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## HIGHLIGHTS

- Political Developments
- Oil-Related Developments

### I Political Developments

**1. Qatar:** On 30 July, the foreign ministers of the four Arab states that cut ties with Qatar, Saudi Arabia, the UAE, Bahrain and Egypt, met in Bahrain to discuss the diplomatic crisis. It was the second meeting for the foreign ministers since the countries cut diplomatic ties and transport links with Qatar on June 5. After their meeting, the four foreign ministers held a joint press conference, saying that the bloc will continue to keep current measures against Qatar in place, but are open to dialogue with the Gulf state if it shows a willingness to change its position and complies with their demands.

Bahrain's Foreign Minister, Sheikh Khalid bin Ahmed Al-Khalifa, read a statement by the ministers that said: "The four countries are ready for dialogue with Qatar on a condition that it announces its sincere desire to stop supporting and funding terrorism... and implements the 13 demands that ensure peace and stability in the region and world."

The list includes demands like Qatar should stop financing terrorism, and that it also shuts down its flagship Al Jazeera news network, which the quartet say has been used by Qatar to promote its policies. Other demands include closing a Turkish military base in Qatar, limiting ties with Iran, expelling Islamist political opposition figures and paying restitution for victims of terrorism allegedly linked to Qatar. At issue is Qatar's support for opposition groups like the Muslim Brotherhood, which Saudi Arabia, the UAE and Egypt deem a threat to their ruling systems and have labelled a terrorist organization.

Qatar has rejected the list as an affront to its sovereignty, but has vowed to combat terrorism financing and in recent weeks issued a decree revising the country's counterterrorism laws.

Separately, Kuwait has launched one more initiative to re-open dialogue between the estranged GCC members. A Kuwaiti delegation of high-ranking royal family members has been sent across the region to deliver letters written by Kuwait's ruler to the UAE, Oman, Saudi Arabia, Bahrain and Egypt.

According to Kuwaiti sources, the latest effort is an attempt to establish direct dialogue between the two sides. The letters are seeking a clear statement about what demands the boycotting states are unwilling to compromise on and what Qatar must do to end the rift. Their response is expected to be sent to the Qatari leadership to assess their willingness to negotiate on the demands. A sticking point in any attempt to start talks between the two sides is Qatar's refusal to negotiate before the boycott is lifted.

**2. Iran:** On 10 August, Reuters reported that the U.S. Ambassador to the United Nations, Nikki Haley, will travel to Vienna later this month to discuss Iran's nuclear activities with IAEA officials. Under U.S. law, the State Department must notify Congress every 90 days of Iran's compliance with the nuclear deal. The next deadline is October and President Trump has said he thinks by then the United States will declare Iran to be noncompliant.

The U.S. review of its policy toward Iran is also looking at Tehran's behaviour in the Middle East, which Washington has said undermines U.S. interests in Syria, Iraq, Yemen and Lebanon. The United States, Britain, France and Germany have complained several times to the United Nations, most recently last week, about Iran's ballistic missile launches, which they contend are "in defiance" of a 2015 U.N. resolution enshrining the nuclear agreement.

In the backdrop of the escalating crisis with North Korea, the last fortnight continued to see comments by regional and American writers on the Trump administration's confrontation with Iran and its overt commitment to pursue regime change in that country. Mark Fitzpatrick, who was Deputy Assistant Secretary of State at the time of the war with Iraq in 2003, wrote: "The US appears now to be heading toward an analogous situation regarding Iran. Unfounded assumptions, false claims and ideologically-tinged judgements are driving a confrontational approach that could well lead to another war in the Middle East, this time against a more cohesive adversary."

Amir Handjani of the Atlantic Council has said that Trump's rejection of the nuclear agreement "could force the Iranian leadership to believe that nuclear weapons are essential for their survival. This is precisely the situation that the United States faces presently with North Korea, which virtually holds East Asia hostage because of its nuclear arsenal."

Farhang Rzaei, Ankara-based scholar of Iranian affairs has suggested that the hostile attitude of the Trump administration could push Iran in a "pivot to the East", orienting its economy toward Russia, China and the other countries of the Shanghai Cooperation Organization. The SCO is viewed by Iran as a more reliable trade and political partner, particularly since the two countries are partners in Syria in support of the Assad government.

China's ambitious "One Belt, One Road" project is also seen as very attractive, given that Iran is the centre of both its land and sea projects. In 2016, Iran and China had agreed to increase trade to \$600 billion in the next ten years. China's investments in Iran since the second half of 2016 have increased by 43.5 percent. China has also promised to invest \$30 billion in Iran's gas and oil fields, and another \$40 billion in Iran's mining industry.

**3. Iraq:** To balance Iran's influence in Iraq, Saudi Arabia is forging ties with Iraq's Shiite leaders and is offering to help fund the reconstruction of Mosul and other predominantly Sunni Muslim cities that were devastated in the military campaign against the ISIS. The kingdom has reached out to Iraqi Prime Minister Haider al-Abadi and controversial Shiite scholar, politician and militia leader, Muqtada al-Sadr who, at the end of July, held talks in Jeddah with Crown Prince Mohammed bin Salman. Al-Sadr has criticized powerful Iranian-sponsored Shiite militias fighting the Islamic State alongside the Iraqi army as well as Iran's backing of Syrian President Bashar al-Assad.

On the Iraqi side, Al-Sadr and Al-Abadi hope that Saudi Arabia will not only help in funding reconstruction of predominantly Sunni Muslim cities that have been left in ruins by the campaign against the Islamic State, but also in building bridges to the Sunni community that feels that it has been marginalized since the 2003 overthrow of Saddam Hussein's minority Sunni regime.

