

HIGHLIGHTS

➤ Political Developments

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Political Developments

1) Yemen

PEACE TALKS RELATING TO YEMEN, which have been taking place in Kuwait since 21 April, ended without any agreement at the end of last month. The UN special envoy, Esmail Ould Shaikh Ahmed, had submitted a draft peace plan which was accepted by the pro-Hadi government delegation but rejected by the rebel Houthi-Saleh combine. The plan had called for the withdrawal of the Houthi-Saleh forces from the capital Sanaa and other major towns, surrender of all heavy arms to the Hadi government, and withdrawal of Houthi-Saleh elements from all state institutions and the return of the latter to the Hadi government. The Houthi delegation rejected this plan as “incomplete” on the ground that first a government of national unity would need to be set up and a new consensus president appointed to oversee the political/military transition.

With the rejection of their proposals, the Houthis and their allies left the talks and instead set up their own 20-member “governing council” consisting of an equal number of Houthi and Saleh representatives. The UN special envoy said this move was a breach of UN Security Council Resolution 2216 and would damage the peace talks. He announced the formal suspension of the talks, though he left the door open for their re-launch in future.

Following the failure of the talks, the Houthis and their allies are locked in renewed battles with government forces: the latter have strengthened their siege of Sanaa, while the Houthis have initiated fighting in the Shabwa province that is next to Marib where the Hadi forces are gathered in strength, and in Taiz where the city has been blockaded. The Houthis have also commenced firing missiles across the border into Saudi Arabia and have inflicted some civilian casualties. Saudi aircrafts have also been bombing Houthi positions across the country.

On 13 August, the Houthi-Saleh alliance further aggravated matters by convening the country’s parliament in Sanaa with just 91 members as against the constitutional requirement of a minimum of 150 members being present to obtain a quorum. The assembled members approved the council set up to manage national affairs. The head of the General People’s Congress Party, associated with Saleh, invited other members located abroad to join the assembly. Hadi has described the assembly as a “violation” of the constitution and a “crime punishable by law”.

2) Syria

THE COMPLEX BATTLE SCENARIO IN SYRIA is illustrated by the warfare taking place simultaneously on two fronts: Aleppo and Manjib. In Aleppo, fighting has been taking place from 31 July between government forces and their

allies against rebels, both of whom control different parts of the town and are trying to dislodge the other by force. This is effectively a battle to control northern Syria in that the rebels, consisting of the Al Qaeda-affiliated Jabhat Nusra (now renamed Jaish al Fatah Al Shaam, after it formally snapped its ties with Al Qaeda last month) and the Salafi militia of the Jaish al Fatah coalition, are trying to remove the government forces from southwest Aleppo so that they can open up supply lines to their territories in the north.

The government forces have about 40,000 troops, besides 100 tanks and 400 troop carriers; they are also being supported by massive air strikes by Russian aircraft. The rebel coalition Jaish al Fatah has about 10,000 fighters at Aleppo and has been well-armed by the US, besides having artillery and armour captured from government forces. Aleppo's 1.5 million population is caught in the crossfire, with daily reports of civilian casualties caused by one side or the other.

The German foreign minister has called for an "air bridge" to provide humanitarian assistance to the beleaguered population.

The other front is the town of Manjib that is under the control of the Islamic State (IS) and is the jihadi group's main supply line from Turkey. Manjib is the last IS – held enclave on the Turkey-Syria border: it is under attack by anti-regime rebels formally referred to as the Syrian Democratic Forces (SDF), a coalition of Kurds and Arabs put together by the US, that started its offensive from 31 May, but has made slow progress against the fierce IS fighters. Here the SDF fighters are being backed by US-led air support.

On 13 August, the SDF seemed to have captured most of Manjib, amidst reports that IS fighters had left the town while using hundreds of civilians as human shields to avoid US bombardment. The civilians were later released, while pockets of resistance remain in the town.

