Finally, the display featured the guidance system from an Iranian Shark-33 boat. This is an explosives-laden, unmanned boat used in an attack the Saudi Arabian frigate, HMS al Madinah.

The Shark-33 has a guidance system allowing it to track and hit a moving target without an operator on board, so the boat can be deployed to blow up a ship without sending someone on a suicide mission. The computer and sensors serve as that unmanned guidance system for the Shark-33. Finally, the boat's onboard camera captures a still image of its location every time the guidance software turns on.

During the press conference at the hangar where the Iranian equipment was on display, US Ambassador to the United Nations Nikki Haley said that the display was hard evidence that Iran is seeking to destabilize West Asia from the Arabian Peninsula, to Central Asia, to the Levant. She added: "It's hard to find a terrorist group in the Middle East that does not have Iran's fingerprints all over it", and concluded that Iran is "fanning the flames" of conflict. Haley called on all nations of the world to join the United States in resisting Iran as the nation has become "a global threat."

Haley's remarks were the latest attempt by the Trump administration to mobilise international opinion to punish Iran for its ballistic missile programme and its role in West Asia. Iran dismissed her assertions. A spokesman at Iran's mission to the United Nations called them fabricated and part of a pattern of false accusations by Washington. The Iranian foreign minister, Mohammad Javad Zarif, tweeted side-by-side photos of Ms. Haley at her news conference and Colin Powell, the former secretary of state, during his infamous 2003 speech at the United Nations arguing for an invasion of Iraq; "When I was based at the U.N., I saw this show and what it begat", the minister wrote.

Reza Marashi of the National Iranian American Council (NIAC) notes that Haley had cited a UN report in her claim regarding Iranian missile transfers to the Houthis, but the UN has in fact reached no such conclusion. Instead, a panel of experts had concluded that the fired missile fragments showed components from an Iranian company, but they have "no evidence as to the identity of the broker or supplier." In fact, analysts from the U.S. Department of Defence, speaking to reporters at Haley's speech, acknowledged that they do not know the missiles' origin. Marashi describes Haley's presentation as her "Colin Powell 2003 moment" in the way she "cherry-picked intelligence in a fashion reminiscent of the 2002-2003 push for invading Iraq".

Paul Pillar, writing in the National Interest, has also recalled the "Powell moment", saying: "Now Nikki Haley has provided the closest replication yet of the notorious show-and-tell from 2003. She has tendentiously and selectively brandished pieces, including physical pieces, of intelligence to stir up hostility toward Iran, with which the Trump administration seems intent on picking a fight". Pillar concludes: "We still don't know exactly where Trump, Haley, or anyone else in the current administration wants or expects to go with their campaign of stoking maximum tension with, and hostility toward, Iran. But more and more of their campaign sounds a lot like what the Bush administration and neoconservatives were saying about Iraq in 2002 and 2003."

A report in the New York Times said that Haley's assertions "fell short of proving her claims". It pointed out that Defence officials could not say exactly when the weapons were given to the Houthis, which means that they could have been transferred before the Security Council resolution was enacted; in some cases, the officials said that they could not say when the weapons were used. Defence officials were also unable to say exactly where or when the drone, a broken Qasef-1, was found.

2. US' National Security Strategy: On 18 December, the US's National Security Strategy (NSS) was released; it mentions Iran twelve times. The first mention castigates the Obama administration's focus on achieving a nuclear deal with Iran, declaring that the Trump administration is now "confronting the danger posed by the dictatorship in Iran, which those determined to pursue a flawed nuclear deal had neglected." It goes on to outline many of the activities that Iran is engaged in, including its testing of ballistic missiles and ties to designated terrorist groups, frequently mentioning Iran in the same breath as North Korea.

The document then goes on to say: "We will work with partners to deny the Iranian regime all paths to a nuclear weapon and neutralize Iranian malign influence" and "We will work with partners to neutralize Iran's malign activities in the region." However, the NSS does not provide any details on how the administration intends to proceed against Iran, suggesting that the details of an approach to Iran remain elusive.

On the other hand, the GCC countries are likely to welcome the NSS: as Hussain Ibish has noted, the three main goals for West Asia in the NSS – combating "jihadist terrorists," preventing the domination of "any power hostile to the United States," and ensuring "a stable global energy market" – are fully consistent with the national interests of the Gulf Arab countries. The latter will also be pleased with references to the value the Trump administration places on alliances with traditional West Asian partners.

