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## HIGHLIGHTS

- Political Developments
- Economic Developments
- Oil Scenario

## I Political Developments

**1. Iran nuclear deal:** The US Ambassador to the UN, Nikki Haley, speaking at the American Enterprise Institute (AEI), laid out a detailed argument for why President Donald Trump would be on safe ground if he decides not to certify that Iran is in compliance with the accord limiting its nuclear activity when the decision comes to his desk again next month. She added that the Trump administration would very likely pass on the final decision to the Congress. She went on to say that Congress would have 60 days to consider whether to re-impose sanctions or conclude that the Iran deal is “too big to fail.” Congress could also debate Iran’s support for terrorism, its past nuclear activity and its human rights violations, she added.

She was referring to the Iran Nuclear Agreement Review Act, which Congress passed after the Obama administration and the other P5+1 countries agreed to the Joint Comprehensive Plan of Action (JCPOA) with Iran. The law sets the requirement that Trump certify Iran’s compliance every 90 days. If Trump does not certify Iran’s compliance, the law provides for an expedited process whereby Congress could re-impose the sanctions lifted under the agreement — or do nothing at all.

Haley’s remarks represent the highest-level acknowledgment that the Trump administration might choose to declare the deal broken, while leaving sanctions in place for Congress to deal with.

US commentator Emma Ashford has said that Haley’s presentation at the AEI “offered a selection of ‘alternative facts’ and carefully phrased arguments ... [that] carefully skirted around the actual facts”. Since Iran is actually complying with the agreement, Haley, according to Ashford, argued that the United States should consider factors outside the legal scope of the deal when deciding its future. These included: Iran’s past behaviour, its role in Syria, and its missile testing.

Recalling the US role in Iraq in the run-up to the 2003 war, Haley also suggested that Iran could have hundreds of covert nuclear sites which cannot be inspected under the deal, but offered no evidence for her assertion. Ryan Costello of the National Iranian American Council has described Haley’s presentation at AEI as made up of “a host of lies, distortions and obfuscations to paint an Iran that is cheating on its nuclear commitments and terrorizing the world”.

The editorial board of The New York Times has said: "The whole idea [of not certifying Iran's compliance with the nuclear deal] makes no sense to anyone but Mr. Trump's hard-line advisers, who see Iran as the root of evil in the Persian Gulf. Instead of making sure the agreement works, the president would give Iran an excuse to revive what had been a rapidly advancing nuclear capability and confront the world with another intractable nuclear challenge in addition to North Korea."

On 14 September, in a significant turnaround, President Trump signalled that his position on the agreement could be more accommodative than he has signalled so far. On this day, the congressionally imposed deadline to renew an exemption to sanctions on Iran suspended under the 2015 deal was allowed to go through. This was significant because, had the president re-imposed economic sanctions on Iran, he would have effectively violated the accord, allowing Tehran to withdraw from the agreement. However, Trump was convinced by his senior officials that he would alienate his allies in Europe, while making Iran free to produce nuclear weapons material.

US secretary of state Rex Tillerson is now reported to be trying to persuade his European allies to join the US in demanding an extension to limits on Iran's uranium enrichment that are set to expire in 2025 and 2030 under the nuclear accord reached in 2015. The U.S. has also asked foreign ministers of nations that agreed to the deal to meet on the sidelines of the annual United Nations General Assembly debate in New York later in September to discuss the agreement's flaws. It would be Tillerson's first encounter as the top U.S. diplomat with Iran's Foreign Minister Javad Zarif.

What the Americans seem to be looking for is that, rather than reopen the nuclear deal — a prospect that other nations already have rejected — the parties would seek a separate set of agreements to limit Iran's access to ballistic missile technology and its uranium enrichment after the "sunset" provisions in the accord start to take effect in 2025.

**2. Qatar:** The Amir of Kuwait made one more effort to resolve the problem with Qatar, this time by visiting Washington and seeking the assistance of President Trump. After their meeting, President Donald Trump at a press conference on 7 September offered to serve as a mediator between Qatar and Arab countries. While calling for a resolution to the standoff, Trump also criticized support for extremist groups, although he didn't single out Qatar as he had done earlier this year; he said: "There has been massive funding of terrorism by certain countries and what I want is to stop the funding of terrorism. If they don't stop the funding of terrorism, I don't want them to come together."

The Qatar issue got more complicated two days later when Saudi Arabia suspended talks with Qatar after accusing it of "distorting facts" of a phone call between the leaders of the two countries. The kingdom took this position just hours after leaders of the two countries spoke directly for the first time since the start of the crisis.

The Qatar News Agency first reported that that Qatar's Emir Sheikh Tamim bin Hamad Al Thani had phoned Saudi Crown Prince Mohammed bin Salman, on the basis of coordination with US President Donald Trump. It went on to say that in the phone call, the two leaders "stressed the need to resolve this crisis" through dialogue "to ensure the unity and stability" of the Gulf Cooperation Council (GCC), and that the Qatari emir had welcomed a proposal by the Saudi crown prince to assign two envoys to resolve the dispute in a way that does not infringe on Doha's sovereignty.

