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HIGHLIGHTS

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I Political Developments

Syria: March 15 marked the sixth anniversary of the Syrian conflict. Though the ground situation has shifted in favour of the Assad regime, the conflict shows no sign of ending.

The Geneva IV conference convened on 23 February, the fourth round of UN-sponsored peace talks in Geneva, coordinated by the UN special envoy, Staffan de Mistura. These talks followed preparatory talks earlier in Astana, Kazakhstan, in January where the six-week long truce in force in Syria had been re-affirmed. At the Geneva talks, the Syrian government delegation was headed by Syria's permanent representative at the UN, Bashar al-Jaafari, while the opposition team had a new head, Nasr al Hariri, a 40-year old cardiologist from Deraa in southern Syria, where the first agitations against Assad had started in early 2011. It included Mohammed Alloush from the Jaish al Islam militant grouping. As at Astana, Jabhat Fatah al Sham (the former Al Qaeda-affiliated Jabhat Nusra) and the Islamic State were not invited. The government team included for the first time the Syrian Kurdish legislator, Omar Ossi, said to be a member of the Kurdish Workers' Party.

Before the talks, De Mistura said they would be taking place within the framework of UNSC Resolution 2254, adopted in late 2015, and would focus on three issues: the setting up of a credible, inclusive and non-sectarian government in Syria; the drafting of a new constitution, and free and fair elections under UN supervision. De Mistura made it clear before the talks that he did not expect a breakthrough; he merely wished to maintain the momentum of the peace process, with substantive issues being addressed in later rounds.

The Geneva talks continued for ten days, with much of the time being devoted to finalising procedural matters. Though no direct discussions between the government and opposition teams took place and the two sides remained divided on the question of Assad's future, neither side walked out. The opposition side made it clear that it was anxious to project an image of adopting a constructive approach to the talks to the Trump administration, particularly regarding limiting Iran's role in the region, but it remained concerned that a policy vacuum might persist in Washington, which would complicate further progress in the peace talks.

The talks ended with an agreed agenda for the next round of discussions scheduled for March. The agenda heads are: governance, constitution, elections and, a new item, counter-terrorism. The head of the Syrian government delegation said after the talks that all agenda items were of equal importance.

Geneva IV took place ten months after the last round of talks. But, much has changed in Syria, militarily and politically, in the interregnum. The Syrian government, backed by Russian air support and Iranian and Hezbollah ground forces, had scored considerable successes on the ground, culminating with the taking of Aleppo. Politically, the opposition lost a major ally when Turkey, fearing the territorial expansion of Kurdish forces along the Turkey-Syria border, switched sides, moderated its insistence on the immediate departure of President Bashar Al Assad, and joined Russia and Iran in promoting the peace process in the country.

Above all, while the Trump administration has floundered while seeking to shape a policy for Syria, Russia has become the key political role-player in the management of Syrian affairs, ending all talk of Assad's imminent departure. Thus, the position of the opposition at the Geneva talks was much weaker than it had been earlier. This was reflected in the composition of the opposition team which included groups that were less hostile to Assad.

While the talks were on in Geneva, there were developments in New York and in Syria itself. At the UNSC, the western nations floated a resolution condemning the Assad regime and the IS for using chemical weapons in Syria, and sought to impose sanctions on the Syrian government. The resolution said that the Assad regime had been responsible for three chlorine gas attacks and IS for a mustard gas attack. Russia and China vetoed the resolution.

In Syria, there was some significant military activity, suggesting that the Trump administration might finally have developed a military strategy against the IS. In terms of this strategy, the US has commenced increased air attacks on IS positions, while expanding its military presence at the northern Syrian town of Manjib, 40 km from the Turkish border, which is presently IS-controlled. It is also witnessing a coming together of a variety of forces, Kurdish, Syrian government, Turkish-backed and the US-backed Syrian Democratic Forces (SDF), which has increased the chances of fighting between them.

Again, General Joseph Dunford, chairman of the US Joint Chiefs of Staff, met his Russian and Turkish counterparts in early March to address issues of possible conflict between them, such as the US support for the Kurds even as Turkey opposes their territorial gains.

Separately, the US-backed SDF is also advancing on Raqqa, the IS "capital" in Syria, amidst reports that IS leaders, administrators and "bureaucrats" are fleeing the town. For good measure, Iraqi jets have also bombed IS positions in Syria, apparently in coordination with the Syrian government.

In retaliation for the attacks upon them, both Jabhat Fatah al Sham and IS launched suicide attacks: the IS attack took place on 24 February outside the northern town of Al Bab, which had just been captured from the IS by the Turkish-backed militia; in this attack 51 people were killed. The Jabhat attack took place in Homs: in this assault, a senior intelligence officer, General Hassan Daabul, a close confidant of President al Assad, was killed, along with several dozen other victims.

The six-year conflict in Syria has seriously diminished the capacities of both the government and the opposition. President Assad's army of 325,000 has sustained about 100,000 fatalities, a similar number of injuries, and thousands of defections. Assad has kept himself in position by relying on local militia and thousands of foreign forces. The opposition militia, after some dramatic successes in 2012, now have little to show for their efforts, having been neutralised by Hezbollah, the Iranian revolutionary guards and other militia; Russian bombardments have also stemmed their advances. In early March, Iranian sources announced that 2100 Iranian fighters had been killed in fighting in Syria and Iraq.

