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HIGHLIGHTS

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I Political Developments

1. Yemen: The UN envoy to Yemen, Ismail Ould Cheikh Ahmed, is making a last-ditch attempt to convince Houthi rebels to leave the western port city of Hodeida or face a military operation. The UN envoy has recently shuttled between regional capitals to garner support for his recent proposals on Hodeida.

His plan calls for Hodeida being administered by an all-party group, under the leadership of parties not involved with the fighting.

It has been accepted by the Hadi group, but rejected by the Houthi rebels and their ally, former president Ali Abdullah Saleh. However, there are reports that Saleh is engaged in secret talks with western diplomats in which he seems to have adopted a more accommodative position on the plan.

A Yemeni analyst has explained that Saleh has engaged in these secret talks after losing control of revenues from Hodeida seaport. Most of these revenues are said to be going to the Houthis who are using them to finance their military activities and smuggle weapons through the seaport.

There are also reports of differences between the Hadi group and its major sponsor, the UAE. The latter is believed to be at odds with President Abdrabuh Mansour Hadi over his embrace of a local affiliate of the Muslim Brotherhood group, the Islah party, and fighters loyal to the two sides have clashed in recent months. In a strongly worded statement, Central Bank Governor Monasser Al Quaiti, who was appointed by Hadi, accused the coalition of banning 13 flights carrying money printed in Russia to the southern city of Aden, where the government is based, since April. He accused the coalition of "strangling the Yemeni economy" and denying it "needed liquidity."

Regional media have started highlighting the possible endgame in Yemen: commencing with reports of the Saudi crown prince, being anxious to end the fighting, in talks with US academics in April. There are frequent references to the UAE ousting Hadi and supporting the authority of the UAE's supporters in the south. Riyadh is said to be backing this arrangement so long as the next leader adheres to the agreed international border between the two countries. There are also unconfirmed reports of Prince Mohammed bin Salman being in direct contact with the Houthis.

At the same time, media reports have also been highlighting for some time the differences between Saleh and his Houthi allies and Saleh's clandestine contacts with the Kingdom and the UAE. On 19

August, Abdul Malik al-Houthi, the leader of the Houthi group, attacked Saleh, saying that "there are initiatives that serve the [Saudi-led] assault and work on blackmailing and political toying, which is unacceptable", adding that "we don't oppose any honourable solutions that shield the dignity, honour, sovereignty, freedom and independence of this country."

The rift became public when on 24 August, Saleh rallied thousands of his supporters in the capital Sanaa in a show of force. Fighters loyal to the Houthi movement, which runs northern Yemen together with Saleh, had decried him as "evil" a day earlier and condemned his description of them as a "militia". The Houthi leadership recommended the announcement of a state of emergency and suspension of all "party activity", telling Saleh's supporters any mass gatherings should be made on battlefronts, not in public squares. Clashes between the Houthis and Saleh's fighters erupted on 26 and 27 August, with casualties on both sides.

Pressure on the Houthis has increased with renewed Saudi bombing of Sanaa: on 23 August, Saudi bombardment is believed to have killed 31 civilians, though the Houthis, who control Sanaa, say that over 70 were killed.

Separately, a draft UN report has said that the Saudi-led military coalition that is conducting airstrikes in Yemen committed "grave violations" of human rights against children last year, killing 502 and injuring 838. "The killing and maiming of children remained the most prevalent violation" of children's rights in Yemen, according to the 41-page draft report obtained by Foreign Policy.

The chief author of the confidential draft report, Virginia Gamba, the U.N. chief's special representative for children abused in war time, informed top UN officials on 14 August, that she intended to recommend that the Saudi-led coalition be added to a list of countries and entities that kill and maim children. A decision on this will be taken by UN Secretary General Antonio Guterres and will be reflected in the final report.

Anticipating Saudi opposition to being named so, on 25 August, the New York Times, in an editorial, warned: "The Saudis are already said to be privately campaigning to change the report and keep its coalition off the list of armies that kill and maim children. Last year they succeeded. That should not be allowed to happen again."

The conflict in Yemen has already left 10,000 people dead, displaced two million more from their homes and caused severe food shortages, according to United Nations reports. A recent report by the World Health Organization said that a severe outbreak of cholera had infected half a million Yemenis, with more than 2,000 dead so far. That crisis has worsened as the fighting disrupted medical facilities and fresh water supplies, the agency said.