The Saudi Press Agency (SPA) released a statement on 9 September, claiming that Qatari state media had fabricated elements in a report on a breakthrough phone call between Qatar's emir and the Saudi Crown Prince. The SPA statement, quoting a senior foreign ministry official said: "The contact was at the request of Qatar and its request for dialogue with the four countries on the demands, and because this proves that the authority in Qatar is not serious in dialogue and continues its previous policies, the Kingdom of Saudi Arabia declares that any dialogue or communication with the authority in Qatar shall be suspended until a clear statement explaining its position is made in public and that its public statements are in conformity with its obligations."

The Qatari foreign minister, Sheikh Mohammed bin Abdulrahman al-Thani, speaking at the UN Human Rights Commission in Geneva, accused several Gulf states of trying to force it into a "state of trusteeship" through their blockade of the emirate. The minister attacked the Saudi-led bloc for its "illegal siege which clearly violates international laws".

Moody's said on 13 September that Qatar spent almost \$40 billion supporting its economy in the first two months of the Saudi-led blockade. According to its report, Qatar injected \$38.5 billion, 23% of GDP, into its economy and financial system over June and July — more than 10% of its \$340 billion in financial reserves.

Trade, tourism, and banking in Qatar have so far been worst hit by the blockade and the first month alone Qatar's imports slumped 40%, compared to last year. A particular concern is the supply of construction materials, needed to build the stadia for World Cup 2022, since around 70% is imported from Saudi Arabia and the UAE. Although alternative trade arrangements have been made with Turkey and Iran, the report estimated that Qatar is now paying ten times more to import food and medicine than before sanctions were imposed.

**3. Saudi Arabia:** Martin Chulov writing in The Guardian on 15 September has said that Crown Prince Mohammed bin Salman has launched a broad crackdown on dissent, targeting clerics, public critics and political rivals, as he moves to consolidate his power in the country. The campaign has led to the detention of up to 10 popular clerics – the biggest mass arrest of its kind in the kingdom's recent history. The clampdown has come amid ongoing speculation that Prince Mohammed is positioning himself for an ascension to the throne, perhaps as early as the first half of next year. Based on information given by Saudi sources, the writer says the crackdown is aimed at sidelining influential clerics who, the royal court believes, have been muted in their support for the stance against Qatar.

Those detained include the clerics Salman al-Awdah, Awad al-Qarni and Ali al-Omari, all of whom have extensive reach in Saudi society, where they have attracted millions of social media followers. Salman al-Awdah alone has more than 14 million Twitter followers. Chulov quotes Saudi sources as saying that people in the crown prince's inner circle are encouraging him to become king: "they are telling him that now is the moment to go for the top job. [Hence] he is doing all he can to shore up power."

Once the news of the arrests became public, the State Security Presidency said it had "neutralized and arrested" Saudis working for "the benefit of foreign powers" against the security of the kingdom. The kingdom's highest religious body, the Council of Senior Ulema, issued a statement backing the detentions, declaring there was "no place for political or ideological parties" in a nation "based on the book of God and the guidance of his messenger." Saudi newspapers accused those arrested of being aligned with the Muslim Brotherhood that several Gulf monarchies have designated as a terrorist group. Okaz and Al Watan accused those detained of being supporters of the Muslim Brotherhood and working for Qatari intelligence.

The Gulf commentator, Theodore Karasik, a senior adviser at Gulf State Analytics in Washington, believes the crackdown could be related to problems the crown prince is facing both at home and abroad. Besides the war in Yemen and "the impasse with Qatar", there is resistance at home to the prince's economic and social agenda from different corners of society, he says.

Separately, Saudi Foreign Minister Adel al-Jubeir on September 5 rejected overtures from Tehran to improve relations after the conclusion of last week's annual Hajj pilgrimage. "If Iran wants to have good relations with Saudi Arabia, it has to change its policies. It has to respect international law," al-Jubeir said at a press conference in London.

Iranian official Ali Ghazi-Askar, the head of the hajj organization in Tehran, had earlier thanked Saudi Arabia for running a successful Hajj and suggested it might open the way for negotiation over other matters. "We thank Saudi Arabia...for adopting a new approach in dealing with Iranian pilgrims," he said, according to the Iranian state broadcaster. Ghazi-Askar said it presented an opportunity for the two sides to "resolve their bilateral issues in other fields."

Iranian Foreign Minister Mohammad Javad Zarif was also quoted by the Iranian Students' News Agency (ISNA) as saying that diplomatic visits, he has been advocating, could take place after the Hajj. Al-Jubeir dismissed Zarif's comments as "laughable," saying, "at this time, we do not see...that they're serious about wanting to be a good neighbour."

Regional affairs commentator Ali Hashem wrote in Al Monitor on 12 September that "attempts to mediate between Iran and Saudi Arabia have probably reached a dead end". In this context, he has

quoted an Arab diplomat as blaming Iran for its “arrogant approach in the region and its insistence on threatening its neighbours, meddling in their internal affairs and helping destabilize the region.”

