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## HIGHLIGHTS

- Political Developments
- Oil-Related Developments
- Other Economic Developments

## I Political Developments

**1. Sanctions against Qatar continue:** Qatar has been under siege for the past month but it is so far feeling little pain. When four Arab nations, Saudi Arabia, the UAE, Egypt and Bahrain, blockaded Qatar's airspace and shipping channels last month in a bid to force it to drop its maverick foreign policy and shut down its influential TV station, Al Jazeera, there was an initial burst of panic as some supermarket shelves emptied. But that quickly subsided, and since then the gas-rich nation has been able to manage the crisis quite comfortably.

Qatar Airways, whose flights have been forced to leave the region through Iranian airspace, is running up to eight extra cargo flights every day to bring fresh supplies of fruit, meat and vegetables to Doha. Executives have ordered new cargo planes, and employees anticipate little difficulty in handling the increased freight. A \$7 billion port, which started operations in December, is expected to pick up the rest of the slack with shipments from new suppliers in Iran, India and elsewhere.

In order to show that its finances can withstand any long-term economic blockade, Qatar announced a boost to its gas production on 4 July. The head of the state-owned Qatar Petroleum told a press conference that the emirate intended to produce 100 million tonnes of natural gas a year by 2024, up 30% from current levels.

The feud over Qatar has already extended beyond the Gulf, pulling in Turkey, which is backing Doha, and Russia, which is trying to steer a middle course in the dispute. Normally, the United States might be counted on to help resolve the crisis, given that it considers itself a close ally of all the countries in the quarrel. Qatar is also home to a huge American air base with 10,000 American service personnel and warplanes that carry out daily attacks on the Islamic State in Syria and Iraq. But, American policy on the dispute has been inconsistent, with the State Department offering sharp criticism of the Saudi and Emirati demands — which it called the product of an old grudge — while President Trump has sided with the countries that are leading the blockade.

**Six principles:** The foreign ministers of the four countries opposing Qatar met in Cairo on 5 July and issued "six principles" that Qatar should accept before the sanctions can be lifted. These principles are:

1. Commitment to combat extremism and terrorism in all their forms and to prevent their financing or providing safe havens.
2. Suspending all acts of provocation and speeches inciting to hatred or violence.
3. Full compliance with the Riyadh Agreement of 2013 and the supplementary agreement and its implementation mechanisms of 2014 within the framework of the Gulf Cooperation Council.
4. Adherence to all the outcomes of the Arab Islamic American Summit held in May 2017 in Riyadh.
5. Refraining from interfering in the internal affairs of states and from supporting illegal entities.
6. The responsibility of all states of the international community to confront all forms of extremism and terrorism as a threat to international peace and security.

Their joint statement emphasized that these principles are based on the "Charters of the United Nations, the League of Arab States, the Organization of Islamic Cooperation and the conventions against international terrorism." The joint statement also said that the four countries would "take all necessary political, economic and legal measures" against Qatar. They would decide the new measures in a "timely manner" and would seek to "preserve the four countries' rights, security and stability."

Arab commentator Hussein Ibish has noted that "the six principles importantly reframe the basic ideas within the 13 demands by making them broader and more generalized. This could provide flexibility for negotiations or mediation." The six principles do not call for the closure of Al Jazeera or for the removal of the Turkish base in Qatar.

They, in fact, do not refer to the 13 demands that had been rejected by Qatar and not fully accepted by the United States, but rather to the Riyadh Agreement of 2013 and the supplementary agreement and its implementation mechanisms of 2014. (These texts were leaked to CNN and have been extensively published.) These were already agreed to by Doha, and, although they were not made public at the time, they include Qatar scaling back of support for groups designated as terrorist by Qatar's neighbours, cutting off contacts with or expelling a variety of extremists, muzzling or restructuring various media outlets, and cutting off all contacts with opposition groups in other Gulf and Arab countries.

US commentator Ross Harrison has pointed out that Saudi belligerence emanates from the full support that Trump has extended to the new Saudi crown prince, Mohammed bin Salman. He suggests that this US involvement in intra-GCC quarrels and hostility to Iran "could hand Tehran a strategic bonanza, much like former President George W. Bush did by taking down Iraq, a country that for good or bad had acted as a check on Iranian power since the Iranian revolution".

Conflicts Forum is also critical of the US approach; in its editorial, it has said: "The result has been a mess for American diplomacy — one that may entail adverse geo-political consequences (for the US). It seems that all sides in this affair oversold their capacities to deliver, and that the 'West Wing' became carried away with the dizzy prospect of a US-led Sunni-Israeli coalition that would defeat ISIS, roll-back Iran, 'manage away' the Palestinian 'issue' from the table of disputes, and give Trump his foreign policy credentials".