2. Iraq: Signalling improved ties between Iraq and Saudi Arabia, the two countries jointly celebrated the opening of the Arar border crossing, which has been closed since 1991. It is being used by Iraqi pilgrims proceeding to Mecca for Hajj. The Saudi Charge d'Affaires in Baghdad, Abdul Aziz Al-Shammari, also announced that the kingdom could be opening a consulate in the Shia holy city of Najaf over the next four months.

Iraq scholar, Zaid Al-Ali, has pointed out that some important Shiite parties and militia in Iraq are unhappy about increasing Iranian influence in their country. These include Ammar al-Hakim, one of Iraq's leading politicians and the scion of one of the country's most prominent Shiite families, who announced in late July that he would leave the Supreme Islamic Iraqi Council, a political party that his family founded in Tehran with Iranian assistance in the 1980s. He has formed his own party, which he uses to assert his independence from Iran.

The other is the Sadrist movement, which represents millions of poor Shiite Muslims in Baghdad and throughout southern Iraq, which has also openly aligned itself in the anti-Iranian camp. The grass-roots movement's leader, Muqtada al-Sadr, paid a visit this summer to Saudi Arabia and the United Arab Emirates, to help develop bilateral relations and, thus, Iraq's independence from Iran.

Besides the support extended to Iran by former Prime Minister Nouri al-Maliki and his Dawa party, Abu Mahdi al-Muhandis, a paramilitary commander who is considered one of Iran's closest Iraqi allies, had declared on July 4 that the largely Shiite Popular Mobilization Forces will not be disbanded, even if the

government orders them to dissolve, suggesting that Iran could continue to influence Iraqi political and military matters for some more time.

West Asian affairs commentator Nir Rosen has pointed out that there is little to fear from Iran's influence in Iraq; he notes: "Iran supports a strong central state in Iraq (as long as its led by a friendly Shia, and so even Abadi is acceptable); Iran helped prevent the collapse of Baghdad and Erbil (not to mention Damascus and Aleppo); Iran is not seeking to import its system of government to Iraq or Syria nor is it seeking to convert people to Shiism or to oppress non-Shias. So, what is all the fear-mongering about?"

Ground fighting: After the capture of Mosul, Iraqi forces have now turned their attention to Tal Afar, the last IS bastion in north Iraq. Prime Minister Haider al-Abadi announced on 22 August the launch of a military operation to take back the city from ISIS. The town has around 1,000 hardened ISIS fighters and 10,000 to 50,000 civilians. On 27 August, Iraqi commanders announced that they had taken all of the town's 29 districts and were engaged in final mopping up operations, which they said would be completed by 2 September.

After Mosul and Tal Afar, ISIS will still have two significant enclaves in Iraq: in and around Hawija and from Ana to Al-Qa'im in the Euphrates River valley.

Abadi stands to benefit politically from victory in Tal Afar. He has an eye on the upcoming national and provincial elections planned for 2018, and is fighting off leadership challenges from former Prime Minister Nouri al-Maliki and other Shiite rivals.

Turkey has maintained a keen interest in Tal Afar as the population is overwhelmingly Turkmen, both Sunni and Shiite, although all Shiites and many Sunnis have fled since ISIS took the town in 2014. Turkish concerns over the Shiite Popular Mobilisation Forces (PMF) taking Tal Afar seem to have been resolved in recent talks between Ankara and Tehran: 20,000 members of the PMF will participate in the fighting, alongside the Iraqi army and federal police, but presumably not from the more radical Shiite groups, such as Asa'ib Ahl al-Haq.

The United States and the anti-ISIS coalition are providing air support and precision artillery in Tal Afar, and that should continue later in the battles for Hawija and the Ana to al-Qa'im corridor.

3. Iran: There have been some hints from high-level Saudi sources conveying an interest in improving ties with Iran. On 17 August, the Iraqi Interior Minister, Qasim Al-Araji, said that the Saudi Crown Prince Mohammad Bin Salman had asked Iraq to help ease tensions between Riyadh and Tehran. This request had earlier been made by the Saudi ruler as well, the Iraqi minister said, and added: "We believe that friendly relations between Iran and Saudi Arabia can help the regional security."