Trump's introductory note asserts: "We have renewed our friendships in the Middle East," which is what Gulf Arab countries have been seeking after the wilderness years of the Obama administration. They will also welcome the commitment: "We will retain the necessary American military presence in the region to protect the United States and our allies from terrorist attacks and preserve a favourable regional balance of power."

3. Yemen: The death of former president Ali Abdullah Saleh has overturned the Saudi-UAE strategy of using him to defeat the Houthis and regain the territory under Houthi control, particularly the capital, Sanaa, and the port city of Hodeidah. The UAE now seems to be backing Saleh's son, Ahmed Ali Saleh, who has rallied Yemeni ground forces still loyal to Saleh and, for now, to Ahmed Ali. These forces are seeking to take territory on the coastal route north from Aden to Hodeidah and, following Saleh's death, they seem to have air and naval support from the UAE to do so.

Saudi Arabia has broadened its options by re-engaging with the Al Islah, the Islamist party, which also has a variety of tribal and religious elements, it had sponsored as a political coalition in Yemen in 1990 to promote its interests. Al Islah has close links with the Muslim Brotherhood, which has been outlawed as a terror group by both the UAE and Saudi Arabia. The kingdom is now seeking to revive this alliance, and has brought a reluctant UAE on board as well, a significant achievement given the UAE's hostility towards all Brotherhood-affiliated entities.

On 15 December, the Abu Dhabi-based The National reported that Sheikh Mohammed bin Zayed, Crown Prince of Abu Dhabi, and Saudi Crown Prince Mohammed bin Salman had held talks in Riyadh with the Al Islah party on the previous day. During the meeting, Sheikh Mohammed and Prince Mohammed reviewed the latest developments in Yemen with Al Islah chairman Colonel Mohammed Abdullah Al Yidoumi and Secretary-general Abdulwahab Ahmad Al Anisi.

This was the second time in a month that Mohammed bin Salman had publicly met with the Islah leader, who has spent two years trying to re-establish Islah's formerly good relationship with the kingdom. After the meeting, Yidoumi praised what the Saudi-led coalition is doing in Yemen. Al-Anisi, the secretary general of Islah, said that the meeting was a "turning point," and that the party had been asked to reach out to remnants of Saleh's party to work with his followers against the Houthis. Al Islah militants have been fighting alongside forces loyal to Yemeni president Abd Rabbo Mansour Hadi in Marib province, east of Sanaa, for three years.

In addition to Ahmed Ali Saleh, Saudi Arabia is also still working with General Ali Mohsen al-Ahmar, Ali Abdullah Saleh's former close military ally and currently Vice President to Abd Rabbo Mansour Hadi. Ali Mohsen has long worked with Salafi fighters and those affiliated with Al Islah.

Separately, in the aftermath of Saleh's death, the Houthis controlling Sanaa have tightened their grip on the city and its people in recent weeks, shutting off access to the internet, blocking social media sites and sending gunmen to raid the homes of Saleh's supporters and anyone else they suspect of opposing them. Hundreds of people have been detained, and prices for basic goods like food and fuel are soaring, threatening to exacerbate an already dire humanitarian crisis

4. Saudi Arabia: Saudi Arabia's crackdown on alleged corruption shows no signs of letting up, with more people being questioned and banks freezing more accounts. There are reports that, almost seven weeks after the purge started, authorities are detaining new suspects and releasing some of those held. The Saudi Arabian Monetary Authority is also asking banks to freeze the accounts of more individuals who are not under arrest and people linked to them.

The authorities are hoping to reach agreements with detainees, who include royals and billionaires such as Prince Alwaleed bin Talal, "within weeks," Attorney General Sheikh Saud Al Mujib said earlier in December. The kingdom is hoping to recover as much as \$100 billion from settlement deals made with detainees. Bank accounts of 376 individuals, all of whom are either detainees or people linked to them, have been frozen as a "precautionary measure," Al Mujib said. Some suspects being held are starting to make payments to settle cases in exchange for freedom, he said.

The government is setting up an asset management committee to handle the proceeds of settlement agreements. Any funds that are handed over to the state as part of settlement agreements will ultimately go into the budget and be used to fund government projects and services such as education and healthcare.

Nearly two months after the royal purge in early November, Prince Al-Waleed bin Talal, according to the Wall Street Journal, is reported to be resisting pressure by the government to hand over \$6 billion. Instead, the prince is said to have offered the government a significant stake in his Riyadh-listed

Kingdom Holding that has investments in Citibank, Twitter, Four Seasons hotels, and Disney, and operates a media and entertainment empire. The prince has also insisted that he retain a leadership position in his conglomerate. Kingdom Holding has lost 14 percent of its \$8.7 billion market value since Prince Al-Waleed's detention.