**Tillerson initiative:** On 11 July, secretary of state Tillerson began an effort at personal diplomacy to defuse the tension among the GCC partners. In Doha, he signed an MOU on steps Qatar will take to stop the funding of terrorism. The agreement was aimed at encouraging Qatar's neighbours to abandon their embargo on the country. In Doha, Tillerson told reporters that Qatar's views were "reasonable" and that he was optimistic that the differences can be reconciled. He then flew from Kuwait to Jeddah to discuss the crisis with foreign ministers from the four Arab states leading the boycott. He met King Salman and the foreign ministers of the four boycotting states.

The four countries rejected the US-Qatar agreement, saying that it falls short of what they had hoped for, in that it does not address Qatar's interference in their internal affairs and its attempts to destabilize their regimes by supporting opposition groups and through Al-Jazeera's provocative programmes. According to the distinguished commentator, Rami Khouri, "the four siege-masters continue to degrade their own credibility, isolate themselves globally, and hurt themselves and many others in this region, while fostering new political alliances that run counter to their expressed interests."

**2. Yemen:** Yemen's internationally-recognised president Abd Rabbu Mansour Hadi dismissed three leaders of liberated provinces who recently joined a separatist council. Hadi issued a presidential decree,

firing the governors of Hadramout, Shabwa and the remote island of Socotra, a move that could worsen his government's strained relationship with south Yemen separatists who played a pivotal role in driving Al Houthis out of southern Yemen in late 2015. In May, shortly after Hadi fired a cabinet minister and the governor of Aden, thousands of southerners went to the streets of Aden and other liberated areas to protest the sacking.

The humanitarian situation in Yemen has become very grim: the International Committee of the Red Cross announced there are now more than 300,000 suspected cases of the disease in the country. The epidemic has claimed more than 1,600 lives in roughly 10 weeks and "continues to spiral out of control."

**3. Mosul falls to government forces:** On Monday, 10 July, Iraqi Prime Minister Haider Al Abadi declared in Mosul that the Islamic State had been defeated, three years after ISIS had dramatically captured Mosul from Iraqi forces and set up a "caliphate" that straddled Iraqi and Syrian territories. This announcement marked the end of a nine-month effort by Iraqi forces to retake the country's second city and liberate its million-strong population.

The U.S.-led coalition air strikes, largely American, increased tremendously in the lead-up to the final assault. In 2015, the coalition dropped 28,695 bombs as part of Operation Inherent Resolve. In 2016, it dropped 30,743 bombs. In the first seven months of 2017, the bombs accelerated with 23,418 dropped, according to the latest issue of Military Times. The American historian Robert Olson has also pointed out that, in the 14-year U.S. led coalition war against Sunni opposition forces, including the Islamic State, more bombs, air strikes and other munitions have been dropped or used in Iraq than were dropped during the Allies war against Nazi Germany in WWII.

The Iraqis and their international partners will now be confronted by the immense challenge of restoring essential services like electricity and rebuilding destroyed hospitals, schools, homes and bridges, which were wrecked in the ground combat or by the airstrikes, artillery fire and rocket attacks carried out by the American-led coalition to help Iraqi troops advance. First estimates suggest that over \$ 700 million would be required to effect immediate repairs in the city.

Again, from the perspective of the domestic situation in Iraq, the sectarian divide could get aggravated if the Iraqi forces are vengeful against the largely Sunni population in Mosul.

More seriously, there are already concerns that the defeat of the ISIS in Iraq will encourage the Kurds to assert their aspirations for independence, which will be forcefully resisted both by the national government in Baghdad and Turkey, which also has troops north of Mosul. Former Iraqi diplomat and US-based academic, Feisal Istrabadi, has noted that several Arab states have been quietly encouraging Kurdish independence, believing that weakening Baghdad is a means of indirectly weakening Tehran. This understanding could be mistaken, given that the Kurds are deeply divided, with different groups having close ties with Iran and Turkey. He urges Iraq's Arab neighbours to support a united and cohesive Iraq, since, in his view, a divided and weakened Iraq "will almost certainly increase tensions and instability throughout the region for generations."

Another question relates to the future of trans-national jihad and, specifically the role of ISIS. Here, the outlook remains grim. Already, although under pressure in its home territories, ISIS has exhibited extraordinary reach: militants claiming loyalty to ISIS have recently attacked Istanbul, Manchester, Baghdad, Kabul, London, Karbala and Marawi in the Philippines, and even penetrated Iran's security cordons to attack two iconic monuments in Tehran. The political chaos and the virulent sectarian and ethnic divides in both Iraq and Syria could ensure that extremist violence will continue to be a viable option for the marginalised and mistreated youth across the region.

