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IOCs return to Kurdistan as prospect of exports outweighs heightened risk

US air strikes and reinvigorated Peshmerga forces have stalled the Islamic State advance, allowing oil companies to return to promising KRG oil fields. But despite this development, it will be tough going for IOCs – and the KRG economy – in a region where the balance of risk and reward has shifted

International oil companies (IOCs) and the Kurdistan Regional Government (KRG) have been eager to send out a strong 'business as usual' message, as the immediate threat posed by Islamic State (ISIL) to territory under the KRG's authority has receded. ISIL's withdrawal from some key areas has allowed a significant number of IOCs and service companies to resume operations.

Even so, stakeholders in Kurdistan's emerging oil industry and wider economy cannot disguise the fact that the risk-reward balance may have permanently shifted. Even with ISIL in apparent retreat from US bombing and invigorated (and re-equipped) Peshmerga forces, Kurdistan is likely to be a much less comfortable place to operate in, even while its greater autonomy may eventually provide the conditions for profitable oil exports.

One worrying aspect of the KRG's response to ISIL's advance was the failure of Peshmerga forces to stand firm. This led critics to question whether a decade of peace and crony appointments had undermined the Kurdish forces' mettle. With US air support and the supply of western arms providing an implicit security guarantee, they remain one of the few on-the-ground military forces potentially capable of effective anti-ISIL operations. Following its unilateral annexation of Kirkuk, the KRG now maintains a 650-mile border with ISIL and is, for the time being, geographically virtually cut off from the rest of Iraq.

The combined US airstrikes and Peshmerga ground operations have driven ISIL forces out of some areas within the disputed territories, and clashes continue. ISIL has lost

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Kuwait concerns

Barely two years ago, Emir Sheikh Sabah Al-Ahmed Al-Sabah was warning against "chaotic sedition" as citizens took to the streets in massive anti-government protests. But the opposition movement, has lost momentum, despite attempts to reinvigorate it through new manifestos and a focus on corruption. Many ordinary Kuwaitis now seem more concerned about the economy, with some progress on new projects providing a boon to the government and being welcomed by investors.

—SEE PAGE 3

Saudi solar

Not for the first time is solar energy being mooted as a solution to the kingdom's energy problems, with contractors looking at a major new business stream and conference organisers lining up to hold events across the Gulf and in Europe that highlight the commitment of Saudi and other Gulf administrations to renewable energy solutions. *GSN*'s former sister publication, *Saudi Arabia Newsletter*, discussed such potential almost 35 years ago, in 1979, and we examine current ambitions in this issue.

—SEE PAGE 9

Tamim's efficiency drive reaches top of QP

The appointment of Saad Al-Kaabi as Qatar Petroleum (QP) managing director may prove a significant step in helping Qatar to confront serious challenges in its energy sector, which range from declining crude output, disappointments over deep gas (pre-Khuff) exploration, and delays in the Barzan offshore gas development to increasing competition in the global gas market. Al-Kaabi is expected to tackle inefficiencies across the sector, in part a legacy of the more freewheeling way of doing things that once suited the ambitious emirate.

Al-Kaabi's appointment confirms the long-expected separation of the energy minister and QP head roles. *GSN* heard stories of energy minister Mohammed Al-Sada being bogged down in QP's day-to-day management, such as signing off on senior staff travel.

The move is in line with Emir Sheikh Tamim Bin Hamad Al-Thani's drive for greater efficiency and discipline in state-managed entities, which he has spoken about several times since coming to power 15 months ago. The introduction to the QP board of two of his senior ministers with a reputation for managerial discipline also fits into this effort.

For more, see page 11

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Government crackdown and public disillusionment subdue Kuwait opposition

Kuwait's once-vibrant opposition movement is struggling to regain the momentum of recent years, when tens of thousands of citizens took to the streets to call for greater democracy and an end to corruption

Kuwait has traditionally had the most active opposition movement in the Gulf, and barely two years ago was the scene of massive anti-government protests, leading Emir Sheikh Sabah Al-Ahmed Al-Sabah to warn against "chaotic sedition" and anounce he was changing the electoral law (*GSN 934/1*). There were also reports that Saudi officials considered sending in Peninsula Shield forces to help "maintain stability". But a loss of momentum, many Kuwaitis' disillusionment with the opposition and greater government control over public discourse has led to a much quieter opposition movement in recent months, despite attempts to reinvigorate it through radical manifestos and a focus on corruption scandals.

The opposition boycotted the December 2012 elections and there were ongoing demonstrations in the first half of 2013 (*GSN 940/5*) but, while the fervour remained, there were fewer ways to express it – parliament was dissolved in June 2013, and there was a crackdown on *Twitter* users expressing anti-government sentiments. Despite a stirring speech by veteran oppositionist and former MP Musallam Al-Barrak (*see profile, page 4, and GSN 972/9*) and anger in some quarters at the one-vote decree, the opposition boycott of the 27 July elections was half-hearted (seven months earlier, a variety of Islamists, liberals and some of the country's largest tribes had shunned the poll), and a more pro-government and active parliament was elected.

