

HIGHLIGHTS

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Political Developments

1. Syria

The vicious assault on Aleppo by Syrian government forces, backed by Russian air attacks, dominated the news from Syria, as commentators struggled with words to describe the carnage: terms used were “killing zone”, “giant kill box”, “enduring savagery”, “slaughterhouse” and “living hell”. There were UN reports that nearly 400 persons had been killed, including 100 children, since the attacks began on 23 September, and that hospital facilities seem to have been deliberately targeted in a city which still had 250,000 people, including 100,000 children, living with acute shortages of food and medical supplies.

During this period, US-Russian ties deteriorated to the point where the US stopped engaging with Russia on Syria, and Secretary of State John Kerry said that the Syrian government and Russian actions should be investigated for possible war crimes, as they had a “targeted strategy to terrorise civilians” and to kill anyone who came in the way of their military objectives. France has assumed responsibility for pursuing the war crimes case at the International Criminal Court.

Russian Foreign Minister Sergei Lavrov repeatedly reminded his American colleague that the US had failed to separate the “moderates” from the terrorists, knowing full well that the Al Qaeda affiliated Jabhat Nusra, in its new incarnation of Jabhat Fatah al-Sham, is counted by the Saudis among the “moderates”!

President Putin also withdrew from the landmark arms control agreement with the US which requires each side to dispose of 34 tonnes of plutonium, leading newspaper commentators to ask whether the world was now seeing a new Cold War. Later, on 9 October, the Russian Foreign Minister complained of the “aggressive Russophobia that now lies at the heart of US policy towards Russia”.

Through this period, there were also regular reports that Russia was boosting its fire-power in Syria with new weaponry, including the S-300 air defence missile system, which is possibly aimed at deterring US attacks on Syrian government forces. The Russian spokesperson in Moscow warned the US against attempting any attacks on the Syrian army, saying that it would “lead to terrible, tectonic consequences”, not only in Syria, but in the region as a whole.

The UN envoy for Syria, Steffan de Mistura, dramatically stepped into the picture by announcing that he was willing to enter Aleppo and escort the departure of the 1000-odd Jabhat Nusra fighters in the city, so that the fighting and killing could end, and the city could be saved from total destruction. While Russia welcomed the offer, the jihadi group showed no interest in this grand gesture.

As the Syrian government made slow progress in taking parts of Aleppo, observers noted that while Aleppo would eventually fall to the government, the fighting in Syria would continue, with Assad continuing to head “a shrunken, broken and fragmented country”, which would also generate the world's worst refugee crisis since the Second World War.

This sense of despair seems to have been reflected in Kerry's discussion with a group of opposition figures in New York, where he expressed doubts about the ability of any group to unseat Assad, voiced frustration at his inability to swing the Obama administration in favour of more robust military intervention in Syria, and strongly urged the group to participate in elections with President Assad and become part of the transition process, thus contributing to the political solution.

Developments in Syria affirm that Russia is totally uncompromising in its determination to maintain the Assad regime in power and preserve the political status quo, and is willing to use robust military force and all its political resources, going far beyond anything the US can offer. Hence, not surprisingly, the only political idea on the table is the Russian offer of a transitional arrangement with Assad in position, followed by elections in which Assad will participate.

For Kerry to promote this to the expectant Syrian rebels, who are seeking a US involvement on their side that matches the Russian commitment to Assad, suggests that the Obama administration has reached the limit of its commitment to them. However, the deep divide between the US and Russia, due to the differing interests of their regional partners, prevents them from pursuing a joint diplomatic effort to bring peace to the country.

2. Yemen

The last fortnight brought several reports of fighting on different fronts in the Yemen conflict, with the capture of a village, a road, or a small town being publicised as a great military victory and heralding the prospect of the imminent fall of Sanaa. However, that all is not well with the government was affirmed by three developments.

First, a UAE supply ship, the Swift, was attacked in the Red Sea by Houthi militants who, on 1 October, shot it from Hodeidah port with an anti-shipping missile. According to UAE sources, this civilian ship, with a 24-member crew from different countries (including 10 from India), had been plying in the Red Sea waters for the previous year, when it had carried thousands of tonnes of humanitarian assistance and hundreds of wounded persons. It was attacked when it was carrying wounded Yemenis and passengers. According to western commentators, the Swift was most likely hit by a C-802 radar-guided anti-shipping cruise missile, similar to what had been supplied to Hezbollah by Iran, about ten years ago, that had been used against the Israeli SAAR-5 missile corvette, INS Hanit, in July 2006. This attack raised questions about the safety of shipping through the strategically important choke-point, the Bab al Mandab.