Thus, it can be safely predicted that loss of its capitals in Mosul and later at Raqqa will not diminish the lethal power Daesh can mobilise against its targets worldwide. Even if it is evicted from home bases, ISIS may be expected to exhibit nimbleness and adaptability when it launches attacks from its peripheral spaces in Afghanistan, Yemen, Libya and Nigeria. These will be backed by a powerful online presence, giving greater attention to militancy and war rather than on the idyllic life it had portrayed in its earlier videos to lure young warriors to its "state". ISIS-inspired militants are also likely to launch lethal attacks through "lone-wolf" activists in West Asia, Europe, the US and even Southeast Asia.

Finally, even if Daesh withers away, other localised extremist groups may be expected to take its place. They may be without its centralised structure or its human, military and financial resources, but they will not lack in commitment or ferocity.

**4. Russia, US agree on ceasefire in southwest Syria:** On 8 July, on the sidelines of the G-20 summit in Hamburg, Russia, the US and Jordan agreed on a ceasefire in southwest Syria. A senior U.S. State Department official said further discussions would be necessary to decide crucial aspects of the agreement, including who will monitor its enforcement. Russian Foreign Minister Sergey Lavrov said the truce included "securing humanitarian access and setting up contacts between the opposition in the region and a monitoring centre that is being established in Jordan's capital." A spokesman for the opposition delegation said in Geneva that the deal showed a "serious international effort to bring peace to Syria."

According to background briefings by US diplomats, the agreement will address demands by Israel and Jordan that Iranian forces and their proxies, including Hezbollah, not be permitted near the Israeli-occupied Golan Heights, which separates Syria from Israel, or along the Jordanian border. Some observers doubt that these forces can be kept out effectively, given that they are doing the bulk of the fighting in the country.

According to the Israeli paper, The Jerusalem Post, Jordan is the big winner. For Jordan, the situation in southern Syria is crucial for its security mainly due to the possible spill over effect of the fighting among different factions in Syria. It also wants the million Syrian refugees who have fled to Jordan to return to their homes, which would be possible only after a ceasefire and the peace that follows.

Israel's concerns relate to the presence of the Iranian Revolutionary Guards, Hezbollah, and the Shi'ite militias near its border at the Golan Heights. It would not like Russian troops to monitor the ceasefire and remains concerned that the US is likely to be reluctant to place its own troops in the region on long-term basis.

A new round of indirect talks began in Geneva on 10 July, the seventh so far between Syrian government representatives and opposition leaders to try to wind down the country's six-year-old civil war. The UN's special envoy for Syria, Staffan de Mistura, said that the US and Russia-brokered ceasefire in the country's southwest was generally holding despite some "teething problems," adding that he hoped it would contribute positively to talks between the government and opposition. He was not expecting any breakthroughs but rather "some incremental developments."

The new round of Geneva negotiations will focus on four so-called "baskets": a new constitution, governance, elections and combating "terrorism". One of the key areas the opposition is focused on is the transitional period, i.e., what Syrian governance will look like after the war. But the two sides are deadlocked on matters such as what will happen to the Syrian president: the government and opposition are deeply divided on this subject.

Overall, it appears that Russia is doing well diplomatically in Syria, particularly since its plan for four de-escalation zones is finding acceptance. First, Turkey is cooperating with Moscow both on the ground in Syria and diplomatically in the Astana peace talks. In this context, the prospect of Turkish forces entering the largest of these zones in north-western Syria will offer a degree of assurance to rebel forces there of protection against the Assad regime. In addition, Israel and Jordan are said to be supporting US-Russian cooperation in calming tensions in south-western Syria.

Second, there seems to be a tacit understanding between Moscow and Washington that the United States will not oppose Russian military action to defend the Assad regime in western Syria while the Kremlin does not oppose American military action against the Islamic State (ISIS) in eastern Syria. Finally, the Russian plan for a federal structure to resolve the conflict in Syria is gaining legitimacy since it is increasingly seen as the only effective approach to end the violence in the country.

However, observers believe that serious problems remain, particularly since jihadi militia are not part of the peace process and most opposition groups are not willing to work with the Assad regime. Above all, Iran remains concerned that Russian diplomatic successes would dilute its own influence in the country, particularly if Turkish presence becomes more significant.

## II Oil-Related Developments

**1. Total SA and CNPC sign gas development contracts with Iran:** Iran signed a formal contract with Total SA and China National Petroleum Corp (CNPC) to develop its share of the world's biggest natural gas field it shares in Gulf waters with Qatar, the first investment in the country by an international energy company since sanctions were eased last year. In November, Total and CNPC had signed a "heads of agreement" with National Iranian Oil Co. to develop phase 11 of the South Pars gas field, a deal that was valued then at \$4.8 billion. Under the preliminary November accord, Total will control 50.1 percent of the project, while CNPC will have a 30 percent interest and Iran's Petropars, 19.9 percent.