There is a growing feeling that the opposition will be unable to recapture its former strength. Its attempts at reinvigorating itself by forming new groups and manifestos have attracted media attention, but led to questions over how it can get what it wants, given that it is outside the tent. Al-Barrak heads two of these groups: a united front of opposition parties called the Opposition Coalition (OC) and a new group, Hashd. The OC's 'political reform programme', approved in April 2014, demanded sweeping changes, including full parliamentary democracy, preventing unelected ministers from voting, increasing assembly membership from 50 to 75 MPs, an independent judiciary and revised criminal code. Its manifesto lamented the divisions in Kuwaiti society, and said its oil wealth had been pillaged, the justice system was unfair and human rights were neglected. However, observers said the manifesto only really attracted excitement within the opposition community, and that most people were tired of the combative politicking that had long stalled infrastructure and development projects.

Al-Barrak had made similar demands a month earlier, at the launch of Hashd (the Popular Action Movement), a kind of rebranded Popular Action Bloc, a leftist movement which had seats in previous parliaments (*GSN 917/8*) before joining the boycott. Hashd's leaders are Popular Action Bloc veterans, including former assembly speaker Ahmed Al-Saadoun. In the past few months, Hashd has described itself as the head of a spear confronting corruption and has publicly focused on bribery scandals. In August, Hashd spokesman Saad Al-Ajami, a former journalist, reportedly had his citizenship revoked.

Increasingly big stick

In the first show of opposition strength in nearly a year, Al-Barrak led a rally outside parliament in June, and there were smaller demonstrations in July following his arrest for accusing senior figures of corruption (*GSN 974/4*). According to Alanoud Alsharekh, a visiting scholar at London's School of Oriental and African Studies, as protests have become more bad-tempered and the police have used tear gas and stun grenades, opposition leaders have increasingly come under fire for "inciting anarchy".

A growing number of young men have been arrested for being involved in protests or for posting sympathetic content on social media, and the government has stepped up its use of denaturalisation, a historical practice across the Gulf (*GSN 976/3*). Perhaps the most high-profile case so far is that of Ahmed Al-Jabr Al-Shammari, chairman of opposition TV channel *Al-Youm,* who, along with several others, lost his citizenship in July. The threat of denaturalisation goes further than just one individual – under citizenship laws those 'that follow you' can also have their nationality removed. This was seen in the recent loss of citizenship by former opposition MP Abdullah Al-Barghash, his brothers Saad and Nasr, and his sister Noura.

Local media reported at the end of July that almost half a million dual nationals of Kuwait and Saudi Arabia would be forced to choose between the two countries. Sources told *GSN* that although this was likely 'theoretical', it nonetheless reinforced the concept of citizenship as a tool with which to quash dissent. The revocation of citizenship has received support from many urban Kuwaitis who feel that those who support the opposition movement, broadly felt to be tribal citizens, are more trouble than they are worth. The Bedouin are thought to represent some 50% of Kuwait's indigenous population and several major tribes participated in the December 2012 election boycott (although they did participate in the July 2013 elections). Al-Barrak (who is from the Mutairi tribe) has warned in the past that the Al-Sabah are breaking the social contract with the tribes, with tribal leaders moving away from the ruling family.

The ongoing crackdown on social media users and their families has forced citizens to voice their concerns in private. In early

Musallam Al-Barrak: vocal oppositionist

As one of Kuwait's leading oppositionists, Musallam Al-Barrak has been in the spotlight for the past two years. He is heavily involved with two of the opposition groupings, the Opposition Coalition and Hashd (*see page 3*), a rebranded Popular Action Bloc (PAB, sometimes also known as the Popular Bloc). The PAB, whose other leading figure was the veteran oppositionist and former parliament speaker Ahmed Al-Saadoun, drew substantial support from less well-off Kuwaitis and tribal elements in suburban areas.

Al-Barrak, who is in his mid-50s, has had a long career in politics. He was first elected to parliament in 1996 (and again in 1999, 2003, 2006, 2008, 2009 and 2012) as a representative of the fourth constituency, where he would regularly attract the most votes but boycotted the December 2012 and July 2013 elections. In the mid-2000s, he led a movement to successfully amend the electoral law and reduce the number of constituencies from 25 to five. He also regularly supported grilling motions against ministers (*GSN 889/3*, *830/3,*) and criticised the government's mishandling of large projects (*GSN 845/4*).

Since he left parliament, Al-Barrak has been arrested several times and put on trial. On 29 October 2012, he was arrested for a speech he had made at a rally on 15 October that was deemed insulting to the emir ("We will not allow you, your highness, to take Kuwait into the abyss of autocracy", *GSN 935/7*, *934/1*). The trial, sentencing him to five years in prison took place on 15 April 2013, but he was later released on bail (*GSN 945/5*). In July 2014, Al-Barrak was detained for six days over remarks made at a public rally that accused senior figures of corruption (*GSN 974/4*). He was again released on bail.

Videotape scandal

Kuwait is no stranger to political scandals but a recent one, over the emergence of a videotape in April allegedly showing senior government officials to be conspiring against the state, has led to a media blackout and crackdown. The scandal centres on a tape in the possession of former oil minister Sheikh Ahmed Al-Fahd Al-Sabah which allegedly shows two senior former politicians plotting a coup. Sheikh Ahmad told the *Kuwait Times* that the tape related to "local, parliamentary, [ruling] family, financial and regional issues", and that he dealt with them "in accordance with my national duties".

Local newspapers including *Al-Watan* and the oppositionist *Alam Al-Youm* were ordered to close for two weeks in April; the latter along with sister TV station *Al-Youm* had their licences revoked in July. *Al-Youm* TV's chairman, Ahmed Al-Shammari, also had his citizenship revoked (*GSN 976/3*). One source told *GSN* the video and transcripts were "deliberately leaked" – several sources agreed that, "as usual", nothing would be done, with the two pictured in the tape unlikely to face anything beyond a closed-door investigation in parliament.

