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I Political Developments

Major changes in Saudi Arabia: On 22 April, King Salman bin Abdulaziz issued a series of royal decrees effecting wide-ranging changes in policy matters and appointments to senior positions. These may be summarised as follows:

Saudi Arabia's new Ambassador to the United States is Prince Khaled bin Salman bin Abdulaziz Al Saud. Born in 1985, he is a former fighter pilot who carried out airstrikes on ISIS in the region. Prince Khaled Bin Salman replaces Prince Abdullah bin Faisal bin Turki, who served as Saudi Arabia's Ambassador to the United States since October 2015.

Saudi Arabia's new Minister of Culture and Information: Saudi Arabia's highly visible Minister of Culture and Information, Adel Al-Toraifi, has been replaced with Saudi Arabia's former Ambassador to Germany, Dr. Awwad Al-Awwad.

A Reversal of changes to austerity measures after public outcry: Saudi Arabia reversed an earlier decision to slash benefits for those working in the public sector, restoring "all allowances, financial benefits, and bonuses", following calls for protests in four Saudi cities over the weekend. The king also added a two-month salary bonus for forces fighting in Yemen. In September last year, Saudi Arabia had cut ministers' salaries by 20 percent and scaled back perks for public sector employees.

A New Head of SAGIA: A royal decree named a new head of the Saudi Arabia General Investment Authority (SAGIA), Ibrahim Al-Omar. Al-Omar was earlier CEO of Bahri, Saudi Arabia's state-owned shipping company and one of the biggest shipping conglomerates in the world.

Establishment of a National Security Centre affiliated to the Royal Court: The new security centre will be "affiliated" with the Royal Court.

Governors and deputy governors: Royal decrees issued over the weekend replaced the governor of the Hail region with Prince Abdulaziz bin Saad. Prince Faisal bin Khalid bin Sultan was charged to lead the Northern Border region of Saudi Arabia. Again, several deputy governors have been appointed from among the younger members of different branches of the royal family.

Observers see in these changes the further strengthening of Deputy Crown Prince Mohammed bin Salman's position vis-à-vis the crown prince, Prince Mohammed bin Naif. Following his meeting and lunch with Trump last month, the Prince seems to have swung the US in favour of Saudi Arabia. Now, with the appointment of his brother, a former air force pilot, as the Saudi ambassador to the US, the prince expects to have a direct line to the Pentagon and the White House.

Again, with the National Security Centre to be part of the royal palace, Prince Mohammed bin Salman seems to have encroached on the three areas where the crown prince, as head of the Interior Ministry and the Chair of the Council of Political and Security Affairs, still has some authority: the intelligence services, oil and internal security. In the intelligence services, he has promoted the person who is said to be closest and most loyal to him, the spokesperson for the coalition in the Yemen conflict Major General Ahmad Asiri, as Deputy Head of Intelligence.

Again, the deputy crown prince has set up a new ministry under the name of "Energy Affairs", and appointed another of the king's sons, Prince Abdulaziz bin Salman, as its head.

While the kingdom has been basking in the good ties apparently firmed up with the US during the Trump-Mohammed bin Salman encounter last month, the fact that ties will remain turbulent and unpredictable was made clear on 28 April when, in a Reuters interview, Trump went back to his election campaign rhetoric and criticised Saudi Arabia for not treating the United States fairly, saying that Washington was losing a "tremendous amount of money" defending the kingdom.

Syria: On 25 April, Turkey stepped up its bombing campaign against Kurdish militants outside its borders, killing as many as 20 U.S. backed fighters in Syria and expanding its strikes in Iraq. The predawn raids drew criticism from the United States and Iraq, which accused Turkey of not properly coordinating the strikes. The government of the Iraqi region of Kurdistan described the strikes as "painful and unacceptable" after five of its peshmerga fighters were killed in an apparent misfire. The Turkish military said the raids targeted "terrorist hotbeds" and supply routes used by the Kurdistan Workers' Party (PKK) to smuggle ammunition, arms and explosive material into Turkey, where it is waging an insurgency.

Reversing Trump's election rhetoric, the US administration now appears to be expanding its military role in Syria. The NSA, General H.R. McMaster, is questioning the earlier approach against ISIS of using only a light US ground troop presence in Syria. McMaster is said to want tens of thousands of ground troops to the Euphrates River Valley. In an interview with Fox News, McMaster gave some insights into his thinking on the broader strategy against ISIS: "We are conducting very effective operations alongside our partners in Syria and in Iraq to defeat Daesh, to destroy Daesh and re-establish control of that territory, control of those populations, protect those populations, allow refugees to come back, begin reconstruction."

