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HIGHLIGHTS

- Political Developments
- Oil-Related Developments

I Political Developments

1. Saudi Arabia and its allies break ties with Qatar: On 5 June, Saudi Arabia, the UAE, Bahrain, Egypt and Yemen snapped diplomatic ties with Qatar, accusing the island nation of supporting terrorist groups, including Al Qaeda, the Islamic State and those backed by Iran, and destabilising the region. Qatar's partners in the Gulf Cooperation Council (GCC) have also blocked all transport and communication links with Qatar and asked its nationals to leave within two weeks.

Qatar provoked Saudi Arabia within two days of Trump's departure from Riyadh. Speaking at a military parade, on 25 May, Qatar's ruler, Sheikh Tamim bin Hamad Al Thani articulated his views on several matters that seriously undercut Saudi positions and the anti-Iran "Sunni" alliance it had structured. He said that the kingdom had become much too dependent on Trump who was facing serious political difficulties at home. He criticised the demonization of Iran, which he described as a major regional and Islamic power, and called for engagement and dialogue.

He also praised Hamas and Hezbollah as legitimate resistance movements. This was particularly galling for the kingdom which sees the latter as an Iran-sponsored terrorist group that, among its other sins, is also robustly backing the Assad regime against Saudi-supported militia.

While Qatar denied the veracity of these remarks, saying that its official sites had been hacked, Saudi Arabia and its Arab allies immediately unleashed a well-orchestrated campaign against Qatar. Besides vilification in the media, this included a letter signed by 200 descendants of the 18th century cleric, Sheikh Muhammed ibn Abd-al Wahhab whose doctrines constitute the basis of the Saudi (and Qatari) doctrinal belief-system, where it was asserted that the claim of the Qatari royal family to descend from their revered ancestor was fabricated, thus questioning the right of the Al Thani royal family to rule their island nation.

The origins of the current discord and the harsh Saudi response may be traced to the Trump foray in the region a fortnight ago. The president, in deep trouble at home, had sailed into the turbulent waters of West Asia and had firmly placed the US as the political and military ally of Saudi Arabia and its allies who together constitute a "Sunni" Arab NATO against Iran. With the US now on firmly its side, Saudi Arabia is prepared to flex its muscles both against recalcitrant Qatar as also Iran, with its "hegemonic" aspirations in West Asia.

Pro-Saudi commentators have pointed out that Qatar has been provoking its GCC partners for the last several years. The Al Jazeera television network, owned by members of the royal family, has irked Qatar's neighbours due to its espousal of a variety of dissidents who have voiced harsh criticisms of GCC member countries. Again, in their view, Qatar has funded, hosted and backed groups such as Hamas, which retains cordial ties with Iran. In the early days of the Arab Spring, Qatar broke ranks with its Arab partners by supporting the resurgence of the Muslim Brotherhood and the Morsi government when it was in power. Qatar also backed Brotherhood-affiliated militia in the early period of the Syrian conflict, when Saudi Arabia was supporting the "secular" Free Syrian Army (FSA).

Earlier, Saudi Arabia, the UAE and Bahrain had broken diplomatic relations with Qatar in March 2014, accusing it of interfering in their internal affairs, promoting extremism through Al Jazeera and other Qatari media networks, supporting the Muslim Brotherhood throughout the region and giving sanctuary to Brotherhood members even when their organisation had been declared a terrorist organisation. Ties were restored after an eight-month break when Qatar assured its GCC partners that the Brotherhood members had left the country and it would take corrective measures on other issues.

Commentators believe that these three GCC countries are furious because they believe Qatar has not fulfilled the terms of the agreement on the basis of which they had restored diplomatic ties. Recently, Qatar was accused of supporting a range of other regional miscreants, including through what the Financial Times says was a \$1 billion ransom payment for Qatari royal family members kidnapped in Iraq and rebels captured in Syria. About \$700 million reportedly went to Iran and Iranian-backed Iraqi militias, and the remainder, apparently, to Al Qaeda affiliates.

Now, Sheikh Tamim's public remarks have firmly undermined the entire diplomatic success of the kingdom in putting together its alliance with the US and the anti-Iran political and military front by emphasising the need to engage with Iran and noting the fragility of the alliance with the US in light of Trump's serious political problems at home.