September, local media reported that the 66-year-old mother of Abdullah Fairouz, who is serving seven years in prison for slandering the emir and the judiciary via *Twitter*, is to be deported, despite her residence in Kuwait for 40 years and marriage to a Kuwaiti citizen (Abdullah Fairouz faces permanent exile after his sentence is spent). "There is no conversation anymore… people are worried. You can't publicly say what you want anymore," one source told *GSN*.

The government has also sought greater control over public discourse through a new telecommunications law (37/2014), which was adopted in May. It gives the government powers to block content, deny access to the internet, and revoke licences without giving reasons, and establishes a Commission for Mass Communications and Information Technology with broad discretionary powers to grant or rescind licences to companies that provide internet cable, satellite, and land and wireless phone connections. "Kuwait was once viewed as the Gulf country most tolerant of free speech. But since a political crisis triggered mass protests and ultimately the resignation of the government in 2011, Kuwaiti officials have been invoking vaguely worded provisions in the penal code and in national security law to suppress free speech," Human Rights Watch said in August.

Activist government

Some analysts argue that Kuwaitis are now more concerned about the state of the economy and the future of their businesses than engaging in the type of disruptive protest seen in 2012. While cautioning against overoptimism, they acknowledge that there is some momentum. For the first time, Kuwait led the way in project awards in Q1 2014, compared to other GCC states, according to the MEED database. The signing of the project agreement on the Al-Zour North independent water and power project, the first scheme in Kuwait's ambitious $28bn public-private partnership programme, and the award of some $12bn of contracts for three engineering, procurement and construction packages on the Clean Fuels Project, a long-awaited scheme to upgrade Kuwait's refineries, have provided a boon to the government and been welcomed by local and international investors. Recent reforms to Kuwait's investment laws show a renewed focus on attracting more foreign direct investment and unlocking domestic capital.

According to Kristian Coates Ulrichsen, fellow for the Middle East at Rice University's Baker Institute, "if the government can demonstrate that it is finally 'getting things done' by moving forward with all the delayed investment and infrastructure projects, then it might wean people away from the opposition".

The long game

Some political turmoil is expected in the coming weeks as MPs return for committee meetings before the opening of parliament in October. The revocation of citizenship is expected to be a focus of the political debate but, with government increasingly in control of the narrative, the opposition is expected to struggle to capture the public's imagination in the short term. The opposition will play a long game and wait for the government to make further controversial decisions which they hope will erode support for the authorities. Ultimately, the movement's chances of success may not be up to them; as Ulrichsen told *GSN*: "An awful lot of what goes in Kuwait these days boils down to the intersection of ruling family factionalism with the political landscape, and it only looks to get more volatile and unpredictable the closer Kuwait gets to an eventual succession."

Enter the cartels: governments look for response to encroachment of drugs trade

The Gulf states' exposure to the global narcotics trade has forced governments to focus attention on the issue, mindful of the close links between terrorism and organised crime and the channelling of drug-related funds through Dubai and other regional centres

Gulf Co-operation Council (GCC) and other regional trading centres have long been at the centre of the narcotics trade's financial links to the world's number one opium producer, Afghanistan. According to international organisations, including the Financial Action Task Force (FATF), an intergovernmental body set up to combat money laundering, drug money is being laundered in jurisdictions such as the UAE, and opiates traded through the most open trade points – Dubai among them.

The UAE – a stopover point for regional air passenger traffic – is also identified as a transit point for Asian cocaine. The UAE had the third largest seizures of cocaine in Asia in 2012, behind Hong Kong and China.

Afghanistan remains the biggest opium producer, with an apparently diminishing number of constraints on its output. According to the UN Office on Drugs and Crime (UNODC), Afghanistan is boosting production, with poppy cultivation in 2012 extending over an area of 154,000 hectares, an increase of 18% over 2011.

Among Gulf states, the UAE has the strongest trade links with Afghanistan, and the unhappy distinction of attracting most drug-legated cross-border trade flows. According to an FATF report issued this year, Dubai is uniquely important for the Afghan opiates trade. Much of Afghanistan-related drug funds move to Dubai, the region's main financial clearing house.

The FATF report says that, not only is the UAE a good place to make deals, arrange shipments and establish criminal contacts, it is also a global financial centre for cash movements and the accumulation of criminal proceeds in bank accounts. Drug money is transferred to Afghanistan via intermediate countries; among the most prominent are Iran and the UAE. The FATF claims that the UAE financial system appears to be particularly vulnerable to abuse by opiate traffickers, regionally and internationally.

Latin cartels established

The channelling of narcotics money through the Gulf is not the only serious challenge: governments must also confront the entry of narco-terrorist groups from Latin America that have been engaged in trafficking in West Africa. New drug trafficking routes are enmeshing the Gulf region, with reports of members of Colombian and Mexican cartels entering the UAE to sate growing local demand or to launder the proceeds of their trade.

During a visit to the UAE in February, Johan Obdola, president of government advisory body the International Organisation for Security and Intelligence, said drug cartels from South America had increased their presence and operations in West Africa to secure the movement of drugs (mostly cocaine) to markets in Europe, and the emerging markets in Asia and the Middle East. To extend their reach, drug cartels like Mexico's 'Zetas' and 'El Chapo' Guzman are seen as having designs on markets in the Middle East and Asia.