Perhaps reflecting this concern, the Yemeni Prime Minister in the Hadi government, Ahmad bin Dagher, publicly questioned the military strategy of his commanders that has prioritised the capture of Sanaa. Dagher said that the armed forces should have focused on the cities of Taiz and Hodeidah, which would have been taken quite easily, since the Houthis had no support bases there. Instead, the army has been seeking to capture Sanaa, where government forces have faced stiff resistance, their progress being slowed down by landmines, and have made hardly any progress in spite of massive air attacks.

To complicate the picture, the Houthi militia have formed their own government, naming Abdul Aziz Saleh Habtour as Prime Minister of their “Government of National Salvation”. This move has been condemned by the Hadi government as an attempt to sabotage the next round of peace negotiations. Habtour, originally from the south, was earlier governor of Aden and a senior member of former president Ali Abdullah Saleh's party, the General People's Congress. His appointment reflects the diversity of support enjoyed by the Houthis and is meant to strengthen their hand in future peace talks.

The third development which should worry the Hadi government are reports that the US administration is “exerting intense pressure” on the UN special envoy and President Hadi to give priority to “government

formation", ahead of seeking the withdrawal of the Houthis from Sanaa and the surrender of their weapons; in short, demanding that a government of national unity be put in place before other issues are addressed in the peace process. This is what the Houthi negotiators have been seeking from the beginning of the peace talks in Kuwait, but which has been firmly rejected by Hadi and his Saudi mentors.

A major blow inflicted on the government forces was the killing of Major General Abdul Rab Al-Shadadi, the commander of the third military region in the strategically important Marib province. The general was killed when he was inspecting troops at the front in Serwah district, where active fighting is taking place against the Houthis. This is the second pro-Hadi general to have been killed in the last year.

Then, as if the situation was not murky enough, on 8 October came the news that a Saudi-led coalition aircraft had bombed a family in mourning in Sanaa, killing 140 persons and injuring over 500 others. Saudi sources have vehemently denied the accusation, saying that their aircrafts were not in the area, and promising to conduct a thorough enquiry.

A US National Security Council spokesman said that, in light of this and earlier incidents, the US had "initiated an immediate review of our already significantly reduced support to the Saudi-led coalition"; he added that the US was prepared "to adjust our support so as to better align with US principles, values and interests".

The US's convoluted statement reflects its increasing frustration with the military stalemate in Yemen and the continued recourse to air attacks by its Saudi partner, which have led to more misery for the Yemeni people, without any improvement in the ground situation. A year and a half into its military intervention, the Kingdom continues to believe that its interests will only be served with the total disarming of the Houthis, their return to their mountain fastness in the north, and the return to the earlier political order that had entirely marginalised the country's Zaydi community, in fact the origin of the ongoing conflict.

As in the case of Syria, so also in Yemen- no regional or external power appears capable of intervening in the conflict and pushing through a peace plan that would accommodate the interests of all parties concerned.

3. JASTA damages Saudi-US ties

The passing of the "Justice Against Sponsors of Terrorism Act" (JASTA) with overwhelming majorities by the US Congress last month, which enables families of victims of 9/11 to sue Saudi nationals, has caused deep anger in Saudi Arabia, with commentators saying it reflects the steady fraying of the decades-old relationship between the US and the Kingdom and that ties can be expected to deteriorate further. The Saudi foreign office has asked Congress to take measures "to counter the disastrous and dangerous consequences" of this law. The UAE minister of state for foreign affairs, Anwar Gergash, has said that "the populism surrounding the JASTA law overcame the rationality required in matters of international law". The Jeddah-based Arab News headlined that JASTA stood for: "Just Act Stupidly Toward Allies".

Several US commentators have also criticised the law. Bruce Reidel has said JASTA will haunt Saudi-US ties for years and that the next president will inherit a "poisoned partnership". He has recalled that the Act was passed in spite of the fact that two Congressional investigations, in 2004 and 2015, had fully exonerated the Kingdom of any culpability in the 9/11 events. In fact, the second enquiry had enabled the investigators to look at all the new evidence collected over the previous ten years; it concluded that it had found no new evidence relating to responsibility for 9/11 beyond what had been stated in the 2004 report. Reidel explains the passing of the Act on the basis that "the Kingdom is increasingly unpopular in America", the product of a variety of dissatisfactions and criticisms accumulated over the last 40 years or so by increasingly polarised, bitter and angry politicians.