Fanar Haddad, the distinguished commentator on Iraq's sectarian divide, has said that Sadr's visit was, first, a message to his competitors in Iraq's increasingly fragmented Shiite political scene. The Riyadh visit and the fact that Sadr was hosted at the highest levels of the Saudi establishment will underline his international relevance and burnish his prestige and credentials as an Iraqi statesman.

Again, Haddad notes that Sadr's visit has demonstrated to Iran — and to Iran's allies and proxies in Iraq/Sadr's political rivals — that he not only has options, but he can even push back against Iran and has the power to potentially hurt Iranian interests in Iraq. Thus, Sadr seems to be positioning himself for a pivotal role in Iraq's political scene after the forthcoming elections.

The opening of border posts is another sign of the thaw in Saudi-Iraq ties: work on reopening the border crossing between Iraq and Saudi Arabia at Arar has been completed and there are plans to open the other seven crossings, the first openings since the Iraq-Kuwait war.

On Iraq's battlefields, attention is shifting to Tal Afar, 40 km to the west of Mosul, where ISIS fighters are still in control. A senior Iraqi general, Najim al Jubouri, has predicted a relatively easy victory for his forces in the upcoming battle as, in his view, the 2,000 ISIS fighters and their family members are "worn out and demoralised."

The city, with about 200,000 residents before falling to Islamic State, experienced cycles of sectarian violence between Sunnis and Shi'ites after the U.S - led invasion of Iraq in 2003 and produced some of Islamic State's most senior commanders. It has also become the focus of a wider regional struggle for influence. Turkey, which claims affinity with Tal Afar's predominantly ethnic Turkmen population, opposes the involvement of Shi'ite paramilitary groups fighting with Iraqi forces, some of which are backed by Iran.

**4. Yemen:** On 7 August, there were reports that thousands of Yemeni troops were conducting a clearing operation aimed at driving Al Qaeda militants from one of their major strongholds in southern Yemen. The offensive in Shabwa Province had started a week earlier and included about 2,000 Yemeni forces backed by dozens of advisers from the United Arab Emirates, and a handful of United States Special Operations commandos providing intelligence and planning assistance. This operation is the latest phase of a heightened campaign against the Yemeni militants since President Trump took office.

As pressure on the Houthis increases, the US commentator Bruce Reidel believes that "Iran is gradually increasing its support for the Houthi rebels in Yemen". He points out that, rather than eliminating the Iranian presence in the country, "the Saudi-led war is giving Tehran the opportunity to become more influential there than ever". He says that earlier this year, the powerful head of the IRGC's Quds Force, Gen. Qasem Soleimani, ordered an increase in aid to the Houthis, including more advisers and experts on the scene and more technology-sharing with the Yemeni forces. Naval mines, anti-tank missiles and drones are among the items sent, as also ballistic missile technology and expertise.

According to Reidel, the IRGC has suffered some casualties in Yemen: at least 23 Iranian soldiers have been killed or captured and another 21 Hezbollah fighters have been lost; Iran is now also sending Afghan Shiite fighters to Yemen, just as it has done in Syria.

Separately, in communications of the UAE Ambassador in Washington, Yousef al Otaiba, that have been leaked recently and published in sections of the US media, Saudi crown prince, Mohammed bin Salman, is quoted as wanting the war in Yemen to end. The crown prince made these comments to Martin Indyk and Stephen Hadley. (Indyk was a high-level diplomat during both the Clinton and Obama administrations and Hadley a top adviser to former President George W. Bush.)

Indyk relayed the conversation to the UAE Ambassador in Washington. Indyk is also quoted as saying that the crown prince is "ok with the US engaging Iran as long as it's coordinated in advance and the objectives are clear." Commentators believe that this position could end the Yemen conflict and possibly even the Saudi stand-off with Iran.

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## II Oil-Related Developments

Bloomberg reported on 4 August that Khalid Al-Falih, Saudi Arabia's energy minister, met in private with some of the world's top commodity hedge funds in July, taking the unusual step of personally canvassing investor views on the state of the market. Al-Falih is reported to have asked the oil traders why the Organization of Petroleum Exporting Countries (OPEC) had achieved only partial success in reviving the market and what else the group could do to push prices higher.

Shortly after the meetings in London, Al-Falih travelled to St. Petersburg to meet other oil-producing countries. At that summit, the Saudi minister briefed fellow ministers on his conversations with the funds and trading houses. The Saudi minister told ministers that the people he spoke to considered it key that OPEC focus on oil export levels and not just production.

Following this, Reuters reported on 7 August that Saudi Arabia will cut crude oil allocations to its customers worldwide in September by at least 520,000 barrels per day to help rein in a global supply glut. (Under the OPEC-led supply reduction pact Saudi Arabia is required to cut output by 486,000 bpd.) The news agency said that Aramco will cut supplies to most buyers in Asia - the world's biggest oil consuming region - by up to 10 percent in September to comply with a producers' deal to cut output.

Saudi Arabia's crude allocations to oil majors and some customers in Europe will be cut by 220,000 barrels per day in September, while supplies to the United States will be reduced by around 1.1 million barrels in total for next month.

Oil prices fell more than 1.5 per cent on 10 August, amid lingering concerns over a global oversupply of crude. U.S. West Texas Intermediate crude settled down 97 cents or 1.96 per cent to US\$48.59 a barrel. Brent crude futures were down 80 cents or 1.52 per cent to US\$51.90 a barrel.

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*(The views expressed are personal)*

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