Prince Mohammed bin Salman outlines his plans for the Kingdom:

In a 90-minute interview with Washington Post's David Ignatius, Prince Mohammed bin Salman explained that the crucial requirement for reform is public willingness to change a traditional society.

The prince said he was "very optimistic" about President Trump. He described Trump as "a president who will bring America back to the right track" after Barack Obama, whom Saudi officials mistrusted. "Trump has not yet completed 100 days and he has restored all the alliances of the US with its conventional allies."

Ignatius noted that Mohammed bin Salman is careful when he talks about religious issues. So far, he has treated the religious authorities as allies against radicalism rather than cultural adversaries. The prince said: "I'm young. Seventy per cent of our citizens are young. We don't want to waste our lives in this whirlpool [of religious extremism] that we were in the past 30 years. We want to end this epoch now. We want, as the Saudi people, to enjoy the coming days, and concentrate on developing our society and developing ourselves as individuals and families, while retaining our religion and customs. We will not continue to be in the post-'79 era. That age is over."

Yemen: The US continued its bombing campaign against Al Qaeda targets in Yemen. Two US drone strikes killed at least seven suspected Al Qaeda operatives in Yemen's north-eastern province of Marib,

on 12 April. The Yemen-based AQAP, also known locally as Ansar al-Sharia, has claimed responsibility for several terrorist attacks against Yemen's army and government institutions.

On April 28, the Qatari-owned Al-Quds al-Arabi daily, reported that, on Thursday, 27 April, President Abed Rabbo Mansour Hadi dismissed all the political leaders that had secessionist tendencies and were affiliated with the United Arab Emirates, after a bitter conflict with them. Those dismissed include Aden Governor Aidarus az-Zoubaidi and many ministers. He has also ordered investigations into some of them on charges linked to national security.

UAE-Russia agree on a "strategic partnership": The UAE and Russia are considering elevating their ties to a strategic partnership. This was agreed to at a meeting in Moscow on 20 April between Sheikh Mohammed bin Zayed Al Nahyan, Crown Prince of Abu Dhabi and Deputy Supreme Commander of the UAE Armed Forces, and President Vladimir Putin. The two sides also discussed ways to combat terrorism and the Syrian and Libyan crises.

Sheikh Mohammed spoke of the importance of the relationship and said the two sides could cooperate in all sectors. Expansion of trade and business ties are vital, he said during the meeting which was also attended by Foreign Minister Sheikh Abdullah bin Zayed Al Nahyan and National Security Adviser Sheikh Tahnoun bin Zayed Al Nahyan.

A Dubai-based commentator, Theodore Karasik, has said that Russia's deepening engagement with West Asia is a positive development from the UAE's perspective. The Emiratis, with their unique relationship with the Kremlin, are trying to resolve regional security challenges that threaten their interests.

According to both Russian and Arab officials, this emerging strategic partnership's first focus is Yemen, where the UAE wants Russia to help extricate Saudi Arabia from its war against the Zaidi Houthi rebels. With Russia's help, the Riyadh-led coalition could achieve this goal following a political process that includes holding presidential elections in Yemen later this year.

Officials have said that the Emiratis and Saudis want former Yemeni Prime Minister, Mohammed Basindawa, who resigned in 2014 following deadly clashes between Houthi rebels and the army in Sanaa, to be Yemen's next president because he has good relations with former president Ali Abdullah Saleh. Under this plan, Saleh, who attended the Moscow meeting, according to Arab diplomats in Russia, will remain in Yemen, possibly as defence minister in a Basindawa administration.

In return for helping to extricate Saudi Arabia from the Yemen conflict, Russia could obtain berthing facilities in Aden. This would give Russia its fourth "pit stop" from the top of the Suez Canal in the Mediterranean to the Arabian Sea, the others being Alexandria, Aqaba and Fujairah. As Russia plans to have a light, rapid modern blue water navy, such maintenance and repair depots are critical for future Russian naval operations in and around West Asia, whether it be delivering humanitarian aid or protecting international sea lanes from pirates and terrorists.

In general, the visit to Moscow of the Abu Dhabi crown prince, Karasik notes, will facilitate Russia's return to southern Yemen. Again, the bilateral cooperation will promote the two states' mutual interests with respect to resolving the Yemeni crisis, eradicating Sunni Islamist extremists from the Arabian Peninsula's southwestern corner, and securing bodies of water and passages that are critical to global maritime trade.