The opposition have also been afflicted with internecine competitions and conflicts: at present, there are four major opposition coalitions in the country: the Arab militia, the Kurds, Jabhat Fatah al Sham, and the IS, which have indulged in considerable in-fighting. After the Astana talks, Jabhat Fatah linked up with four other militia to form the Organisation for the Liberation of the Levant, attracting some elements from the rival Salafist group, Ahrar al Sham, which is now close to Turkey. Ahrar has set up a rival coalition of five smaller militia to avoid being absorbed by the Organisation.

Observers believe battle-fatigue and factionalism on both sides of the political divide could enable the regional powers to achieve a sustainable ceasefire. In this context, they also note a leaked Russian memo that has proposed the breakup of Syria into regions, with their own regional assemblies, an

effective “balkanisation” of Syria, though they recognise that the existing rivalries and deep mutual mistrust could make the transition quite difficult, particularly since regional powers, with their own geopolitical interests, would encourage their local proteges to continue the good fight. The outlook for Syria has rarely looked so bleak.

Iraq: The last month saw the steady advance of Iraqi troops, numbering about 100,000, into Mosul to capture the western part of this historic city, which is the “capital” of the Islamic State and the home of its leader, Abu Bakr al Baghdadi. About 2000 IS militants are said to be in Mosul, amidst a population in west Mosul of about 750,000.

The offensive to take Mosul had begun in October 2016, with the eastern part of the town being taken at the end of January. Since then, in west Mosul Iraqi troops have taken Mosul airport, the museum and government buildings. But, they have faced considerable opposition from IS militants through sniper shooting, bomb-carrying drones, booby traps, street fighting and even suicide car bombs, besides strong counter attacks whenever the opportunity has presented itself.

By mid-March, Iraqi forces had taken the last road leading out of Mosul going to the IS stronghold of Talafar, 60 km away, thus confining the IS forces to Mosul town itself. On 12 March, Iraqi forces announced that they had taken over a third of west Mosul from the IS, though further heavy fighting is expected in coming weeks.

On 9 March, there were reports that IS leader, Abu Bakr al Baghdadi, had left Mosul, leaving it to his military commanders to carry on the fight against the Iraqi forces. He is said to have escaped before the last road going out of Mosul had been captured by the Iraqis.

Yemen: The principal news over the last month has been the killing of Yemen’s deputy chief of staff, Major General Ahmad Saif al Yafei, near Mokha, at the hands of the Houthi militia. Mokha port had been captured by government forces last month. Al Yafei was killed along with 18 other soldiers in a missile attack. The renewed fighting around Mokha has displaced about 45,000 residents.

The other development has been the heightened US-led attacks on positions of the Al Qaeda in the Arabian Peninsula (AQAP) through over 20 drone strikes in the southern Shabwa, Bayda and Abyan provinces.

In a sign of US support for the Saudi military intervention in Yemen, the State Department has approved the sale of weapons to the Kingdom; these sales had been blocked by the Obama administration due to concerns about widespread civilian deaths due to Saudi bombardments in Yemen. These sales, valued at \$ 390 million, will include precision munitions guidance systems. This relaxation in military supplies indicates the Trump administration’s concerns about the Iranian arming of the Houthis and is an effort to curtail Iranian influence in different parts of West Asia.

The Yemen war is now two years old. Titled “Operation Decisive Storm” by the Saudis who initiated it with massive aerial bombardment, it seems to have ground to a stalemate, with the pro-Hadi forces confined to the south and major cities like Sanaa, Taiz and Hodeidah still with the Houthi forces. A commentator has recently written that Prince Mohammed bin Salman, Saudi defence minister and the chief architect of the war, “had no game plan for victory or an endgame for the war”. He also fears that, even if Sanaa were to fall to Hadi forces, the Houthis can be expected to continue fighting, as they have been doing over the last decade.

Ironically for Saudi Arabia, the principal beneficiaries of this conflict have been Al Qaeda, which has consolidated itself in southern provinces, and Iran, which, with very little inputs of its own, has ensured that the Houthis have able to deny the Saudis an outright military victory.

The Yemen conflict has led the UN Secretary General to announce a food insecurity emergency affecting 7.3 million Yemenis, the “largest food insecurity emergency in the world”. Amidst this calamity, the Yemeni rial has been depreciating steadily, reaching a low of 380 rials to the dollar. Saudi Arabia has announced that it will deposit \$ 2 billion in the central bank in Aden to bolster the currency.

Saudi outreach to Iraq: Saudi foreign minister Adel al Jubeir paid an unexpected visit to Baghdad on 25 February, signalling a thaw in ties between the two countries. This is the first visit of a senior Saudi minister to Iraq since 1990. Al Jubeir highlighted their shared interest in combatting the Islamic State and promoting investment and trade. The Saudi minister also touched on Iraq's sectarian divide by saying that the Kingdom stood "at an equal distance from all Iraqi communities" and supported the unity and stability of Iraq. He said that Saudi Arabia would soon send a new ambassador to Baghdad and would set up direct flights between the Kingdom and Iraq. The Saudi foreign minister's visit was followed by that of an official Iraqi delegation to Riyadh on 12 March for political and economic discussions.