With a fortune estimated by Forbes at \$16.8 billion, Prince Al-Waleed reportedly believes that the cash settlement demanded by the government would jeopardise his empire, while indicating an admission of guilt to the corruption charges. Quoting sources close to Prince Al-Waleed, The Wall Street Journal reported that the prince was demanding a proper investigation and was willing to fight it out in court. The paper points out that a court battle would put the government's assertions of fairness and transparency to the test, besides possibly exposing the limitations of the Saudi judicial system.

5. Syria: On 21-22 December, the Syrian government and some opposition delegations met in Astana at talks convened by the Iranian, Turkish and Russian governments. The three "guarantor" countries later announced that they had agreed on setting up a working group for the release of detainees.

The next talks on Syria's peace process, titled the Syria National Dialogue Congress, are to take place in the Russian resort city of Sochi on January 29- 30, and are expected to bring together 1500-2000 Syrian politicians from different factions. At this conclave, Russia will seek the setting up of a 21-member constitutional committee that will decide either to write a new constitution or amend the current constitution of 2012.

However, on 25 December, the peace process received a setback when about 40 Syrian opposition groups, including some militant factions, rejected Russia's planned Sochi conference, saying that Moscow was seeking to bypass a United Nations-based Geneva peace process. They also blamed Russia for committing war crimes in the country.

The opposition statement said: "Russia is an aggressor country that has committed war crimes against Syrians. It stood with the regime militarily and defended it politically and over seven years preventing UN condemnation of [Syrian President Bashar] Assad's regime." Moscow says its bombings target militants, but opposition groups and residents say the Russian airstrikes over the last two years ago have caused hundreds of civilian casualties in indiscriminate bombing of civilian areas away from the frontline.

While the Russia-led peace process has halted conflict in large parts of the country, several political issues remain unresolved. The first pertains to Syria-Turkey ties. Turkey is firmly opposed to the participation of Syrian Kurds in the Sochi meeting; so far, President Bashar al Assad had remained non-committal on the subject. However, believing that a tough posture on the Kurds would improve his position in the eyes of President Erdogan, on 18 December, Assad referred to all elements cooperating with the US as "traitors", which includes the Kurds. But, this got him no plus points with Erdogan: the latter referred to Assad as a "terrorist" who was impossible to work with.

On the question of Kurdish participation in the Sochi talks, Russia appears to be pursuing a balancing act: after talks in Moscow with Sipan Hemo, general commander of the Syrian Kurdish People's Protection Units (YPG), some weeks ago, Russia seems to have invited about 155 Kurdish participants, pointing out that the Sochi conclave is for the "Syrian people", not parties. The Syrian Kurdish leaders have accommodated Turkish sentiments by referring to themselves as part of "Autonomous Administration and Political Entities"; also, names that Erdogan was likely to veto are not included in the Kurdish list.

Russia is said to be going ahead with the Sochi congress and is quietly lobbying various opposition groups. Moscow-based commentator Maxim Shukhov has said: "Ensuring the success of the Syrian political settlement and the subsequent transition process is a diplomatic priority for Russia in 2018." He adds that "Syria will remain at the core of Moscow's policy in the Middle East", which will include the destruction of last remnant of jihad – Jabhat Nusra.

Over the last fortnight, both chambers of the Russian parliament approved an agreement between Moscow and Damascus to extend the lease on Russia's naval facility in Syria's port of Tartus, on the Mediterranean. The lease is for 49 years and allows Russia to modernize and drastically expand the facility. The base currently can accommodate only one warship; the expansion will create space for a maximum of 11, including nuclear-powered vessels.

## II Oil Prices

At year-end, West Texas Intermediate (WTI) crude futures settled at \$60.42, the highest close since June 2015. Brent crude futures were at \$66.62 a barrel, after briefly crossing \$ 67. This 17 percent rise in Brent prices was supported by ongoing supply cuts by OPEC and Russia as well as strong demand from China.

WTI prices were supported by data from the U.S. Energy Information Administration late on 28 December showing that domestic oil production declined last week to 9.75 million barrels per day (bpd) from 9.79 million bpd in the previous week. WTI prices were further boosted by an EIA report of a 4.6 million barrel weekly drop in U.S. commercial crude storage levels. Inventories are down by almost 20 percent from historic highs last March, and well below this time last year or in 2015. Analysts expect US production to top 10 million bpd in the next few weeks and to keep growing, limiting efforts by other producers to cap global supplies.

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*(The views expressed are personal)*

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