In fight against ISIS, US engages with regional partners: US secretary of state James Mattis has visited regional allies, Saudi Arabia, Israel and Djibouti as part of his consultations with counterparts on expanding the US-led coalition against the ISIS, but also combating al-Qaeda, particularly in Yemen. Mattis' tour also included Egypt and Qatar, which hosts the US military's main Mideast air operations centre. He also made a brief stop at Camp Lemonnier in Djibouti in the Horn of Africa, which the US uses to fly sensitive drone missions over Yemen.

Observers have noted that the US will be more actively supporting the Saudi military effort in Yemen, while seeking to block Iranian supplies to the Houthis through the Red Sea ports. The Trump administration is considering providing intelligence, aerial refuelling and other military assistance to the

United Arab Emirates, which is allied with the Saudis in Yemen. Before his departure, Mattis also said that Washington wants a return "as quickly as possible" to UN-backed Yemen peace talks.

In Saudi Arabia, Mattis said that Washington wants to see a strong Saudi Arabia, and hinted that president Donald Trump could visit the kingdom. Prince Mohammed bin Salman, the Saudi defence minister, told Mattis that Saudi Arabia and the US are working to counter challenges in the region, including "the malign activities of Iran" and to bring stability "to the most important straits."

US says Iran complying with nuclear agreement: The Trump administration has notified Congress that Iran is complying with the terms of the 2015 nuclear deal negotiated by former President Barack Obama, and says the U.S. has extended the sanctions relief given to the Islamic republic in exchange for curbs on its atomic program.

However, in a letter sent late Tuesday, 18 April, to House Speaker Paul Ryan, Secretary of State Rex Tillerson said the administration has undertaken a full review of the Joint Comprehensive Plan of Action. He went on to say: "Iran remains a leading state sponsor of terror, through many platforms and methods." He added that the National Security Council-led inter-agency review of the agreement will evaluate whether it "is vital to the national security interests of the United States."

Iran expert Trita Parsi has noted the US approach to Iran suggests that "there are several potential land mines on the near horizon". The first is in Congress, where a bipartisan effort is underway to introduce new sanctions on Iran that, despite the protestations of the legislation's sponsors, would violate the terms of the nuclear agreement by adding new conditions onto the deal. By certifying to Congress that Iran is complying with the deal, it would now be more difficult for Trump to push the United States out of compliance by adopting new sanctions or failing to renew the sanctions waivers.

Another emerging threat comes from Iran's domestic politics. Presidential elections next month may put Iran's foreign policy back into the hands of the country's hard-liners. Despite the overwhelming support among the Iranian public for the nuclear deal, and despite projected economic growth of 6.6 percent, the re-election of President Hassan Rouhani, a moderate, is by no means a certainty.

The third area of concern noted by Parsi is "the Trump administration's adoption of Saudi Arabia's obsession with "countering Iranian influence" in the Middle East." While the Obama administration viewed the Saudi-Iranian rivalry as a source of instability and urged the two West Asian powers to learn to share the region, the Trump administration seems to have opted to make the Saudis' conflict with Iran its own; the main arena for this confrontation is Yemen.

Another commentator on Iran, Orrin Schwab, has pointed out that if the Congressional legislation in question is the bipartisan effort to initiate sanctions against Iran's ballistic missile program, it would not be possible to stop it. According to a letter released in February, 20 U.S. senators, including 9 Democrats and 11 Republicans are sponsoring the bill. These legislators cross the full ideological spectrum of the U.S. Senate. Again, even if the president were to veto it, both Houses of Congress would be able to override the veto. This would mark the US withdrawal from the JCPOA.

II Oil-Related Developments

Leading Gulf oil producers Saudi Arabia and Kuwait gave the clearest signal yet that OPEC plans to extend into the second half of the year a deal with non-OPEC producers to curb oil supplies. Consensus is growing among oil producers that their supply restraint agreement should be extended after its initial six-month term, but there is as yet no agreement, Saudi Energy Minister Khalid al-Falih said on 20 April.

Kuwait's oil minister Essam al-Marzouq said he expected to see an extension of the agreement. If OPEC and non-OPEC oil producers decide to extend their six-month agreement, the cuts may become less deep as oil demand is expected to be stronger for seasonal reasons in the second half of 2017, Marzouq said.

He said OPEC would extend the deal if there was consensus among non-OPEC producers, and that producers were always looking for more non-OPEC members to join the agreement. One African country has expressed interest in joining, Marzouq said, without identifying it.