Meir Javedanfar, expert on Iran, notes that Iranian officials would wonder whether this new initiative by the Saudis is a genuine long-term strategic move or merely a tactical move by the Saudis to improve their position by cooperating with Iran in places like Yemen, Iraq and Syria, where Iran has considerable influence. What Iran would really want is the Saudis urging the US to ease sanctions on Iran and end support for the anti-Assad militia in Syria, while the kingdom will seek the disbanding of the (Shia) People's Mobilisation Forces in Iraq. These mutual demands constitute formidable challenges in the improvement of ties between the two Islamic giants across the Gulf.

Affirming a diplomatic thaw between the two countries, Iranian foreign minister Javad Zarif said on 24 August that Iran and Saudi Arabia would exchange diplomatic visits soon, possibly after the hajj pilgrimage ends in the first week of September.

Iran-Turkey relations: Now that the wars in Iraq and Syria are coming close to an end, a common threat in Iraq's Kurdistan Region is prompting both Iran and Turkey to put aside differences and unify efforts to prevent a domino effect that might harm their national security, i.e., the Kurdish dream of an independent state.

On August 15, Iran's Chief of Staff Maj. Gen. Mohammad Bagheri made an official visit to Turkey to meet his counterpart, Gen. Hulusi Akar, and senior Turkish officials, including President Recep Tayyip Erdogan. The Iranian and Turkish sides gave hints on what the talks were about — the Kurdish referendum in Iraqi Kurdistan, the situation in Syria's Idlib province, and both countries' desire to combat terrorism.

President Erdogan had said on 21 August that Turkey and Iran are discussing a joint military campaign in northern Iraq against the Kurdistan Workers Party (PKK) and the Party for a Free Life in Kurdistan (PJAK), though this has been denied by the IRGC. A Turkish source clarified: "The PKK is a threat to Turkey's national security as well as to Iran's, while PJAK, which we are already fighting, is the one posing a threat to Iran's [national security]. He [Erdogan] wanted to see both his country and Iran launching the campaign against both groups, and in return, he's ready to be more helpful in Syria."

Both countries share concerns relating to the Kurds, particularly the referendum in Iraqi Kurdistan, slated for 25 September. For Tehran, the referendum — and later, possible independence — introduces three main threats. First, a Kurdish state in Iraq could ignite a Kurdish domino effect in the region, which would enhance the dreams of freedom of Syria's, Turkey's and maybe Iran's Kurds.

The second threat is that an independent Kurdish state would mean the division of Iraq and a possible Iraqi Sunni inclination to call for a similar referendum, ending up with at least three small nations in the neighbouring country, with all the vulnerabilities that might result from such a situation.

The third threat from Tehran's point of view is that an independent Kurdistan, given the Kurdish autonomous region's good ties with Israel, will give Israel the chance to watch Iran and interfere and conspire against it.

Nuclear agreement: The US permanent representative to the UN, Nikki Haley, presented her President's concerns relating to the nuclear agreement with Iran at the headquarters of the IAEA in Vienna. After her meetings with IAEA officials, the US United Nations delegation said that Haley had stressed US "concerns about ensuring Iran strictly adheres to its obligations." One of her primary missions — not just in Vienna but back at the UN Headquarters — is to persuade the international community that Iran is not adhering to those obligations and to make more rigorous efforts to ensure compliance.

According to media reports, Haley is seeking to garner support in the international community for the position that Iran is violating more than just the spirit, but even the letter of the deal by testing nuclear-capable missiles and to put pressure on Iran to at least modify or reduce its ballistic missile tests.

On 28 August, *The Guardian*, on the basis of conversations with former officials, reported that "US intelligence officials are under pressure from the White House to produce a justification to declare Iran in violation of a 2015 nuclear agreement, in an echo of the politicisation of intelligence that led up to the Iraq invasion." However, US commentator Orrin Schwab says that, whatever Trump's personal wishes, he is unlikely to get the support of his senior officials to de-certify the nuclear deal when it comes up for certification in October.