Trump has entered the intra-Arab spat by strongly supporting Saudi Arabia. In a series of tweets, the President said: "During my recent trip to the Middle East, I stated that there can no longer be funding of Radical Ideology." Trump, who made the cutting of terrorist funding a centerpiece of his trip to Saudi Arabia in May, said he was responsible for the tough Saudi action; he tweeted: "So good to see the Saudi Arabia visit with the King and 50 countries already paying off. They said they would take a hard line on funding." Moments later, he added: "Perhaps this will be the beginning of the end to the horror of terrorism!"

Trump's remarks were quite different from those of his senior officials, who attempted to play down the discord in the GCC which could weaken the united front against the ISIS. Thus, secretary of state Rex Tillerson said: "We certainly would encourage the parties to sit down together and address these differences," Defence secretary Jim Mattis added: "I am positive there will be no implications coming out of this dramatic situation at all, and I say that based on the commitment that each of these nations that you just referred to have made to this fight."

The Saudi-Qatar discord has given rise to a new regional alliance, bringing both Turkey and Iran to Qatar's aid. Though Turkey publicly maintains that it is not taking sides in the dispute, Turkey is reported to be moving quickly to obtain parliamentary approval to deploy its troops in its base in the island nation and initiate military training cooperation.

It is expected that 3000 troops will be located at the base and will mainly be used for training purposes. Turkish President Tayyip Erdogan has also criticised the Arab states' move, saying isolating Qatar and imposing sanctions will not resolve any problems and adding that Ankara will do everything in its power to help end the crisis. Turkey is concerned that, under Saudi pressure, Qatar could distance itself from Turkey and the Islamist positions they share. Turkey has a military base in Qatar and supports many of the same Islamist groups in the region. Like Qatar, Turkey welcomed Muslim Brotherhood members who fled the crackdown in Egypt after Morsi's fall.

On 12 June, Turkey made more angry statements in support of Qatar: President Erdogan denounced the isolation of Qatar as "inhumane and against Islamic values", and said the methods used against the Gulf state were unacceptable, and analogous to a "death penalty." Daily

Sabah, a newspaper with close ties to the government of Mr. Erdogan's ruling Justice and Development Party (AKP), as well as anonymous Turkish foreign ministry sources, accused the UAE of having pumped \$3 billion into the failed coup that the president blames on Fethullah Gulen, a Turkish imam who lives in exile in the United States. Yeni Safak columnist Mehmet Acet quoted Turkish Foreign Minister Mevlut Cavusoglu as saying in a recent speech that "we know that a country provided \$3 billion in financial support for the coup attempt in Turkey and exerted efforts to topple the government in illegal ways. On top of that, it is a Muslim country." Acet said the minister identified the country as the UAE in a subsequent conversation.

Iran has said that its three ports on the Gulf will be available for shipments of essential supplies to Qatar and has already begun to airlift food supplies. Iran and Turkey are also working together with Russia in promoting the peace process in Syria that envisages a federal structure for the country, but does not call for Assad's ouster.

Qatar has also obtained support from Iraq and Oman. Prime Minister Haider al-Abadi came to Qatar's defence by countering some of the allegations that the Gulf state had funded militants. Mr. Al-Abadi said that a ransom paid by Qatar for the release of 26 members of its ruling family who were kidnapped in December 2015 while hunting in Iraq remained in Iraq's central bank. Again, Oman, with Kuwait one of two Gulf states to have refrained from joining the Saudi-UAE campaign, has opened its ports to Qatari shipping that no longer can access key Saudi and UAE ports.

Qatar has also been in touch with Russia: the foreign ministers of the two countries discussed the situation in the Gulf. According to a Russian Foreign Ministry press release, they expressed "serious concern over the emergence of yet another hot spot of tension within the Arab world." Lavrov favoured negotiating "in the face of unprecedented challenges such as terrorism." The next day, June 6, Putin and Al Thani conversed by phone, talking investments, trade and economy, and praising existing cooperation.

Saudi Arabia has also stepped up efforts to bolster support for its tough posture against Qatar. It has asked six sub-Saharan African nations -- Senegal, Chad, Niger, Comoros, Mauritius, and Djibouti -- with threats of reduced financial aid and restricted quotas for the hajj, to follow its lead in taking punitive steps against Qatar. These efforts have only been partially successful: only Mauritius severed its diplomatic ties with Qatar. Senegal, Chad, Niger and the Comoros have restricted themselves to recalling their ambassadors from Doha, while Djibouti, like Jordan, has reduced the level of its diplomatic relations.