New drug routes from Latin America to the Middle East have emerged. According to Dubai Police statistics, there has been an increase in the trafficking of cocaine and heroin from Latin America to the GCC and other countries via Dubai International Airport. There have been reports of repeated attempts to smuggle cocaine on Qatar Airways flights to Doha from Ezeiza International Airport in Buenos Aires, with mules (carriers) attempting to smuggle between 0.5kg and 1.5kg of cocaine each. The sizeable street value of the drug in wealthy Gulf cities is seen as a prize by the cartels and their foot soldiers, with a kilo of cocaine reported to fetch $80,000 to $90,000 in Qatar.

It's only business

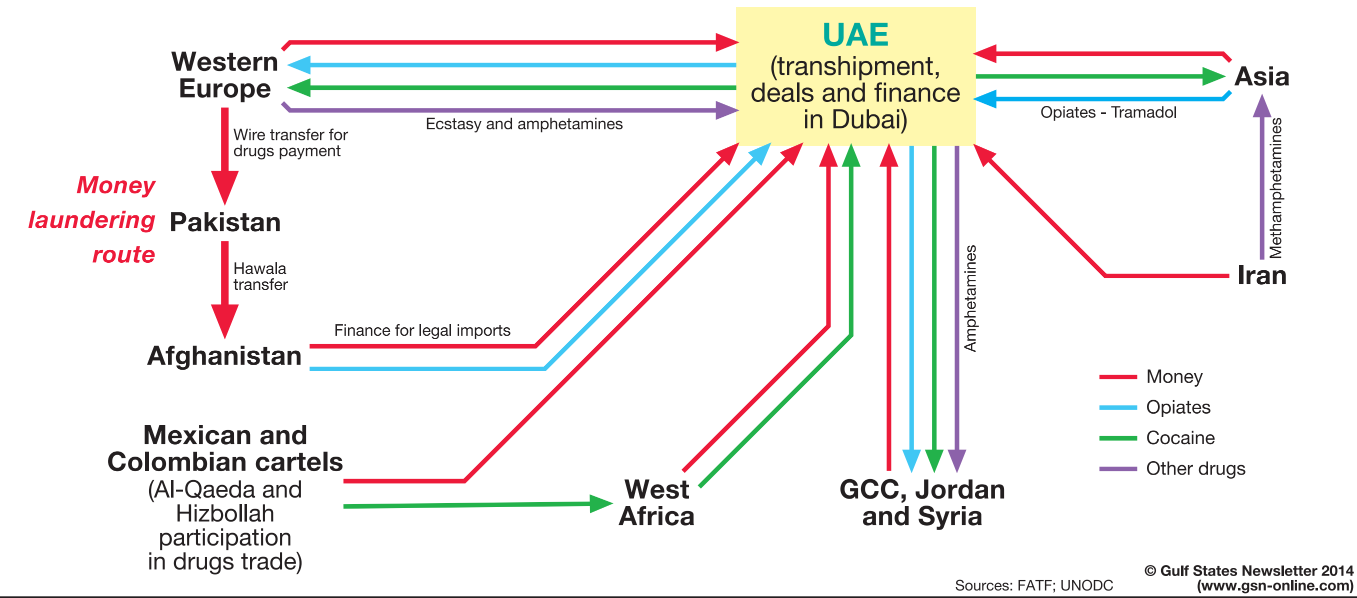
In an underworld inhabited by international and local criminal gangs, political and religious dissidents, it seems inevitable that terrorist networks would get involved in this highly profitable trade. There have been credible reports that Al-Qaeda members have in the past done business with Colombian drug cartels. The North Africa-based Al-Qaeda in the Islamic Maghreb, Lebanon's Hizbollah and other groups have also been reported to be active in Latin America, with the cocaine trade providing a means of income.

The Gulf states are mindful of the need to fight a public relations campaign in stemming this illicit trade. Governments are quick to publicise product seizures: the UAE claimed 11 tonnes of narcotics seized in 2013, with the Ministry of Interior (MoI)'s anti-drugs unit, the Anti-Narcotics Federal Directorate General, taking the lead.

Getting a proper grip

Governments are seeking to fashion a region-wide response, moving in the past couple of years to provide an institutional underpinning to the region's war on drugs. In early 2013, the GCC pooled resources to establish a centre to combat drug trafficking. The Doha-headquartered Gulf Criminal Intelligence Centre (GCIC) was set up with the assistance of UNODC, with a mission to improve co-operation among GCC member states by exchanging information on drug trafficking. It will also chart

THE UAE - AN EMERGING GLOBAL DRUGS HUB



strategies for curbing the drug trade and clamp down on money laundering.

Plans call for the GCIC to sign memoranda of understanding with Dubai Police for training, with the International Criminal Police Organisation (Interpol) for possible co-operation, along with other entities such as the European Anti-Drug Office, the Regional Intelligence Liaison Office Middle East and the Qatari MoI's Police Training Institute.

Additional backbone has come with GCC interior ministers agreeing in May 2014 to establish a joint police organisation. The office, located in Abu Dhabi, is intended to consolidate GCC security co-ordination in the fight against drugs.

However, these bodies face an uphill task in clamping down on the proliferating drugs trade, which also takes in increasing volumes of opiate analgesics, such as Tramadol. Tramadol is often associated with opium smuggling; given the large numbers of Asian subcontinent and African workers moving back and forth between Saudi Arabia and other Gulf states, there is a means for its easy penetration into the Gulf marketplace. Anti-drug units in Dubai and Sharjah seized 83,800 Tramadol in two separate operations in Q1 2014. Some 30% of total suspects held in drug crimes in 2013 were involved in smuggling Tramadol.