The failed coup in Turkey and the attendant cooling of Turkey's ties with the US on the issue of the extradition of Fethullah Gulen (Turkish Islamist businessman and philanthropist resident in the US, who is blamed by Turkey for orchestrating the coup), coupled with Turkish alarm at the emergence of a Kurdish enclave at its border with Syria have led to a dramatic reversal of Turkey's position on the Syrian question. On 9 August, President Erdogan visited Moscow and marked, in the words of a Russian paper, "the beginning of a beautiful friendship", thus ending the ongoing tensions between the two countries since last year when Turkey had shot down a Russian aircraft operating in Syria in November.

Turkey also seems to have changed its position on the future of the Assad regime: it is no longer asking for his removal and is instead saying that he should be part of the negotiation process dealing with political transition in the country. It has also said that it will participate with Russia in air operations against the IS. The change in Turkey's posture has been further confirmed by the warm welcome extended to Iranian foreign minister Mohammed Javad Zarif, on 12 August, the first regional foreign minister to visit Ankara after the failed coup, suggesting a warming of ties at the expense of Turkey's relations with its partner in the so-called "Islamic NATO", Saudi Arabia. The Turkish Prime Minister, Binali Yildirim, in his public remarks has clearly linked the improvement in ties with the US to Gulen's extradition.

The Oil Scenario

CONTINUED OVER-SUPPLY PUSHED THE OIL MARKET into bear territory, with both WTI and Brent indices showing downturns: WTI dropped to \$ 39.19/ barrel and Brent to \$ 42.5/ barrel early August, the lowest prices since 18 April. This was on account of increase in OPEC production of 14% in July, reaching total OPEC production of 33.16 million barrels per day (mbd); with non-OPEC production rising by 24,000 b/d, total global production in July was 95.14 mbd.

This downward trend in prices was reversed to some extent by the announcement from the Qatari oil minister, who is the rotating president of OPEC, that OPEC members would meet informally in Algiers in September, on the sidelines of the meeting of the Riyadh-based International Energy Forum. Though the subject was not specified by

him, most analysts believe that output cuts will be discussed; the minister himself said he thought the recent decline in prices was “temporary”. Prices got a further boost when Saudi energy minister Khalid al Falih said that the September meeting would discuss possible action to stabilize oil prices.

This expectation boosted WTI to \$ 42.95/ barrel and Brent to \$ 45.32/ barrel, and then later to \$ 46.97 for October settlement, while WTI reached \$ 44.49 for September delivery. However, observers remain skeptical about OPEC actually agreeing to production cuts, pointing out that major producers, such as Iran, Nigeria and Libya, are still producing below capacity, while non-OPEC member Russia has opposed a production cut; hence, over the short term, this price rally could be short-lived. In fact, taking into account the solid inventories, analysts doubt that prices will cross \$ 50/ barrel in 2016.

The price outlook for producers is expected to improve next year: the IEA believes that the demand-supply gap will start narrowing from this year itself, a view that is echoed by OPEC, which has forecast increase in global oil demand by 1.15 mbd from early 2017, with total world consumption hitting 95.41 mbd. The Energy Information Agency (EIA) of the US Department of Energy has projected that Brent prices in 2016 will average \$ 42/ barrel, but rise to \$ 52/ barrel in 2017, with WTI matching this price next year. Goldman Sachs have forecast that prices will remain between \$ 45-50 to the middle of next year, while Barclays Research predict that prices will average \$ 85 by 2018.

Separately, on 3 August, Iran introduced a new model oil contract to attract increased foreign investment in its energy sector and boost production with the latest technology, long denied to it under the sanctions regime. Iran now expects deals valued at \$ 25 billion over the next two years to develop several new oil and gas fields. These 20-year contracts are expected to cover:

- a) exploration and later development and production of new fields,
- b) development of discovered but undeveloped fields, and
- c) increasing output from mature fields through Enhanced Oil Recovery (EOR) technologies.

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(The views expressed are personal)