The Saudi initiative suggests an effort to position itself in Baghdad in the post-IS scenario in an attempt to balance Iran's hitherto unchallenged presence in a major Arab country that is also a neighbour. Specifically, Saudi Arabia (and the US) would like to see an increased Iraqi role against the IS in Syria. A Saudi commentator has said that the Saudi outreach is to bring Iraq back into the Arab fold after Iran had tried "to set a wall between the Kingdom and its Arab brothers".

This interaction is taking place at a time when the Trump administration has referred to Iran as "the biggest state sponsor of terrorism in the world" and is working with the Al Abadi government to continue ties with Iraq after the IS strongholds have been eliminated.

King Salman on a 31-day tour of Asia: At the end of February, King Salman bin Abdulaziz of Saudi Arabia embarked on a month-long visit to Malaysia, Indonesia, Brunei, Japan, China and the Maldives. In Malaysia, Saudi ARAMCO announced that it would be investing \$ 7 billion to obtain a 50 percent share in a proposed Malaysian oil refinery project. Besides the refinery, the \$ 27 billion project also includes a cracker plant and a petrochemical complex. The Saudi oil minister, Khalid al Falih, said that this investment would expand ARAMCO's portfolio ahead of its initial public offering next year for 5 percent of ARAMCO shares. He added that ARAMCO would supply 70 percent of the crude required by the refinery.

In Indonesia, the centrepiece of the king's agenda was counter-terrorism, mainly due to the ISIS-related violence that Indonesia has been experiencing in recent years. Other areas of mutual interest are oil and gas and tourism. After visits to Malaysia, Brunei and Indonesia, the king took a break in Bali, before reaching Japan on 12 March, the first visit of a Saudi monarch since 1971. Japan is expected to play a major role in Saudi Arabia's plans to diversify its economy in terms of its "Vision 2030" policy framework.

Observers have attached considerable significance to King Salman's Asian odyssey at a time of turmoil and uncertainty in West Asia. Besides the Saudi interest in looking at attractive investment propositions, the Kingdom is anxious to firm up its ties with Asian markets for its oil sales. In geopolitical terms, Saudi Arabia is also keen to firm up relations with important Asian countries when it is embroiled in a doctrinal and strategic competition with Iran.

Prince Mohammed bin Salman to meet President Trump: Prince Mohammed left for Washington on 13 March to meet President Trump. He will thus be the highest ranking Saudi official to hold talks with the US president since the latter took office.

II Oil-Related Developments

Over the last month, oil prices initially stayed between \$ 55-57 (Brent) and \$ 51-53 (WTI). Prices went up to a high of \$ 57.31 (Brent) / \$ 54.40 (WTI), in response to news relating to effective compliance with production cuts by OPEC and non-OPEC members (90% compliance, the best in OPEC history) and possible extension of the production agreement beyond 30 June.

However, from 11 March, prices started coming down: they briefly touched \$ 50.85 (Brent) on 13 March, before closing at \$ 51.41 (Brent)/ \$ 48.44 (WTI); prices have thus gone down over 8 percent since the decision to effect production cuts was announced in November last year.

These price declines are in response to reports that global inventories were higher than expected: there has been a surge in US inventories, which rose by 8.2 million barrels to a record 528.4 million barrels in the second week of March, the ninth continuous weekly rise. This is 20 percent more than the average of last five years, and 30 percent compared with the 2010-14 period. Other factors putting pressure on prices are high production levels in Nigeria and Libya, which are not included in the production cut agreement, and high stockpiles in China, reported to be 30 million barrels last month.

Besides high US stockpiles, there is news that more rigs for US shale oil production were being deployed in response to prices remaining above \$ 50. US companies are said to have added 77 rigs this year to 24 February, reaching 617 rigs in place, the highest level since September 2016. US production is now forecast to reach 4.87 mbd in March, the highest level since May 2016. US shale producers are being described as “fitter, leaner and faster versions” as compared to the earlier companies, many of which closed when prices began to collapse in mid-2014, and are comfortable with prices above \$ 50.

These developments have focused attention on whether the OPEC/ non-OPEC production cut would continue beyond June. The Saudi energy minister has said that OPEC would take a decision on this at its ministerial meeting in May based on production cut compliance and whether inventories had declined. As of now, some analysts are projecting prices in the range of \$ 45-47 in coming months. This is expected to put pressure on producers to extend production cuts after the June deadline.

For the medium term, Merrill Lynch projected average prices of between \$ 50-70 through to 2022, slightly below its earlier estimates of \$ 55-75. The company also estimated that global oil consumption would expand at 1.1 mbd per annum, with demand driven mainly by emerging markets. In the period 2017-22, Merrill Lynch forecast non-OPEC production growth to be an average of 830,000 b/d annually, with 80% of the rise coming from the US.

(The views expressed are personal)