On its part, Saudi Arabia has also put together a bundle of grievances of its own, particularly the US-led outreach to Iran and the nuclear agreement that promises to ease sanctions on Iran and give it the resources to pursue its "hegemonic" interests in the region. A Saudi commentator even sees the US promoting an Iran-Israel alliance to dominate West Asia at the expense of the Sunni Arabs.

4. Iraqi forces poised to attack Mosul

After steady progress since the beginning of this year in taking towns from ISIS forces, such as Ramadi, Tikrit and Fallujah, Iraqi forces, backed by US-trained special counter-terrorism units, the mainly Shia Popular Mobilisation Units (PMU), set up after the fall of Mosul, Kurdish peshmerga, and US and British special forces, are now outside Mosul, with every indication of an imminent attack. Turkey has joined the fray as the champion of Iraq's Sunni population: President Erdogan has demanded that PMU units not join the attack on Mosul and affirmed that Turkish forces will participate in the attack. The latter have been described by Iraqi Prime Minister Haidar Al Abadi as an "occupation force", which Erdogan has dismissed contemptuously.

As of now, it does not seem that the impending defeat of ISIS will do much to heal Iraq's sectarian divide, and, with Syria and Yemen, Iraq will remain one more front in the sectarian conflicts now blazing across West Asia.

Oil-Related Developments

1. Oil prices

The last fortnight was dominated by analyses of what was actually agreed to at Algiers at the end of last month and what implications this had for oil prices.

The informal consultations among OPEC oil ministers at Algiers on 28 September led to the following statement: "The Conference opted for an OPEC-14 production target ranging between 32.5 and 33 million barrels per day, in order to accelerate the ongoing drawdown of the stock overhang and bring the rebalancing forward." OPEC also agreed to set up a committee to look at implementing this decision which will meet in Istanbul later this month. Russia, a non-OPEC member, is expected to join the discussion.

Given that OPEC production in August was 33.237 mbd according to OPEC, and 33.47 according to IEA, this means that OPEC members are looking at cutting their total production by 700,000-900,000 bpd, about 2% of total OPEC production. Given that present market surplus is near 2 mbd, this seems like a modest cut. Analysts believe that Saudi Arabia may shoulder the bulk of the cut, ie, about 5% or 500,000 bpd, with other GCC countries cutting 300,000 bpd.

In a first reaction, prices rose by well over \$ 2 to \$ 49.24 for Brent and \$ 47.78 for WTI. After this initial euphoria, prices came down by some cents in both markets, as analysts wondered how the new production targets would be executed: several commentators pointed out that Iran, producing at 3.63 mbd, was still below its pre-sanctions peak of 4 mbd, that Iraq would be the spoiler since it claimed that its production had been under-estimated by OPEC, and that Russia was quoted as wanting to see the details relating to output cut, expressing concerns about implementation, and noting that cuts in any case would only come next year. Its minister said that his country would still prepare its budget for the next three years, at oil being \$ 40/barrel.

To address these concerns, Algerian Oil Minister Nouredine Bouterfa said that the November OPEC ministerial could even decide to make greater cuts in production if it was felt that 700,000 bpd was not enough. On 6 October, both Brent and WTI futures for December were looking good: Brent was \$ 51.32, while WTI was \$ 49.83.

Later, at the World Energy Congress in Istanbul, both Saudi Arabia and Russia helped to improve the price outlook: the Saudi energy minister said that the price of \$ 60 at year end was "not unthinkable", while President Putin said that Russia would cooperate with OPEC to freeze or cut production. This led to Brent reaching \$ 53.45, the highest level since October last year.

Goldman Sachs has said that the proposed production cut, if strictly implemented, would boost prices by \$ 7-10. Citigroup and Goldman have projected \$ 40 and \$ 43 respectively for this year, and \$ 60 and \$ 53 respectively for 2017. This upward nudge in prices has brought in more rigs into production in the US;

since May, 109 new rigs are in use, taking the total to 425. This has led Goldman to forecast that prices will “stall” at \$ 55, as US shale oil production increases.