Most major African countries are reluctant to get embroiled in the spat. Countries like Morocco, Algeria, Tunisia, Sudan and Somalia have so far rejected Saudi overtures and instead called for dialogue between Qatar and its detractors. Similarly, Nigeria, the black African nation with the largest Muslim population, has so far remained silent on the crisis.

Despite Trump's pro-Saudi remarks, his officials have remained cautious: on 9 June, US Secretary of State Tillerson said: "We call on the Kingdom of Saudi Arabia, the United Arab Emirates, Bahrain, and Egypt to ease the blockade against Qatar. There are humanitarian consequences to this blockade. We are seeing shortages of food, families are being forcibly separated, and children pulled out of school. We believe these are unintended consequences, especially during this Holy Month of Ramadan, but they can be addressed immediately. The blockade is also impairing U.S. and other international business activities in the region and has created a hardship on the people of Qatar and the people whose livelihoods depend on commerce with Qatar. The blockade is hindering U.S. military actions in the region and the campaign against ISIS." He then welcomed the efforts of the Amir of Kuwait to resolve the differences between the GCC partners.

In order to address the criticism that Qatar has been involved with terrorist funding, the island nation has hired the services of the law firm of former attorney general under U.S. President George W. Bush, John Ashcroft, to audit its efforts at stopping terrorist funding. Ashcroft personally will lead his Washington-based firm's efforts "to evaluate, verify and as necessary, strengthen the client's anti-money laundering and counterterrorism financing compliance" and lobby lawmakers and the media. Observers believe that Qatar hiring Ashcroft, who was attorney general during the September 11 attacks and then helped push through the Patriot Act, appears aimed at appeasing Washington as other GCC countries are trying to isolate it.

2. Syria: On 6 June, there were reports that the attack on Raqqa by the US-backed Syrian Democratic Forces (SDF), consisting of Kurdish and Arab fighters, that had begun in November last year, had reached its final stages, and that SDF forces had entered the eastern neighbourhood of the city. A Pentagon spokesman said that SDF forces had seized six square miles of eastern Raqqa, largely cut off supply lines to the west of the city and taken away Islamic State's ability to cross the Euphrates River by knocking out major bridges. The SDF fighters were backed by airstrikes from the U.S.-led coalition fighting Islamic State.

The Pentagon estimates there are fewer than 1,000 Islamic State militants remaining in Raqqa, along with 200,000 civilians. The US commander, General Steve Townsend, has warned that the effort to take the city will be "long and difficult", but victory would deliver a "decisive blow" to the idea of the caliphate.

Last week, in a move that Turkey has publicly protested, the Trump administration began supplying weapons directly to the Syrian Kurdish militia, the People's Protection Units, or YPG, which forms much of the SDF. Turkey has wanted that most of the fighting be done by Arab fighters, but the US believes that Kurds are likely to be more effective. What alarms Turkey is that the YPG and its political wing have used the fight against the Islamic State to carve out a semi autonomous Kurdish area across parts of northern Syria and along the Turkish border.

3. ISIS claims attacks in Iran: On 6 June, 17 persons were killed and nearly 50 injured in two attacks on iconic landmarks in Tehran, one on the Parliament building and the other on the mausoleum of the founder of the Islamic Republic, Ayatollah Khomeini. The Islamic State claimed responsibility for the attacks, which are believed to be the group's first major assaults within Iran's borders. The attack on the Parliament began in late morning, when four gunmen carrying two Kalashnikov rifles and one Colt firearm stormed the building. One guard was killed and at least two others were wounded.

The assault on the Khomeini mausoleum was reported soon after the attack on Parliament emerged. Another group of four attackers opened fire on pilgrims at the mausoleum, in southern Tehran, and one of them detonated a suicide vest at a bank outside. The attackers are believed to be Iranian Sunnis of Arab origin who were recruited by ISIS in 2015. ISIS has recently escalated their propaganda against Iran as their position in the fighting in Mosul and in Syria has deteriorated. The forces that have beaten IS back, along with Western-backed elements, have substantially been fighters backed by Iran's Revolutionary Guard – Shia militia and others.

