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HIGHLIGHTS

- Political Developments
- Oil-Related Developments
- India-Gulf Ties

Political Developments

1. Conflict Scenario

While fighting continued in all the three theatres of Iraq, Syria and Yemen, there was no dramatic change in the ground situation. In Iraq, the government forces consolidated themselves in east Mosul and reached the Tigris that divides the city of two million people. But, they made no effort to attack ISIS positions in the west, pointing out that ISIS were putting up a robust fight with snipers, suicide bombers and human shields. Both sides have also used diversionary tactics: government forces have skirted Mosul to attack the neighbouring towns of Annah, Rawi and the ISIS stronghold of Al Qaim, at the Syria border. ISIS on its part has carried out a series of lethal bombings in Baghdad and Najaf in which dozens of people have been killed. An Iraqi commander has said that Mosul could be liberated in three months.

In Syria, the ceasefire finalised at the end of December 2016 and has been endorsed by a UN Security Council resolution. It has largely held, though there have been regular complaints from rebel sources that the Government has been attacking the rebel-held valley of Wadi Barada, near Damascus, which is the principal source of water for the Syrian capital. The Turkish foreign minister has warned that the peace talks, proposed to be held in Astana from 23 January, could be in jeopardy if these attacks did not stop. He identified the main violators of the ceasefire as "Hizbollah, Shiite forces and the government". He also called upon Iran to ensure that truce violations by the government were halted immediately.

Following the ceasefire, Russia has begun to downsize its forces in Syria, starting with the aircraft carrier, Admiral Kuznetsov. Russian sources said that this carrier had conducted 420 sorties and hit 1252 "terrorist" targets in the two months of its deployment in support of the Assad regime.

While the truce has held, considerable differences between the government and the rebels remain, centred around the future of the Assad regime: the rebels have even alleged that the text of the agreement signed by the regime is different from the one they have signed. The Salafi militant group, Ahrar al Sham, which has 10,000 fighters, has also denied that it has agreed to the continuation of Assad in Damascus.

Regarding Yemen, while local media carried daily reports of progress being made in the fighting by the pro-Hadi forces, it appears that the fighting is running out of steam. Unconfirmed reports have spoken of government successes in taking Houthi strongholds in the northern Saada province, around Sanaa, in the southern Shabwa province, and on the Red Sea around Bab al-Mandab strait; they are now said to be anxious to take the ancient port town of Mocha on the Red Sea.

The UN special envoy, Esmail Ould Shaikh Ahmad, visited Riyadh for three days and met Saudi and Yemeni officials as also the envoys of the 18 countries supporting the Yemen peace process, and pressed for a new ceasefire in the country.

2. Islamic Military Alliance

There were two important developments relating to the 39-nation "Islamic Military Alliance to Fight Terrorism". One, that Oman has announced that it will be joining this alliance. This alliance had been formed by Saudi Arabia in 2015, ostensibly to fight terrorism, but seen by most observers as an anti-Iran coalition of Sunni states, particularly since Iran and Iraq were not invited to join. Oman's entry is surprising given that it has a long record of close ties with Iran and, in fact, had facilitated the Iran-US dialogue that finally led to the nuclear agreement early last year.

Oman's initiative could have been motivated by its desire to re-build its frayed ties with Saudi Arabia and play a constructive role in promoting the peace process in Yemen. With close ties with both the Houthis and former President Ali Abdullah Saleh, Oman is well-placed to facilitate such an agreement. According to media reports, the Omani announcement is likely to be followed by a visit to Muscat of the Saudi Deputy Crown Prince and Defence Minister, Prince Mohammed bin Salman, who, according to local reports, is keen to end the war and promote a government of national unity in Yemen.

The other news relating to the Islamic Alliance was the announcement that former Pakistani army chief, General Raheel Sharif, will be the first commander of the military force. Sharif, who retired in November from the Pakistani army, has a good reputation for fighting against terrorists in his country and for his tough stand against corruption. However, there are widespread concerns in Pakistan that this appointment will harm Pakistan's ties with Iran, besides damaging sectarian ties within the country.

However, soon after the news reports relating to General Sharif's appointment, Pakistani government sources said that no approval had been given to the appointment nor had the general asked for approval.

3. UAE diplomats killed in Afghanistan

Five UAE diplomats with the UAE embassy in Kabul were killed in a bomb explosion in Kandahar on 11 January, while the ambassador was injured. The diplomats were in Kandahar for the inauguration of a humanitarian project. UAE official sources have said that the country has contributed \$ 400 million in security, economic and humanitarian assistance to Afghanistan.

Oil-Related Developments

Oil prices

The main news over the last fortnight was that OPEC members were regularly announcing their compliance with the cuts in production they had agreed to in Vienna in November. In tandem with this, there were reports that oil prices were moving upwards: Brent was usually between \$ 56-58/ barrel, while WTI hovered around \$ 53. Some analysts suggested that Brent could reach \$ 60 over the next few weeks. A poll of oil analysts by Reuters revealed their expectation that Brent prices in 2017 will average \$ 56.9, going up steadily in every quarter from \$ 53.67 in Q1 to peak at \$ 59.78 in Q4.

Saudi Arabia has indicated its support for an extension in the agreed in cuts by OPEC and non-OPEC producers beyond six agreed to at present to facilitate re-balancing in the market. Iraq also confirmed

that it was moving satisfactorily towards meeting its cut commitments: its oil minister said that exports of 170,000 b/d had already been reached and that it would soon move to cut the rest of the 40,000 b/d to reach its cut commitment of 210,000 b/d.

Energy consultants Wood MacKenzie projected that the boost in oil prices would marginally increase investments in the upstream sector by about 3% in 2017 to reach \$ 450 billion, though this would still be 40% below the investment level of 2014. Wood MacKenzie also forecast that oil prices would average \$ 57 in 2017, but could rise to \$ 85 by 2020 as the effect of low investments would be felt. They also projected an increase in US shale oil production by 300,000 barrels in 2017, taking total US production to 4 mbd.

OPEC, in its annual World Oil Outlook 2016, has painted a rosy picture regarding projected oil prices: it believes prices will reach \$ 65 in nominal terms by 2021, but then move to \$ 155 by 2040 (or \$ 92 in real terms).

India-Gulf Ties

Both UAE and Saudi Arabia were well-represented at the “Vibrant Gujarat” Global Summit in Gandhinagar. The UAE delegation was led by the UAE Minister of State, Dr Rashid Ahmad bin Fahd. At a meeting with Prime Minister Narendra Modi, the UAE chairman of the DP World Group said that UAE had already invested \$ 1.2 billion for the development of five ports in India that together handled 30% of the country’s container traffic, and planned to invest another \$ 1 billion over the next few years. Mr Modi asked the UAE team to invest in India’s infrastructure, logistics, ports and airports, as also renewable energy and tourism.

The Saudi ambassador to India, Mr Saud al Sati, urged Indian business to be a “central partner” in the transformation of his country’s economy for the post-oil era as envisaged under the Vision-2030 and the National Transformation Plan, 2020, which plan to make Saudi Arabia a manufacturing hub.

(The views expressed are personal)
