

## HIGHLIGHTS

- Political Developments
- Oil-Related Developments
- Non-Oil Economic Developments
- India-Gulf Ties

## Political Developments

### 1. Syria

The last fortnight saw the steady unravelling of the "truce" that the US and Russia had put together after 50 meetings and announced with such enthusiasm on 9th September. It took effect on 12th September, but there were daily reports of violations on all sides until it was given a firm burial on 19th September. The truce agreement, whose terms were never publicized in full, began on a positive note, with indications that Syrian government troops were vacating the road to Aleppo and making way for humanitarian assistance to reach the rebel-held parts of the city.

However, immediately thereafter, there were complaints from the government side that the rebels had not moved back as required to match the regime withdrawal. This divide ensured that hardly any supplies reached the beleaguered population in Aleppo, even as 40 UN trucks with relief supplies choked the route. President Putin on his part noted that the rebels were using the truce to regroup, attempting "to switch one label for another, one name for another and keep their military capacity." At the same time, Russia insisted that the US use the truce to separate the "moderates" from the "terrorists".

Soon government patience seems to have worn off and its forces began air strikes and shelling on rebel positions in Aleppo. The US appears to have retaliated on 17th September by bombing government forces at Deir az Zour, killing over 80 officers and men. Later, US officials described this attack as a "mistake", which hardly any Arab commentator has accepted; most believed this was a signal to Russia to maintain the truce, even if it meant accommodating rebel interests to some extent. On 19th September, the government announced that the ceasefire was over, blaming the rebels for not implementing any of its conditions.

In this fraught environment, a UN convoy carrying relief supplies was subjected to a lethal air attack, for which the US squarely blamed Russia and the Syrian government. However, Secretary of State John Kerry still did not give up on the ceasefire, now proposing that all Syrian aircrafts be grounded, while Russia insisted that the US actually separate the moderates from the terrorists. In the event neither happened: as the month ended, Syrian forces backed by massive Russian air assaults, attacked the rebel strongholds in Aleppo, using the powerful "bunker busters" and other lethal munitions, in which 300 people are said to have been killed, further aggravating the humanitarian crisis. Government forces have made territorial gains by capturing some small towns on the outskirts of Aleppo. On 28th September, Kerry threatened to end all diplomatic interaction with Russia in regard to the Syrian peace process unless the ongoing attacks on Aleppo were ended immediately.

Separate from the Aleppo theatre, Turkish forces consolidated their gains at the border by carving out their safe-zone that is 95-km long and 10-15 km deep inside Syrian territory, while the Kurds have been confined to the east of the Euphrates. Turkish sources have suggested that their forces may continue their advance to Al-Bab, about 35 km from the border, which would give Turkey a 5000 square km buffer zone. Russia and Iran, though happy to welcome Turkish alienation from the US and Saudi Arabia and its backing for the Assad regime, are not enthusiastic about the expansion of its power base on Syrian territory.

In retrospect, it is likely that both US and Russia were interested in the truce being successful, but for different reasons: the US wanted to halt the forward movement of government forces and give the rebels a chance to re-group; Russia wanted the US to take up the near-impossible task of separating the so-called moderates from the extremists. In fact, the rebel groups are deeply enmeshed with each other and the Saudi-backed Salafi militia are just not willing to abandon the Jabhat Nusra, which is the most powerful militant group in the country. (It has now re-named itself Jabhat Fatah al-Shaam and formally de-linked itself from Al Qaeda in order to acquire a "moderate" status in the Syrian quagmire.)

Again, attacking the ISIS hardly seems to be a priority for any major national or regional party: crushing Kurdish aspirations seems to be Turkey's principal interest, while the Kurds are motivated by the desire to obtain a liberated "Rojava", Western Kurdistan. For regional powers Saudi Arabia and Qatar, regime change in Damascus seems to be the priority, and they are happy to use Jabhat Nusra and its allied Salafi militia to this end. The US approach is to constantly re-adjust itself to the claims and demands of its allies, now backing the Kurds and then the Turks, and finally just going along with the GCC states.

There are now reports that, tiring of Kerry's efforts at working with the Russians, the Pentagon has seized the lead role in determining US policy in Syria, and was possibly behind the attack of the Syrian armed forces at Deir az Zour. It is now working closely with its regional allies to shape a more aggressive approach to the regime and Russia. Between them, they seem to have come up with the idea that, to defeat the Russians, they need to go back to what worked in Afghanistan, i.e., put together a coalition of mujahedeen.

This has been done by setting up a coalition of Salafi groups headed by Jabhat Nusra. What now remains is to arm them with "man-portable air defence systems", or MANPADS, an earlier version of which had been used to lethal effect against Russian aircrafts in Afghanistan in the 1980s. GCC states are said to be quite happy to fund the acquisition of this new weaponry from the US arsenal. In the meantime, the rebels have obtained surface-to-surface GRAD rockets which were not with them earlier. These rockets have a range of 22-40 km, with each salvo having 40 rockets. These will be used by the rebel forces at Aleppo, Hama and coastal battlefronts.

What this short-term thinking seems to ignore is that Al Qaeda and Osama bin Laden emerged from the battle-fields of Afghanistan and turned their weaponry on those powers that had spawned them, culminating with the assault on the US on 9/11.

## 2. Yemen

The conflict in Yemen seems to have ground to a stalemate. An important development that has recently occurred is that the Yemeni cabinet, headed by Prime Minister Ahmad bin Daghar, has shifted "permanently" to Aden and has announced that its priority interest is to restore public services and payment of salaries to government officials. The government has also shifted the headquarters of the Central Bank from Sanaa to Aden and appointed a new head. It has accused the Houthis of having removed several hundred million dollars from the bank's coffers to fund their war effort.