Amphetamines dominate the market in the Middle East/South-West Asia, according to UNODC, with over 12 tonnes seized in 2012, representing more than half of global seizures. In the region, the largest seizure totals are those of Saudi Arabia, Jordan and Syria, in that order.

European connection

The Middle East is also hardwired into Europe's drug trade. According to UNODC data, south-eastern Europe is a transit point for the smuggling of ecstasy and other amphetamine-type stimulants from the Netherlands into Turkey and further into the Middle East. The Netherlands is the primary source country for ecstasy, which is trafficked back down the Balkan route through Romania and Bulgaria and into Turkey, either for local consumption or for further transit to the Arabian peninsula; there have been reports of seizures in the UAE and Saudi Arabia.

Iranian produce is also reaching the European market. Methamphetamines produced in the Islamic Republic transit through Romanian and Bulgarian airports to reach destination markets in East Asia.

The UAE is also emerging as a drug route to the UK market, after the Turkish government put a squeeze on trafficking by beefing up border controls. Turkey was hitherto the main route for heroin into Britain. According to the UK's Serious Organised Crime Agency, the rise of Pakistani organised criminal groups targeting the British market may in part be due to traffickers' decisions: heroin traffickers trying to avoid Turkish groups now also traffic via East and Southern Africa, or ship their product directly to the European Union via Pakistan or the UAE, says the UNODC report.

The Gulf states, of course, have little influence on the trade flows and cartel activities in Latin America, Africa, Europe and Asia. The Arabian peninsula's geographic location at a nexus between Africa, Europe and Asia, and the Gulf's significant migrant populations, provide near-laboratory conditions for the trafficking of a multifarious and growing group of narcotics. The GCC's new institutional apparatus may go some way to dealing with the symptoms, but the region's war on drugs looks to be more a game of catch-up than stamping out the problem. With money in abundance, and the Gulf a traditional trade route for a broad range of commodities, the GCC states form some of the most prized arteries of a multi-billion dollar industry that has shown itself immune to easy solutions.

IRAN

Khamenei defies the rumour mill following prostate surgery

Reports suggesting that Ayatollah Ali Khamenei's illness could lead to a major internal power struggle within the next few weeks, if the rahbar (supreme leader) departed the political scene, were premature. Khamenei (born 17 July 1939 in Mashhad) left hospital on 15 September, one week after undergoing prostate surgery. He immediately spoke to state media – and made headlines worldwide – stating that in no way would Iran join the US-led coalition combating Islamic State in Iraq and Syria. Reports that he had been suffering an aggressive form of prostate cancer seemed to have been much overstated. But the state of Khamenei's health remains of central importance in a system where *velayat-e faqih* (rule of the supreme jurisprudent) is at the enduring ideological and political core of the regime.

Official media said Khamenei was in good health, while analysts pointed to unusually detailed coverage in state media and on the rahbar's website. The reports helped staunch intense rumour-mill activity about the extent of Khamenei's decline and forthcoming succession issues. Names bandied about included former president (1989-97) and Expediency Council chair Akbar Hashemi Rafsanjani and the current rahbar's son Sayyid Mojtaba Hosseini Khamenei (born 1969), who teaches at Qom and has been linked to Basij and other hardline groups.

The balance of forces is unclear in Iran's opaque religio-judicial politics. In 1989, Khamenei was eventually Khomeini's choice (he had favoured the late Ayatollah Hossein Ali Montazeri until rival factions intervened). Khamenei has yet to publicly express a preference. Past conflicts suggest he would only reluctantly favour Rafsanjani, but whether he would push for one of a handful of genuinely senior clerics with *marja* (source of emulation) status, such as Ayatollah Mohammad Taghi Mesbah Yazdi – with whom he is politically aligned – is also questionable. Other potential marja, such as Grand Ayatollah Yousef Saanei, have been outflanked (and, in Saanei's case, demoted) by Khamenei.

Much more the revolutionary politician, Khamenei succeeded the Islamic Republic's founder Ayatollah Ruhollah Khomeini in 1989, having spent two terms as president (1981-89); he survived an assassination attempt by the *Mujaheddin-e Khalq* in 1981 that paralysed his right arm. As rahbar and *mujtahid* (a senior Shia scholar in Islamic jurisprudence), Khamenei decides the general lines of Iranian policy (including on nuclear issues – *see GSN view*). A skilled political player, he has increasingly dominated the post-Khomeini scene; politicians such as President Hassan Rouhani owe their terms of office to his support; when that ends – as was the case for former president Mahmoud Ahmadinejad – they are usually finished.

Rouhani joined a stream of visitors who lined up at the supreme leader's bedside – just following his operation, official media reported – on 8 September. Rouhani had been scheduled to travel abroad, but was quoted saying that "he personally is inclined to remain in Tehran", even though the rahbar had said that "work should continue as scheduled".

SAUDI ARABIA

Plans to reopen Baghdad embassy

Saudi Arabia has said it plans to reopen its embassy in Iraq once the security situation improves. The foreign ministry made the announcement on 13 September following Prince Saud Al-Faisal's talks with his Iraqi counterpart, Ibrahim Al-Jaafari, at a meeting in Jeddah between Arab states and US secretary of state John Kerry on how to tackle the threat of the Islamic State. But the ministry said Riyadh needed to resolve "technical, administrative and security" issues before it could re-establish the mission and assign an ambassador. Jaafari described the decision as "important and necessary."