**4. Syria:** Backed by Russian and Iranian firepower, Syrian government forces reached besieged troops on 5 September at a garrison in Syria’s eastern city of Deir el-Zour, breaking a nearly three-year blockade by Islamic State militants and marking a significant advance against the extremists. Re-entering Deir el-Zour would bring the Syrian forces and their allied Iranian-backed militias a step closer to controlling the oil-rich eastern province and its capital bordering Iraq.

Assad congratulated his troops on breaking the siege as a “resounding victory” against extremism and vowed to forge ahead until “the last inch” of Syrian territory is liberated. Russian President Vladimir Putin, whose military had fired cruise missiles at IS targets near the city, called it a “strategically important victory over terrorists.”

The advance by the Syrian troops was celebrated as a possible relief for the tens of thousands of civilians trapped in the four government-controlled neighbourhoods that have been surrounded by the extremists since 2015. The Syrian government estimates about 70,000 people have survived on erratic air drops of food and supplies during the siege.

At the same time, the U.S.-backed Syrian Democratic Forces (SDF) — a coalition made up largely of Kurdish groups — have been moving on Deir el-Zour from the north. The simultaneous offensives have brought both forces — backed separately by the U.S., Russia, and Iran — into striking distance of each other. In the past, coalition aircraft, the SDF, and the Syrian Army have been involved in a series of incidents in June in which U.S. forces shot down two Syrian government drones and a Su-22 aircraft after the U.S. claimed the warplane struck SDF units in the area.

Deir el-Zour, Syria’s largest eastern city, has been divided into government- and IS-controlled parts since 2015. The province is held by IS and this is where they are expected to fight their last battles. They have lost all other major cities, including the Iraqi cities of Mosul and Tal Afar. Observers believe it could take weeks, if not months, for Assad’s forces to retake Deir el-Zour from the militant group, which controls about 60 percent of its neighbourhoods.

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## II Oil Scenario

On 11 September, Saudi energy minister, Khalid al-Falih, was quoted as saying he agreed with other OPEC nations to keep all options open in the organization’s push to re-balance world oil markets, “including the possible extension of output cuts beyond next March.”

Oil prices edged lower on 11 September on concerns that Hurricane Irma’s pounding of heavily populated areas of Florida could dent oil demand in the world’s top oil consuming nation. Goldman Sachs said that oil demand is likely to fall by about 900,000 barrels per day (bpd) in September due to the combined impact of hurricanes Harvey and Irma.

Kuwait’s Oil Minister Issam Al-Marzooq said on 12 September that he expected to see the oil market rebalancing by the end of the year due to higher-than-expected drawdowns in global oil stockpiles and the expected increase in demand in the third quarter. The numbers from OPEC so far support Al-Marzooq’s view. Mohammed Barkindo, the secretary general of the organization, said on September 11 that oil stocks in industrialized countries that are members of the Organization for Economic Cooperation and Development (OECD) have fallen by 145 million barrels since January.

There are reports from Saudi Arabia that contingency plans are in place for a possible delay to the initial public offering (IPO) of its state-owned oil company, ARAMCO, by a few months into 2019. Saudi Aramco said in statement that the IPO “remains on track. The IPO process is well underway and Saudi Aramco remains focused on ensuring that all IPO related work is completed to the very highest standards on time.” But, the statement did not provide a timeframe for the IPO.

While the kingdom has not yet decided in which foreign stock exchange the IPO will be issued, besides

the domestic exchange in Riyadh, the major consideration relating to the timing is the weak oil prices, which will influence the value of the offer. The government has previously said the valuation may reach \$2 trillion, while analysts, including those at Sanford C. Bernstein & Co. and Rystad Energy, have given lower estimates.

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### III Economic Developments

Saudi Arabia's National Transformation Plan (NTP) being changed: The Financial Times has reported that the kingdom's ambitious NPT, announced last year as heralding a fundamental transformation in the country's economic sector, is being changed so that more realistic targets and deadlines can be set.

The broader privatisation programme, as well as other initiatives such as providing more affordable housing and reforming the financial sector, will be run outside of the NTP by different ministries. The paper says that the revamped NTP, titled "NTP 2.0", will focus on reforms to the government bureaucracy, such as improving the productivity of civil servants and boosting transparency. Its goals will also include increasing female participation in the workforce and supporting small and medium-sized companies. The revised plan is expected to be released in October.

In a later article in the Financial Times, on 12 September, Jason Bordoff said the proposed revision "signals the kingdom's intention to stay the course. Achieving a sizeable portion of the new targets would still reflect dramatic progress". He pointed out that the principal challenge before the kingdom was low oil prices: Saudi Arabia's breakeven price was \$ 84, while the present prices were around \$ 53. This required the country to implement harsher austerity measures and reduce government spending. These were unlikely to be implemented due to domestic political sensitivities.

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*(The views expressed are personal)*

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