Official sources said on 12 June that Iranian security forces had killed the mastermind of the attacks and that more than 50 suspects had been arrested around the country. Iran has also accused Saudi Arabia of funding hard line Sunni militants, including Islamic State, and, in the wake of last week's attack, pointed the finger at its regional rival. Riyadh has denied involvement in the attacks.

4. Yemen: The Houthi militia leaders have "forbidden" the UN envoy, Ismail Ould Cheikh Ahmed, to return to Sanaa, accusing him of bias and demanding the United Nations chose a new envoy who respects the will of the Yemeni people. Earlier, his motorcade had been attacked in Sanaa. Spokesperson for the Houthis, Mohammad Abdul Salam said Cheikh Ahmed had "abandoned his neutrality and did not respect the resolutions of the United Nations". The UN envoy did not meet the Houthi delegates during the visit to Sanaa. His mission to discuss new proposals for the handing over of Hudaydah port to a neutral party in order to prevent a military operation failed.

In the meantime, WHO has said that the cholera epidemic in Yemen that began at the end of April has now affected 100,000 people in 19 governorates and that 789 patients have died.

5. Iraq: Iraq's autonomous Kurdish region said on 8 June that it would hold a referendum on independence on 25 September in the three provinces that constitute the Kurdish region. Earlier, in April, senior Kurdish leader Hoshyar Zebari had said that a "yes" vote would not necessarily mean independence would be declared, and that it would merely help Kurds press their case for "the best deal" on self-determination once the Islamic State (IS) had been defeated in Iraq.

Prime Minister Haider al-Abadi has said holding an independence referendum now would be neither in the Kurdistan Region's interest nor Iraq's. "The desire of our Kurdish brothers to create a country of their own is their right... and nobody has the right to deter them", he said in April. He had then added: "But holding a referendum at this time is not right as the war [against IS] still rages, the region's situation is not suitable, and some neighbouring countries believe this move poses a threat to the nation's security themselves."

The head of Iraq's ruling Shia coalition, which includes Mr Abadi's Dawa party, meanwhile warned against any "unilateral" moves in the disputed areas, a reference to the towns of Kirkuk, Makhmour, Khanaqin and Sinjar that have been recently occupied by Kurdish forces besieging the ISIS stronghold of Mosul.

Turkey called the plan a "terrible mistake", saying that Iraq's territorial integrity and political unity was a fundamental principle for Ankara. The idea of Iraqi Kurdish independence has been historically opposed by Iraq, Turkey, Iran and Syria, as they all fear separatism spreading to their own Kurdish populations.

II Oil-Related Developments

Oil prices rebounded sharply in volatile trade on 13 June after earlier edging down as OPEC reported an increase in its production for May despite a supply cut agreement. Brent crude futures were at \$48.49 per barrel, up 20 cents, while WTI was at \$46.31 per barrel, up 23 cents.

Prices initially nudged higher in early morning trade after the world's top exporter Saudi Arabia outlined cuts to customers in July that included a reduction of 300,000 barrels per day (bpd) to Asia. But, OPEC's monthly report showed output from the group rose by 336,000 barrels a day in May to 32.14 million bpd, led by a recovery in Nigeria and Libya which are exempt from supply cuts. The report said the market was re-balancing at a "slower pace."

Meanwhile, U.S. drilling activity has continued apace, driving up U.S. output by more than 10 percent since mid-2016 to above 9.3 million bpd. Traders said market intelligence firm Genscape had forecast a draw-down of more than 1.8 million barrels at the Cushing, Oklahoma, delivery point for U.S. crude futures.

Crude has lost 10 percent of its value since late May, when OPEC announced that it would extend production cuts. Analysts are split on whether crude prices will improve in the second half of the year as oil prices continue to be under pressure from the persistent oversupply situation, made worse by a surprise increase in US petroleum stocks last week. It had been earlier predicted that oil prices would pick up during the later part of the year, with some saying crude oil prices could shoot up to US\$70 a barrel by the end of 2017 as supply and demand levels continued to rebalance.

Analysts now forecast outlook for Brent crude oil at an average of US\$50 per barrel this year, with prices remaining in the range of between US\$48 and US\$52 per barrel in the second half of 2017. Some commentators have suggested that OPEC could revise its current proposals and consider a deeper cut, if the weakness in the oil price continued.

(The views expressed are personal)