On 8 September, Prince Saud opened a Saudi embassy in Cairo. Underlining the importance of the relationship between the two countries, he said the embassy – Saudi Arabia's largest – would help boost co-operation. "These headquarters do not merely house the offices of the embassy with all its branches but all the Saudi working offices operating in Egypt and this will make it easier for citizens to contact the embassy of their country and simplify access for their Egyptian brothers and others," he was quoted by news agencies as saying.

Saudi Arabia has emerged as one of the most important backers of post-Morsi Egypt, and Egyptian President Abdel Fattah El-Sisi made his first official visit to Saudi Arabia on 10 August, flying in to Jeddah, where he was received by Prince Saud, Deputy Crown Prince Miqrin Bin Abdelaziz and Mecca governor Prince Mishaal Bin Abdullah Bin Abdelaziz. He held brief talks with King Abdullah in Cairo in June (*GSN 976/8*, *973/9*).

Also on 8 September, Saudi Arabia shut its embassy in the Yemeni capital, Sanaa, due to the worsening security situation and a number of attacks on foreign targets.

OMAN

UN special rapporteur criticises 'culture of silence and fear'

The UN special rapporteur on the rights to freedom of peaceful assembly and of association, Maina Kiai, has criticised what he described as a "pervasive culture of silence and fear affecting anyone who wants to speak and work for reforms in Oman" and called on the government to adopt a "human rights and people-centred approach that can lead to the full enjoyment of fundamental rights and freedoms, including rights to freedom of peaceful assembly and of association".

Kiai, a Kenyan lawyer with a long career in human rights, said that Oman was the first country in the Middle East to extend an invitation under the mandate since it was established by the Human Rights Council in October 2010. "I view this as testimony of its willingness to have a frank, constructive and open dialogue on the situation of human rights," he said in a statement on 13 September, following a visit to the country.

However, he said he was not permitted to meet Taleb Al-Mamaari, a member of the Shura Council who is serving a prison sentence after being convicted of convening an illegal gathering, and that he was "gravely concerned about reported reprisals, before and during my visit, following [activists'] attempts to contact or meet with me".

He urged the government to ensure the safety of these individuals and that they would not be "subjected to any form of reprisals – including threats, harassment, punishment or judicial proceedings, as required by Human Rights Council Resolutions 24/24 and 12/2 and in the Terms of Reference for country visits by Special Procedures of the Council".

He said Omanis were "afraid to speak their minds, afraid to speak on the telephone, afraid to meet. Ubiquitous communications technologies that the rest of the world takes for granted, such as Skype, are unavailable in Oman, something that my team and I bear witness to.

"Many people we spoke to reported being arrested or detained without due process – some repeatedly – and subjected to intimidation and psychological torture simply for trying to assert their rights. I would like to underline, that all the people I spoke to who have been subjected to this harassment, stress that what they want is peaceful reform, not revolution."

He praised Oman's achievements, "especially in infrastructure, education, water, electricity, health and the economy", and its stability and peace "in a region that is better known for turbulence, tensions and conflicts", but said that, during his visit, he "heard numerous reports of excessive force and arbitrary arrests in response to peaceful assemblies, particularly, during the wave of social reform protests in 2011 and 2012, when hundreds were reportedly arrested. Many of the individuals arrested further reported torture at the hands of the authorities, including extended periods in solitary confinement and the blaring of loud music around the clock". He said those events had had "a profound effect on the psyche of many Omanis to this day".

QATAR

KHALID BIN THANI: Travels

Businessman Sheikh Khalid Bin Thani Al-Thani was in the UK in early September to attend the 32nd Cambridge International Symposium on Economic Crime, where he gave a keynote address and spoke on the role of the private sector in promoting integrity in the Middle East. Sheikh Khalid is on the board of the Pearl Initiative, established by Sharjah ruler Sheikh Sultan Bin Mohammed Al-Qasimi, to improve corporate accountability and transparency in Middle Eastern businesses. In late August, the sheikh travelled, as chairman of Qatar's Ezdan Holding, to Ethiopia to look at investment opportunities there. The Qatar Exchange-listed Ezdan was established by Khalid's father, Sheikh Thani, in the 1960s. Khalid has a wide range of business interests, and is chairman of Qatar International Islamic Bank and Vodafone Qatar.

SAUDI ARABIA

KING ABDULLAH/KING HAMAD: New causeway

Bahrain's King Hamad Bin Isa Al-Khalifa was in Saudi Arabia on 6 September for talks with King Abdullah and other senior officials, including Crown Prince Salman Bin Abdelaziz. Shortly afterwards, plans were announced for a second bridge between the neighbours, to be called the King Hamad Causeway; the King Fahd Causeway opened in November 1986 (*GSN 187/10*). A few days later, Eastern Province governor Prince Saud Bin Nayef Bin Abdelaziz received the King Fahd Causeway director-general, Badr Bin Abdullah Al-Atishan.

