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HIGHLIGHTS

- Political Developments
- Oil-Related Developments

I Political Developments

Yemen: In the Yemen conflict, the most dramatic development was the attack by the Houthis on a Saudi frigate off Hodeidah port, in the Red Sea. It was initially suggested that the attack was from a ballistic missile, but later photographic evidence indicated that it was a suicide assault by two boats laden with explosives. The Saudi authorities said that two crew members were killed. This attack raised questions about possible vulnerabilities of the Saudi navy, given that the frigate did seem to have taken standard defensive measures such as using flares, smoke floats and firing warning shots.

The other development in the Yemen theatre was the acceptance by the US military of the civilian casualties in its operation against Al Qaeda targets at the end of January, in which it had lost an aircraft and a naval commando. These casualties have led the Yemeni government to formally cancel all similar operations by the US in Yemen. This is a setback for the Trump presidency which had touted this operation as part of its aggressive posture against jihadi groups. Another fallout was that Al Qaeda elements staged a quick come-back into three towns in the south, when government forces withdrew from them for non-payment of their salaries.

Over the last fortnight, the peace process, being promoted by the UN special envoy Esmail Ould Sheikh Ahmad, did not show any progress; in fact, the Houthis have publicly demanded that the envoy's mandate be ended as he was "biased" against them. The UN secretary general, Antonio Guterres, however expressed his full confidence in the envoy. The Houthis are perhaps unhappy that the special envoy dropped his earlier plan that had called for the handover of power by President Abd Rabbo Mansour Hadi and replaced it in January with one that retains him as president during the unspecified transition period.

The other area of concern on the diplomatic side is the overt alignment of US policy under President Trump with Saudi Arabia's military action in Yemen, including what many observers see as its "indiscriminate" bombings which have led to a humanitarian crisis in the country, including deaths from starvation of at least half a million children.

Syria: The principal development in the Syrian conflict was the rejection of the Trump proposal for the setting up of "safe zones" by Syrian President Bashar al Assad and the UN High Commissioner for Refugees, Filippo Grandi. While Assad spoke of the need for the whole country to become a safe zone,

Grandi cited terrorism, the proliferation of warring militia and the fragmentation of the country as obstacles to the setting up of safe zones, and, echoing Assad, called for peace “so that everywhere becomes safe”.

On the war front, the main development was the beginning of the third phase to take the ISIS stronghold Raqqa by the US-trained Syrian Democratic Forces, which had begun in November last year. Since Trump’s accession, the SDF capabilities have been beefed up with armoured sports utility vehicles and more Arab fighters. Separately, both Syrian government and Turkish forces, with their Syrian allies, have pushed ahead to take the town of Al Bab, the last ISIS bastion in Aleppo province. To avoid clashes between them, the government and Turkish forces have set up a security corridor to the south of Al Bab, measuring 500 to 1000 metres, with occasional contact between the two sides.

Peace talks sponsored by Russia and Turkey have moved to the next stage, with a meeting scheduled in Astana for 15-16 February 2017, to which the UN special envoy Steffan de Mistura and US officials have been invited, besides representatives of the Syrian government and the opposition militant groups. According to Syrian government sources, the discussions at Astana will be on “purely military” matters.

The Astana meeting will be followed by a conference in Geneva on 23 February 2017, which will be sponsored by the UN. The Syrian opposition is expected to have a 21-member team representing 10 militant groups. Observers have noted that, while Astana is said to complement the UN process, it also gives Russia, Turkey and Iran the opportunity to influence the political solution in Syria on their terms.

Iran-US relations deteriorate: Following Iran’s testing of a ballistic missile on 1 February 2017, the Trump administration put Iran formally “on notice”. The then national security advisor, Michael Flynn, stated in a press briefing that the Iranian test undermined “security, prosperity and stability throughout and beyond the Middle East” and placed American lives at risk.

On 3 February 2017, the administration announced new sanctions against Iran, covering agents, companies and associates involved in procuring ballistic missile technology for Iran, who are now blacklisted from doing any business with US companies or US citizens. Criticising the moderate attitude of the Obama administration, the White House said that “the US would no longer tolerate Iran’s provocations that threaten our interests”. The US government also linked Iran directly with the attacks by the Houthis on Saudi and Emirati ships in the Red Sea.

This US rhetoric led to similarly harsh responses from the Iranian side: Supreme Leader Ali Khamenei mocked Trump as “Mr Newcomer”, and welcomed his remarks as revealing the “real face” of the US and affirming the Iranian view about the “political, economic social and moral corruption of the US government”. Foreign Minister Javad Zarif spoke of “difficult days” ahead for Iran, but remained confident that the US would not be able to get the nuclear agreement scrapped.

Given Trump’s statements during the election campaign, and the ideological posture of the senior officials appointed by him, observers are not surprised by the rapid deterioration in US-Iran ties so soon after Trump’s entry into the White House. At the heart of the current spat is the difference of opinion between Iran and the US administration on whether ballistic missile tests by Iran are forbidden under the nuclear agreement. Most commentators have pointed out that such tests are discouraged in the agreement but not expressly forbidden.

They also note that ballistic missiles are part of the arsenal of Iran’s neighbours Saudi Arabia and the UAE; again, Iran does not possess long-range ballistic missiles, which three of its neighbours have, nor does it have nuclear warheads for its missiles, which are available with two of its neighbours (Israel and Pakistan). Finally, unlike Israel and Saudi Arabia, Iran does not have a large and modern air force to project power in the region.

An American commentator, Paul Pillar, sees the hostility to Iran on the part of the Trump administration as evidence of the Islamophobia at the heart of the Trump White House, the pervasive negative view of Iran among many Americans, and Trump’s own criticism of the nuclear agreement as part of his deep-seated opposition to President Barack Obama.

On 15 February, President Hasan Rouhani began visits to GCC countries Oman and Kuwait. These visits follow the visit to Tehran in December 2016 of a Kuwaiti team led by foreign minister, Sheikh Sabah Al Khalid Al Sabah, when he had proposed a dialogue between Iran and the GCC to “normalise” relations, address the Yemen and Syrian conflicts and become “regional partners”. Iranian sources urged GCC countries to take advantage of Rouhani’s visit to establish “Islamic friendship and restoration of regional ties”.

II Oil-Related Developments

Two developments dominated the global oil scenario: the news of compliance with cuts in production by OPEC and non-OPEC members, and the surge in production of shale oil as a result of prices remaining at above \$ 50/barrel in both the WTI and Brent indices: through the last fortnight, Brent was above \$ 55, while WTI was above \$ 50; on 14 February, Brent was \$ 56.14 while WTI was \$ 53.38. A report from the IEA said that compliance with cuts to the extent of 90% had been achieved by OPEC and non-OPEC members, with countries like Saudi Arabia cutting even more than was required.

These prices have encouraged prospects of significant increases in shale oil production: US production has risen by 6.3% since July 2016 to nearly 9 mbd, and is expected to rise by a further 290,000 b/d in 2017. The Energy Information Administration (EIA) of the US department of energy has projected that in 2018 US production will be 9.53 mbd, the highest production since 1970. A study by energy consultants Wood Mackenzie has shown that breakeven prices of US shale oil wells has now become \$ 70/barrel, as against \$ 80-100 a few years ago.

While IEA has indicated that the global oil market could balance next year due to increase in demand, both Iran and Qatar have suggested OPEC and non-OPEC members may need to extend production cuts into the second half of 2016.

(The views expressed are personal)