Richard Nephew, however, believes that the Trump administration "will simply state it is no longer in a position to certify compliance. ... This third option would underscore that, while Trump is unable to prove bad conduct, he cannot assert good conduct on Iran's part." Nephew adds that the administration could then seek more intrusive inspections of undeclared sites and military facilities, as well as a re-negotiated agreement that improves inspector access, increases nuclear restrictions, and extends the duration of the period covered beyond the terms of the agreement, elements of which begin to expire in 2023.

Confirming this approach, on 25 August, Nikki Haley pressed the IAEA to seek access to Iranian military bases to ensure that they are not concealing activities banned by the 2015 nuclear deal. On 29 August, Reuters reported that Iran has dismissed a U.S. demand for United Nations nuclear inspectors to visit its military bases as "merely a dream". It also said the International Atomic Energy Agency (IAEA) was unlikely to agree anyway.

Daryl Kimball, executive director of the Arms Control Association, a think tank, has said that the nuclear agreement sets out a process for the IAEA to request access to any Iranian site, and that it would be publicly known if such a request was made and rejected. Kimball charged that the Trump administration "is seeking a pretext" to accuse Iran of not complying with the deal.

4. Syria: With the peace process well underway, the contending parties are actively positioning themselves to obtain maximum advantage for themselves, while making pragmatic concessions. Saudi Arabia, being the principal sponsor of the anti-Assad opposition, is at the heart of these initiatives. Reports have now appeared that, in early August, Saudi Foreign Minister Adel al-Jubeir visited the offices

of the High Negotiations Committee (HNC) in Riyadh, the largest Syrian opposition faction, which was created by Saudi Arabia in December 2015. He asked its members to prepare for a broad conference of dissidents, scheduled for the first week of October, officially coined "Riyadh II."

The aim of the meeting is to expand the HNC to include members from the Russia- and Egypt-backed opposition. This is a concession that Saudi Arabia had previously refused to grant, insisting that the only true representatives of the Syrian people were those being supported by Saudi Arabia. Many of those opposition groups do not agree with Riyadh and seek a power-sharing formula with the Assad regime. Saudi Arabia's second objective at the Riyadh conference is to purge the Syrian opposition of any Qatar-backed figures, due to the ongoing dispute between Riyadh and Doha.

During the meeting, Adel al-Jubeir told his Syrian allies that the world has changed vis-à-vis Assad, especially after the rise of the Islamic State (ISIS) and the official Russian intervention in Syria. Despite this warning, Jubeir is believed to have affirmed that Saudi Arabia remains committed to its official position that Assad has no political future as Syrian president.

The HNC, along with the Russia- and Egypt-backed groups met the UN envoy, Staffan de Mistura, on 22 August, to agree on an agenda at the Geneva conference, scheduled to take place in October. One of the peace plans being promoted by the head of the Russian faction, Qadri Jamil, calls for the creation of a five-man presidential council to lead the transition period, composed of five vice-presidents to Assad — for defence, security, foreign affairs, governance and judicial affairs.

In the first phase, lasting six months, the council would oversee implementation of the ceasefire agreements, the return of refugees to their towns and villages and uniting efforts of all players in the Syrian battlefield against ISIS and the group formerly known as al-Nusra Front, which was the al-Qaeda branch in Syria. In the second phase lasting 17 months, the council would oversee parliamentary and presidential elections, based on whatever constitution is agreed upon in the transition period. The plan is silent on Assad's role in the second phase, because of which Saudi Arabia and the groups backed by it have not backed the Jamil proposals.

On 17 August, the UN special envoy said the United Nations was hoping for a "serious negotiation" between the government and a unified Syrian opposition in October or November. He said he expected a meeting in October, possibly in Riyadh, among the three opposition delegations "to take stock of the realities on the ground", with a view to consolidation.

Meanwhile, the Assad regime is using the periodic truces to expand its presence in the east of the country, the region of Deir ez-Zor. The eastward advance has on occasion brought government forces and their Iranian-backed allies into conflict with the U.S. military and the forces it is backing in a separate campaign against Islamic State. But, the rival campaigns have mostly stayed out of each other's way.

