ananta centre

West Asia Digest

FORTNIGHTLY .... DECEMBER 2016 | VOL 01 ISSUE 18

Highlights

- Political Developments
- Oil-Related Developments
- Non-Oil Economic Developments
- India-West Asia Relations

Political Developments

1. Iraq

The assault of the Iraqi armed forces on Mosul did not see any significant progress, with military spokesmen saying that the units in eastern Mosul, which had taken a third of this part of the city, were consolidating their gains. Reports suggested strong resistance from ISIS forces, including the use of suicide bombers and sniper fire. Official reports say that so far 955 ISIS members have been killed and 108 captured, while 54,000 Mosul residents have been displaced in the fighting. The Shiite militia, the Popular Mobilisation Units (PMU) have turned their attention towards Talafar in the northwest, causing thousands of terrified Sunni residents to flee to Syria or Kurdish-held areas in the north.

On 24 November, ISIS also carried out a suicide attack against Iranian pilgrims at Hilla, 100 km south of Baghdad in which 80 persons were killed. The pilgrims were returning to Iran after a pilgrimage to Kerbala.

While there is a lull in the fighting around Mosul, there are already portends of difficulties the government in Baghdad will face after Mosul has been liberated. This pertains to the conflicting claims of the Kurds and the central government over control over Mosul and Kirkuk. Kurd leader, Masoud Barzani, has stated that his forces will not withdraw from the liberated areas around Mosul which he claimed are part of “Kurdistan”. This has evoked a mild “clarification” from the office of Prime Minister Haidar Al Abadi saying that there was a clear agreement between Baghdad and the Kurds for the latter to withdraw from the liberated areas.

In early November, Human Rights Watch reported that between September 2014 and May 2016, the Kurds had uprooted Arab residents from 20 towns and several villages, and had destroyed 62 villages, even those which had not been occupied by ISIS forces earlier. These lands are located in what are referred to as “disputed territories”, i.e., territories adjoining the Kurdish region that are claimed by the Kurds on the basis that they once had Kurdish majority populations that were uprooted through the 20th century, most recently during Saddam Hussain’s rule. These disputed territories include Mosul and oil-rich Kirkuk. According to the interim Iraqi constitution, a referendum was to be held in Kirkuk in 2007 to find out if the residents wanted to join Iraq or become part of Iraqi Kurdistan, but it has been constantly postponed due to local political differences.

2. Yemen

There were two developments in regard to the fighting: one, a 48-hour cessation of hostilities took place over 19-21 November and two, under pressure from the Saudi side, the government of President Abd Rabbo Mansour Hadi reluctantly accepted the peace plan prepared by the UN special envoy. Both before and after the truce, there were reports of heavy fighting, along with truce violations as well covering almost all the major towns of Yemen. After the 48-hour period, it ended without any extension being sought by either side. After the failure of the cease-fire, the fate of the peace plan is not clear.

3. Syria

Syria continued to witness sustained bombardment of Aleppo, with reports that hospitals had been targeted and medical services and food supplies were in very short supply. The UN has come up with an aid plan to provide emergency supplies to the besieged population. As the month ended, there were reports that government forces had taken a major rebel-held district and were poised to take the city.

A new source of tension was the killing of three Turkish soldiers inside Syria by government aircraft, as the troops were advancing towards Al Bab. The Turkish Prime Minister, Binali Yildirim, swore retaliation, suggesting that some (unnamed) people were not happy with Turkey fighting ISIS.

Oil-Related Developments

Oil prices

Most of the fortnight up to the OPEC ministerial meeting on 30 November was filled with speculation about whether OPEC would succeed in getting a freeze or cut in production agreement. Saudi Arabia made it clear that its own production cut was contingent on four conditions being met: agreement on collective action; equitable sharing of the burden; and cuts that were transparent and carried credibility with the market. Thus, the Kingdom insisted that the national production should be based on OPEC's own assessments and not on figures provided by the countries themselves. This pertains to Iraq, which has announced a production of 4.8 mbd as against the OPEC figure of 4.6 mbd, and Iran which insists it is producing 4 mbd and not 3.7 mbd calculated by OPEC.

Based on the optimistic remarks of OPEC and Russian oil ministers, the oil markets responded positively, so that on 22 November Brent reached $ 49.67, while WTI traded at $ 48.86. In public remarks on 24 November, IEA's Executive Director, Fatih Birol, warned that, while an OPEC cut in production could push prices to $ 60, it would also encourage increased US shale oil production, thus exerting a downward pressure on prices in nine or twelve months.

On the eve of the OPEC Ministerial, the Saudi energy minister complicated the picture by saying that a production cut was not necessary to achieve balance in the market: this would be achieved in any case due to "recovery in consumption and growth in developing markets and the US". This was seen by analysts as an indication of the fact that behind-the-scenes diplomacy had not succeeded in arriving at the consensus on the conditions that Saudi Arabia had placed before the OPEC members.

In the event, the OPEC Ministerial surprised most observers by agreeing to a record cut in production of 1.2 mbd (4.5% of total production), bringing OPEC production to 32.5 mbd next year. In addition, non -OPEC members will cut a further 600,000 b/d, with Russia contributing half of it. This is the first production cut agreement since 2008, though the distribution of cuts among member countries has not yet been agreed to. This OPEC agreement boosted Brent prices to a high of $ 52.73, after which they fell slightly.

Separately, in its annual World Energy Outlook report, the IEA stressed the importance of investments in the upstream sector to meet market needs in the early 2020s. It noted that investment had dropped from a peak of $ 780 billion in 2014 by $ 200 billion in 2015 and further by $ 140 billion in 2016. IEA estimated that investments of $ 700 billion annually were required to meet demand in 2020. IEA also predicted that global demand would rise annually and would peak in 2040.

Non-Oil Economic Developments

A staff report prepared by the IMF has stated that GCC countries, with a view to diversifying budget revenues, were considering a series of taxes to be implemented after the VAT had been put into effect from 2018; these included: a 10-15% tax on business profits,and taxes on remittances, wages and salaries paid to foreign workers, and taxes on financial transactions. The report estimated that a tax of 15% on business profits would yield revenues of up to 3% of the GDP on average of the GCC countries.

India-West Asia Relations

In the run-up to the visit to India of the crown prince of Abu Dhabi as chief guest at the Republic Day celebrations, the joint India-UAE working group on Infrastructure investment met in Abu Dhabi. The Indian side was chaired by Mr Sujoy Bose, CEO of the National Investment and Infrastructure Fund. Mr Bose noted that India's infrastructure sector was poised to grow in tandem with national growth.

Backing up these discussions, India participated in Dubai's building and construction show to showcase the capabilities of Indian companies in the construction sector under the "Make in India" rubric and to attract the participation of foreign companies in India's construction projects. It was noted during the event that India's construction sector contributed 7.8% to the national GDP, which was expected to increase to 15% by 2030. This sector was also the second largest recipient of FDI flows in the last two years, getting $ 1.5 billion in 2015 and $ 4.7 billion in 2016.

The next issue of the West Asia Digest will be dated 1 January, 2017.

Author

Ambassador Talmiz Ahmad, Adviser, West Asia & North Africa, Ananta Centre & Former Indian Ambassador to Saudi Arabia, Oman & UAE

(The views expressed are personal)