In response to a Houthi offer for a truce on the Yemen-Saudi border in return for an end to Saudi air attacks and the lifting of the blockade, the government has insisted on a final settlement. Similarly, in reply to reports that the US is seeking a ceasefire and revival of talks, the government has demanded that the council, set up jointly by the Houthis and former president Saleh to administer the country, be disbanded. Saudi Arabia on its part has insisted that the Houthis disband themselves as a military force for the peace process to be revived.

The Yemen conflict has been over-shadowed by the attention being focused on Syria. Sporadic fighting is going on, particularly around Taiz, but without any major change in the ground situation. The Hadi government and its Saudi mentors appear to be reiterating their maximalist agenda of eliminating the Houthis as a military and political force in the country and going back to the 2011 situation. With the Houthi-Saleh alliance in place and the Houthis still a formidable military force, this agenda will not be realised; the conflict scenario is likely to continue in the country that has seen 10,000 of its people killed and the nation facing starvation conditions.

### **3. US Congress overrides Presidential Veto to pass JASTA**

Following a veto by President Barack Obama, both Houses of the US Congress, with wide margins, again passed the Justice Against Sponsors of Terrorism Act (JASTA) that will enable the families of victims of the 9/11 attacks to sue members of the Saudi government who might have played a role in those attacks. The President described the vote as a "mistake" and said it would set a "dangerous precedent" and allow American officials to be sued in foreign courts for alleged war crimes. While the families have welcomed the Act, most of the media have criticised it as harmful to US interests and for alienating Saudi Arabia which, in CNN's view, "can no longer count on the US and ... may no longer want to." Most observers believe that in the fraught election atmosphere across the country, no politician could be seen voting against the 9/11 victims' families.

---

## **Oil-Related Developments**

The last fortnight saw oil prices moving between \$ 42-48/ barrel in response to: (a) Fluctuations in supplies from different sources, (b) News relating to US inventories, and (c) Speculations relating to the outcome of the discussions relating to production freeze at Algiers from 28th-29th September. The last was clearly the most important factor impacting prices.

First reports from Algiers were that the ministers had failed to agree on an output freeze and had perhaps deferred the matter to the regular OPEC ministerial meeting in Vienna in November. However, late on 28th November came the news that OPEC had agreed to cut its output from the high of 33.24 mbd to 32.5 mbd; the share of each member would be finalized at Vienna in November. This news immediately boosted Brent prices to \$ 48/ barrel. There are reports that from 20th September itself, there several meetings between Saudi Arabia and Iran to obtain a deal at Algiers.

As of now, analysts are skeptical about the "deal" and are seeking more concrete action to realize what has been announced, particularly on account of the ongoing competition for market share and the political tensions between Iran and Saudi Arabia, as also doubts that Russia will cut any of its production.

---

## **Non-Oil Economic Developments**

### **1. VLCC jetty at Fujairah**

A jetty to handle very large crude carriers [VLCCs] has been inaugurated at Fujairah. It has a deep water draft of 26 metres and can accommodate tankers of up to 344 metres. It can handle 2 million tonnes of crude in 24 hours. Located on the Indian Ocean, Fujairah is already the world's second largest bunkering station; it also has an oil and products storage capacity of 10 million cubic metres, in 338 tanks. With this jetty, Fujairah will further consolidate its status as a regional oil-trading hub.

### **2. Iran-Oman gas pipeline**

This pipeline, first announced in 2013, is expected to carry gas from the Iranian oil and gas hub at Assaluyeh to Oman, through a land and subsea pipeline. The gas, initially about one billion cubic feet per day, will support industry in Oman, with the balance being exported as LNG. It has now been announced

that the pipeline will have to move out of UAE territorial waters, shifting from a 500-metre depth to 1000 metres, and adding another \$ 1-1.5 billion to the cost.

### 3. Pay cuts in Saudi Arabia

A royal decree has announced severe cuts in government and public sector salaries that will take effect from 1 October: Ministerial salaries have been cut by 20%, while those of Shura Council members have gone down by 15%. Two-thirds of working Saudis are employed in the government sector. Government wages account for 45% of government spending, ie, \$ 128 billion, which had contributed to a record budget deficit of \$ 98 billion last year.

Though most Saudis have accepted the cuts stoically as a "sign of the times", the more thoughtful among them see the need for wide-ranging reforms, many of which are envisaged in the Vision-2030, promulgated by deputy crown prince Mohammed bin Salman in April [West Asia Digest, 1 May, 2016]. Foreign commentators have seen in this decree a signal to the international community that the Kingdom is serious about economic reforms and a business-friendly environment is being put in place to attract foreign participation to make Vision-2030 a success.

---

## India-Gulf Ties

In August, there were record purchases of crude by India, mainly from the Gulf; Indian refineries imported 18.81 million tonnes (4.45 mbd), a 24% increase over August last year, reflecting a surge in domestic demand to support the country's growth trajectory. Similarly, Indian refineries have also boosted purchases from the Gulf, of oil for strategic storage. While Iraq is the main supplier for the 9.75 million tonne Vishkhapatnam storage facility, Iran is the source for the Mangalore storage facility; India is expected to obtain six million barrels from Iran against orders placed by Bharat Petroleum and Mangalore Refineries, both of which use Iranian Mix in their facilities.

---

### Author

**Ambassador Talmiz Ahmad**, Adviser, West Asia & North Africa, Ananta Centre  
& Former Indian Ambassador to Saudi Arabia, Oman & UAE  
*(The views expressed are personal)*

---