Total in November put the cost of the first part of the South Pars project at \$2 billion, with Total's share at \$1 billion. The Paris-based company was working on South Pars until sanctions forced it to withdraw in 2009. The offshore field is Iran's section of the world's biggest deposit, also shared with Qatar.

In a Chatham House report, Sanam Vakil and Neil Quilliam have noted that the deal is significant because it signals Total's confidence in the Iranian market despite growing anti-Iranian rhetoric in Washington, Riyadh and Abu Dhabi, which aims to further isolate Iran and actively discourage international businesses from investing in the country. It also provides an opportunity to President Hassan Rouhani to pursue economic reform agenda and strengthen the hands of the moderates.

Rouhani had originally hoped to obtain over \$50 billion in annual investment. His plans however have been stymied by the Trump administration's criticism of the nuclear deal and increased rhetoric against the Islamic Republic's regional activities, both of which have highlighted the geopolitical risks of doing business in Iran. With Iranian compliance with the nuclear agreement officially confirmed by Washington though, Rouhani has a small four-year window of opportunity to translate his promises of economic reform into reality.

**2. ARAMCO CEO warns about global oil shortage:** Amin Nasser, CEO of ARAMCO, has said that the world might be heading for an oil supply shortage following a steep drop in investments and a lack of fresh conventional discoveries. He added that, while unconventional shale oil and alternative energy resources were an important factor to help meet future demand, it was premature to assume that they can be developed quickly to replace oil and gas.

According to him, about \$1 trillion in investments have already been lost since a decline in oil prices from 2014. Studies show that 20 million barrels per day of new production will be needed to meet demand growth and offset natural decline of developed fields over the next five years. New discoveries are also on a major downward trend. The volume of conventional oil discovered around the world over the past four years has more than halved compared with the previous four.

Nasser said that ARAMCO planned to invest more than \$300 billion over the coming decade to reinforce our pre-eminent position in oil, maintain our spare oil production capacity, and pursue a large exploration and production program centring on conventional and unconventional gas resources.

On 14 July, oil markets were pulled down by high fuel inventories and improving industry efficiency, but were still on track for a solid weekly gain. Brent crude futures were down 7 cents, or 0.1 percent, at \$48.35 per barrel at 0443 GMT, but up 3.5 percent for the week. U.S. West Texas Intermediate (WTI) crude futures were at \$45.97 per barrel, down 11 cents, or 0.2 percent, but up around 4 percent over the week.

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## III Other Economic Developments

**India-West Asia ties — Prime Minister Modi visits Israel:** Prime Minister Narendra Modi visited Israel on 4-6 July. This was the first visit by an Indian Prime Minister to Israel and marked the silver jubilee of the establishment of diplomatic ties in 1992. It was also the first time that an Indian leader went to Israel without visiting Ramallah, the headquarters of the Palestinian Authority. This affirmed the bilateral character of the visit and that India's ties with Israel were important in themselves and need not

be linked any longer with the Palestine issue – the latter had already been addressed separately with the visit of Palestinian President Mahmoud Abbas to India in May.

The visit was seen by observers as a high-point in Mr Modi’s diplomatic engagement with major foreign partners. The visit fully lived up to the hype generated on both sides. Israeli Prime Minister Benjamin Netanyahu greeted Modi at the airport in Hindi, while Modi reciprocated in Hebrew. Netanyahu described his encounter with Modi as a union of hearts and minds and, in a dramatic flourish, said, “India and Israel are changing our world and may be changing parts of the world”. Modi responded by referring to “a new chapter in our ties” and “new horizons of engagement”.

Regarding defence cooperation, the most important aspect of the bilateral relationship, the joint statement was relatively muted – it highlighted Israel’s commitment to be part of India’s “Make in India” initiative. It referred to cooperation in high technology, trade and investments, and affirmed a “strategic partnership in water and agriculture,” reflecting the confidential nature of defence agreements and emphasising that the relationship went beyond defence to other important areas. The visit also yielded agreements in areas of satellite technology, water and agriculture, and the setting up of a \$40 million innovation fund.

In public remarks, the two leaders spoke of what brought them together. Modi noted that both countries lived in “complex geographies,” replete with “strategic threats to regional peace and security”; this highlighted the need “to protect our strategic interests and cooperate to combat growing radicalisation and terrorism”. Netanyahu described the Mumbai attacks as a “horrible terrorist attack” and stressed the need for the two countries to cooperate closely in counter-terrorism.

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*(The views expressed are personal)*

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