JUNIOR PRINCES: Travels

Prince Abdullah, son of former deputy defence minister Prince Khalid Bin Sultan, has been in Bermuda, where he met Premier Michael Dunkley. They held talks at the Elbow Beach hotel, which has been owned by Prince Khalid since the early 1990s. Abdullah is a low-profile son of Prince Khalid, who was removed from his ministerial position in April 2013 (*GSN 945/1*). In early September, Prince Khalid Bin Alwaleed Bin Talal visited Malta, where he had a meeting with Prime Minister Joseph Muscat. Prince Khalid was representing Kingdom Holding, set up by his father, the global investor Prince Alwaleed. Khalid is an emerging businessman with his own interests, but has also been involved in court cases in the US.

FAISAL BIN MISHAAL: Mother's funeral

Funeral prayers were held in early September for the mother of Qassim Province deputy governor Prince Faisal Bin Mishaal. The prayers were led by Riyadh governor Prince Turki Bin Abdullah Bin Abdelaziz. Faisal is the son of former Najran governor Prince Mishaal Bin Saud, who was removed from the position in 2008 and is now thought to have a role in the National Guard.

UAE

MBR: Libyan delegation

Dubai ruler Sheikh Mohammed Bin Rashid Al-Maktoum (MBR) on 10 September received a Libyan delegation that included Prime Minister Abdullah Al-Thinni, speaker of the House of Representatives Ageela Saleh, and a number of senior officials. Acording to *Gulf News*, the meeting highlighted the importance of bilateral relations. The Libyan delegation briefed MBR on the political and security developments in Libya, and the government's efforts to restore stability, while MBR stressed the UAE's support for Libya. Also attending the meeting were Dubai Crown Prince Sheikh Hamdan Bin Mohammed Bin Rashid Al-Maktoum, deputy ruler Sheikh Maktoum Bin Mohammed Bin Rashid Al-Maktoum, deputy prime minister Sheikh Mansour Bin Zayed Al-Nahyan, Dubai Civil Aviation chairman and Emirates Group chief executive Sheikh Ahmed Bin Saeed Al-Maktoum, cabinet affairs minister Mohammed Abdullah Al-Gergawi, Dubai director of protocol and hospitality Khalifa Saeed Suleiman and Libyan ambassador to the UAE Aref Ali Nayed.

Saudi Arabia reverts to solar as it confronts tough energy policy questions

Renewable energy can help solve several key problems confronting Saudi policy-makers and energy industries; new institutions are moving slowly to create a new solar industry, while more established players Saudi Aramco and Seco are moving rather faster

Contractors are looking at a major new business stream from ambitious projects to exploit Saudi Arabia's outstanding solarity (some 4,000 hrs/yr of sunshine, and average annual solar irradiation exceeding 1,800kWh/m^2); conference organisers are lining up to hold events across the Gulf and in Europe that highlight the commitment of Saudi and other Gulf administrations to renewable energy and energy efficiency solutions. For all its historic commitment to oil, this is not the first time that harnessing solar energy has been mooted as a solution to the kingdom's energy problems. But with national oil company Saudi Aramco's annual report warning that local demand for crude had increased "to the point where volumes meant for exports may fall to unacceptably low levels in the coming two decades", pressure is mounting on several fronts for a more diversified energy policy to be implemented.

The solar energy debate has been brewing in Saudi Arabia since the 1960s; some 35 years ago, *GSN*'s former sister publication, *Saudi Arabia Newsletter*, in 1979 discussed the potential of harnessing solar energy in the kingdom, noting that there were "a large number of ambitious solar projects under way, but that progress was "impeded by the lack of co-ordination, the usual bureaucratic red tape…".

The critical question now is whether fresh thinking and resource flows can create a significant solar industry within a realistic timeframe, or whether, once again, the logic of exploiting exceptional solarity to build a clean, sustainable industry will be outweighed by negative influences from entrenched vested interests.

Over four decades, projects have come and gone without any significant breakthrough in ending the kingdom's hydrocarbons dependence. Saudi Arabia is one of the world's top five energy consumers on a per capita basis; Saudi Electricity Company (Seco), the Gulf region's largest utility by market value, generates power mainly by burning oil (800,000 b/d in 2012). This is becoming unsustainable, with peak electricity demand forecast to triple by 2030; it is also envisaged that there will be a 50% increase in demand for desalinated water by 2032 (*GSN 940/9*). Meanwhile, the cost of producing electricity (at a subsidised price) is rising: to $40bn in 2012-13 (*GSN 974/8*).

Advances in solar technology and declining costs applying renewable energy solutions add to arguments for a major investment. According to French photovoltaic (PV) developer Solairedirect, utility-scale PV can now be achieved at a $70-90/MWh levelised cost of electricity in Saudi Arabia – a price four times lower than in 2009. On this basis, Solairedirect argues that PV electricity generated in the kingdom could become the world's cheapest.

NEWSLETTER Saudi Arabia

BUSINESS/POLITICS/FINANCE — 3–16 DECEMBER 1979 NO. 13

A threat from the past in the mosque

The Mecca mosque affair underlines the dilemma between development and tradition

Scandal breaks on Italian commissions

The Saudis do not like scandal about commission payments aired in public

The West and solar energy potential

The potential exists for Saudi solar power development but practice is lagging

Scandal on Italian commission payments for Saudi oil threatens ENI's relations (2). The Mecca mosque attack forces the Saudis to take more note of conservative feeling (3). Treasury Secretary Miller learns about Aramco profits (4). Private Saudi funding in Egypt does not extend to official aid (5). The potential for solar power in Saudi Arabia (6). Neglect of pharmaceutical projects (8). Profile: Petroline (12).

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Arguments for Saudi Arabia to diversify its domestic energy production through the implementation of an effective renewable energy plan that heavily involves solar power are finding voice in the kingdom, as well as among foreign critics, to an unprecedented extent.