OPEC is keen that non-OPEC countries play their part in reducing world inventories to support a price rise that has stalled near \$55 a barrel. While inventories held at sea and in producer countries have dropped, they remain stubbornly high in consumer regions, particularly in Asia and the United States.

The International Energy Agency said last week that inventories in industrialised countries were still 10 percent above the five-year average, a key gauge for OPEC.

Warning about oil shortages: The head of Saudi Arabia's state energy giant, ARAMCO, has warned of a looming oil shortage as a \$1tn drop in investments into future production takes effect. Amin Nasser, chief executive of Saudi ARAMCO, said on Friday, 14 April, that 20m barrels a day in future production capacity was required to meet demand growth and offset natural field declines in the coming years. He warned that present investments were not large enough to meet this burgeoning demand. About \$1tn in oil and gas investments had been deferred and cancelled since the oil downturn began in 2014.

III Economic Developments

Saudi Arabia to invest in renewable energy: Saudi Arabia will develop 30 solar and wind projects over the next 10 years as part of the kingdom's \$50 billion program to boost power generation and cut its oil consumption. The country plans to produce 10 percent of its power from renewables by 2023. It also plans to generate an unspecified amount of electricity from nuclear plants.

The country is currently seeking bids to build 700 megawatts of wind and solar power capacity in a first round of tenders. It plans a second tender round for rights to build 400 megawatts more of wind power and an additional 620 megawatts of solar plants. Saudi Arabia will tender for the wind project in the fourth quarter at a project planned for the northern area of Domat al-Jandal.

The projects are part of a plan to transform the Saudi economy by weaning it off oil and creating new industries.

Iran aircraft deal: European airplane manufacturer ATR said Thursday, 13 April, that it had sealed a \$536-million sale with Iran Air for at least 20 aircraft, the ATR 72-600s, a twin-propeller aircraft, and that Iran Air had the option to purchase another 20. The deal also already has the approval of the U.S. Treasury, ATR said. (The US Treasury must approve aircraft deals when at least 10 percent of the airplanes' components are of American origin.)

Boeing Co. has already made a \$16.6 billion sale already to Iran Air, while its European rival Airbus signed one estimated to be worth some 22.8 billion euros (\$25 billion). The US Treasury has signed off on both those deals. Chicago-based Boeing also signed a \$3 billion deal earlier this month to sell 30 737 MAX aircraft to Iran's Aseman Airlines, a firm owned by Iran's civil service pension foundation. The Boeing sales represent the first major deals for an American company in Iran since the 1979 Islamic Revolution and U.S. Embassy takeover.

Implications of restoration of wage-cuts in Saudi Arabia: While the obvious implication of the restoration of the 20 percent wage and allowance cuts announced in September last year will be an increase in the fiscal deficit, official sources have given a positive spin to this initiative; it is being said that the decision will help the kingdom avoid recession this year while smoothing the path toward economic reforms.

Deputy Economy Minister Mohammed al-Tuwaijri said restoring the allowances was possible because Riyadh had made faster-than-expected progress in cutting its deficit. The gap was 26 billion riyals (\$ 7 billion) in the first quarter of 2017, well below the government's projection of 54 billion riyals (\$ 14.5 billion). Riyadh has forecast a deficit of 198 billion riyals (\$ 53 billion) in 2017 and aims to eliminate the gap by 2020.

Analysts have estimated that restoring the financial perks would put around \$13.3 billion to \$21.3 billion annually additional spending money in the hands of Saudi nationals. Analysts believe that restoring the public perks would add half a percentage point to the non-oil economy this year, bringing its growth to around 1 percent. That could be enough for Saudi Arabia to avoid recession -- an important achievement for the economic reformers.

Observers continue to assert that the decision does not signal change in Riyadh's determination to eliminate its fiscal deficit. Instead, it may be a tactical move designed to help authorities implement the "Vision-2030" economic reform programme announced last year by Deputy Crown Prince Mohammed bin Salman. That programme includes steps such as new taxes, domestic fuel price hikes, the transfer of much of the burden of development projects to the private sector from the government, and the sale of a stake in national oil giant, Saudi Aramco.

Thus, the boost to consumer spending from the restored public will eventually be offset by new austerity measures. A tax on tobacco and sugary drinks will be introduced in coming weeks, raising up to 10 billion riyals annually. Officials also aim to hike domestic fuel and water prices in coming months, raising an additional 29 billion riyals. And a 5 percent value-added tax on most products is to be imposed at the start of 2018

(The views expressed are personal)