Bisected by the Euphrates River, Deir ez-Zor and its oil resources are critical to the Syrian state. The province is entirely in the hands of IS, except for a government stronghold in Deir ez-Zor city and a nearby air base. It is also being targeted by the U.S.-backed Syrian Democratic Forces (SDF). SDF spokesman Talal Silo said on 16 August that there would be an SDF campaign towards Deir ez-Zor "in the near future", though it could be delayed until Raqqa was fully captured from the Islamic State.

5. Qatar: On 24 August, Qatar restored full diplomatic relations with Iran, disregarding the demands of Arab nations now locked in a regional dispute with the energy-rich country that it down-grade its ties to Tehran. Qatar had recalled its ambassador from Iran in early 2016 in solidarity with Saudi Arabia after the Kingdom's execution of a prominent Shiite cleric had sparked attacks on two Saudi diplomatic posts in Iran.

This move came a few days after Saudi Arabia began promoting a Qatari royal family member whose branch of the family was ousted in a palace coup in 1972. Saudi Arabia announced on 17 August that it would allow Qataris to make the annual hajj pilgrimage, moving towards Mecca through the land route from Qatar to the Kingdom. Saudi state media said that this was the result of an intercession by Qatari royal family member Sheikh Abdullah Al Thani, who met with Saudi Crown Prince Mohammad bin Salman and later King Salman in Morocco. On 18 August, Qatar's foreign minister, Mohammed bin Abdulrahman Al Thani, said that his country welcomed Saudi Arabia's decision to open the land border to Qatari pilgrims but also criticized what he saw as a "politicization" of pilgrimage.

Sheikh Abdullah, normally resident in the UK, has no role in Qatar's government. His grandfather, father and brother were rulers of Qatar until a palace coup ousted his branch of the royal family in 1972. A prominent Saudi columnist has suggested the Sheikh could be the start of a Qatari government-in-exile. However, most observers believe that highlighting Sheikh Abdullah's role and profile in facilitating hajj arrangements was a Saudi attempt to increase pressure on the Qatari Emir, Sheikh Tamim, rather than a serious effort at regime change.

Bloomberg reported on 17 August that Qatar's economy will expand this year at the slowest pace since 1995, as the impact of a Saudi Arabia-led boycott is felt on trade and investor confidence. Gross domestic product will grow 2.5 percent in 2017 and 3.2 percent next year, compared with 3.1 percent and 3.2 percent respectively in the previous survey conducted in June. Economists now expect a budget deficit of 5.1 percent of GDP this year, up from 4.6 percent, while the forecast for inflation dropped to 2.2 percent from 2.5 percent.

II Oil-Related Developments

As Hurricane Harvey hit the US coast, oil analysts said that this could achieve what OPEC had failed to obtain over three years – a tightening of oil supply and the consequent boost to prices. Harvey hit the coast of Texas on 25 August as the most powerful hurricane to hit the U.S. state in more than 50 years, causing widespread damage and flooding.

The region where the storm struck is home to some 2.2 million barrels per day (bpd) of refining capacity as well as being a major shipment point for both imports and exports of crude oil and fuel products. The refining capacity that has been idled because of the storm is about 11.2 percent of the US total. Brent crude, the global oil benchmark, rose as much as 0.8 percent in early Asian trade on 28 August, reaching as high as \$52.84 a barrel.

However, the analysts' price projections were not realised: the price for West Texas Intermediate (WTI) crude dropped nearly three percent on 28 August and settled at \$46.57, the worst daily performance since July 7. WTI continued to slide on 30 August, down 34 cents to \$46.10 per barrel. Brent crude traded 54 cents lower at \$51.46 a barrel.

This was because, with refineries shut down, demand for crude has fallen. Almost 3 million barrels of oil a day is not being refined into gasoline and other products -- about 16% of U.S. refining capacity. FGE Energy estimates that Harvey interrupted the production of about 380,000 barrels per day in the Gulf and 400,000 barrels inland. No major damage has been reported to oil rigs, and production is beginning to come back. At the same time, the U.S. shale oil boom has lifted production so high that the country is brimming with enough crude to soften the blow from Harvey.

On 29 August, media reports said that Russia and Saudi Arabia were pushing to extend the OPEC production cuts until June of next year. The deal, which lowers the bloc's output by 1.2 million barrels per day, is already set to extend until March 2018.

(The views expressed are personal)