2. ADNOC

The Abu Dhabi national oil company, has announced that it will merging two of its companies, the Abu Dhabi Marine Operating Company [ADMA-OPCO] and the Zakum Development Company [ZADCO], into one entity. This merger of companies controlling the largest offshore reserves in the world is expected to yield “efficiencies and synergies”, while providing operational and financial benefits. ADNOC has a 60% in each company, with international partner companies holding the balance.

3. Fujairah consolidates its storage and export hub status

Fujairah, the UAE emirate on the Arabian Sea, has oil storage capacity of 60 million barrels, two-thirds of daily global demand, and in two years, is seeking to go ahead of its other Asian storage and export rival, Singapore, that has 90 million barrel storage capacity. Again, following the inauguration of its jetty to handle VLCCs, Fujairah received the supertanker, The Kelly, with two million-barrel capacity, announcing that Fujairah is now the deepest port in West Asia. The UAE oil minister, Suhail al Mazrouie, has announced that Fujairah will also now go ahead with a second VLCC terminal as well.

The development of Fujairah is directly linked to the UAE’s desire to maintain its energy links with India and China.

Non-Oil Economic Developments

1. Saudi Arabia announces a series of cost-cutting and revenue-generating measures

A jetty to handle very large crude carriers [VLCCs] has been inaugurated at Fujairah. It has a deep water draft of 26 metres and can accommodate tankers of up to 344 metres. It can handle 2 million tonnes of crude in 24 hours. Located on the Indian Ocean, Fujairah is already the world’s second largest bunkering station; it also has an oil and products storage capacity of 10 million cubic metres, in 338 tanks. With this jetty, Fujairah will further consolidate its status as a regional oil-trading hub.

2. Saudi economic forecast

According to government figures, for the second quarter of this year, Saudi Arabia showed real growth of 1.4% as against 4.9% in the same period last year, and 1.5% growth in the first quarter of this year. On this basis, Jadwa Investment have reduced their forecast for 2016 to 1.1%, as against their earlier projection of 1.7%.

Again, in the first half of this year, the central government budget deficit stood at SR 210 billion [\$ 56 billion], annualising to 17.7% of GDP; with recent economy measures being implemented, this could come down to 13-15% in this year.

3. IMF forecasts

The IMF has forecast global growth of 3.1% for 2016 and 3.4% for 2017. Advanced economies are expected to show reduced growth of 0.2% from its July figure and stand at 1.6%, while emerging markets will show a slight increase from earlier figures (0.1%) and stand at 4.2%. In regard to West Asia, the IMF felt the recent modest oil price increases would not impact on growth projections made earlier.

However, Iran is expected to show better results, with 4.5% growth this year and 4.1% next year. Iraq's growth is expected to be a spectacular 10.3%, mainly due to its increased oil production.

4. Chabahar Port shows little progress

Four months after the leaders from India, Iran and Afghanistan signed the tripartite agreement to develop Chabahar port as a trading and logistical hub to link India with Iran, Afghanistan and Central Asia, two journalists from Bloomberg visiting Chabahar found it to be a "sleepy outpost", with little indication of the commercial and strategic importance attached to it in the remarks of the three leaders when they signed the agreement. An Indian scholar quoted by them said this was a typical scenario in that once the political leadership had shown the way, the bureaucracy in India simply failed to take projects forward. The Iranian transport minister has denied there is any delay, while an Iranian diplomat in Delhi said that delays often occurred due to "small things", such as differences over which side would pay the excise duty on imported equipment. A Chinese businessman in Chabahar said the project should have been given to a Chinese company; it would have been completed in no time!

India-Gulf Ties

The announcement that the crown prince of Abu Dhabi, Sheikh Mohammed bin Zayed, who is the effective head of the UAE while the President, Sheikh Khalifa bin Zayed, is incapacitated, will be the chief guest at India's Republic Day next January, has been warmly welcomed across the UAE, with commentators seeing a "paradigm shift" in bilateral relations since Prime Minister Modi's visit in August 2015, and confidence that the visit will take ties to new heights, particularly in the areas of trade and investment. UAE investment of about \$ 1 billion is said to have gone to India in the last year, taking total UAE investments to \$ 4.03 billion. Again, in 2015-16, total bilateral trade stood at \$ 50 billion, making the UAE India's third largest trade partner and the second largest export destination, with exports of over \$ 30 billion.

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(The views expressed are personal)