Formally, significant progress came with royal order A/35 of 17 April 2010, which established King Abdullah City for Atomic and Renewable Energy (K.A. Care). This new institution was central to a renewable energy strategy that carried King Abdullah Bin Abdelaziz's imprimatur. An ambitious plan was put forward to diversify fuel sources and "introduce renewable energy as a major component of that future energy mix". The initiative would seek investors for a headline $109bn plan to create a solar industry capable of generating one-third of the nation's electricity by 2032: 54GW was to be generated from renewables, of which solar

Riyadh retains civil nuclear ambitions

Saudi Arabia retains civil nuclear ambitions, despite Japan's Fukushima Daiichi nuclear disaster in 2011 and the debate over Iran's atomic development. According to King Abdullah City for Atomic and Renewable Energy (K.A. Care)'s 2013 white paper (*see main story*), its strategy to provide 51GW of alternative energy includes the installation of 18GW of nuclear power as a long-term alternative to oil, with the kingdom's first three nuclear power reactors scheduled to come on line in 2021, 2022 and 2023.

Riyadh's continued interest in exploring a nuclear option is said by some analysts to be a driver of its recent rapprochement with Russia. UAE daily *The National* in November 2013 reported that Saudi Arabia planned to call for preliminary bids for its first nuclear reactor in 2014.

The kingdom is keen to follow the right steps. Some international agreements have been signed: Saudi Arabia has ratified the Nuclear Non-proliferation Treaty, but only concluded a Comprehensive Safeguards Agreement; it has not signed an Additional Protocol agreement with the International Atomic Energy Agency, which calls for stricter inspections, nor is it a signatory to the Comprehensive Nuclear Test Ban Treaty. Saudi Arabia would have to iron out a so-called 1-2-3 Agreement with the United States (under the US Atomic Energy Act) were US companies, such as Westinghouse and Lightbridge, to begin any co-operation.

In May, K.A. Care – whose nuclear energy work is led by atomic specialist vice-president Dr Waleed Hussain Abulfaraj – formed a strategic partnership with Finnish regulator STUK-Radiation and Nuclear Safety Authority to form a similar institution in the kingdom. STUK said it would co-operate in designing and executing activities required to establish the regulatory body and its safety oversight functions, and in developing safety regulations. It will provide staff training and assist in recruitment. STUK described the multi-year co-operation as "one of the very first practical steps towards the implementation of the nuclear power programme that KSA is envisioning".

In August, Abulfaraj signed a memorandum of understanding on co-operation between K.A. Care, the Chinese Ministry of Energy and Chinese National Nuclear Corporation. During the same visit to Shanghai, K.A. Care president Hashim Abdullah Yamani held talks with officials including National Energy Commission minister Wen Jiabao.

According to Rice University expert Jim Krane, it will also be important to figure out whether the nuclear programme would mean Saudi Arabia "enriching its own uranium or importing enriched uranium like the UAE does from South Korea". The UAE is leading the Gulf Co-operation Council in developing nuclear projects, with the construction of two reactors with combined output of 2,690MW in Abu Dhabi. Dubai's 20-year plan involves sourcing 20% of its energy supply from a civilian nuclear programme.

power would make up 41GW – 16GW of solar PV and 25GW of concentrated solar power (CSP).

K.A. Care subsequently released a white paper, in February 2013, detailing a comprehensive plan for execution; it discussed steps towards establishing a Competitive Procurement Process. An impressive solar atlas measuring potential throughout the Kingdom was released in December, and a co-operation agreement was signed this summer with the UAE's Masdar.

Otherwise, announcements of progress and project procurement initiatives have been in short supply. According to the white paper, procurement for the first round of projects – to install 1,000MW of solar PV and 900MW of CSP – should have been awarded by Q1 2014, with the second round starting a few months later. These developments are awaited.

Bureaucratic inputs

President of K.A. Care since its establishment is former minister and distinguished public servant Hashim Abdullah Yamani, whose academic credentials include a PhD in physics from Harvard University and a spell as chair of the King Fahd University of Petroleum and Minerals' Physics Department, where he also managed the renewable energy research division. Yamani has sat on the Supreme Council for Petroleum and Minerals (SCPM), created by the late King Fahd but promoted by King Abdullah when the then crown prince was looking to jump-start economic reforms. At the time, Yamani, and fellow SCPM member finance minister Ibrahim Al-Assaf were seen as siding with the king in support of opening aspects of the petroleum sector to foreign participation.

K.A. Care's ruling supreme council is mainly comprised of government ministers, chaired by the head of government, King Abdullah. Within K.A. Care's senior management, Yamani is supported by vice-president Dr Waleed Hussain Abulfaraj, who was previously president of Umm Al-Qura University; appointments before that included a spell as professor in King Abdelaziz University's Department of Nuclear Engineering.

But in May, K.A. Care parted with its other vice-president, Dr Khalid Al-Sulaiman. The solar energy specialist left his position because the government decided not to renew his contract, *Bloomberg* reported. Seen as a key figure in the Saudi solar industry, it is unclear whether Al-Sulaiman retired or was pushed. His successor has still to be announced.

Analysts speculate that initiatives such as K.A. Care may run counter to the interests of established bureaucracies and the vested interests that exist within Saudi government ministries. Institutions that oversee energy issues include the Ministry of Industry and Commerce, the ministries of electricity, finance and petroleum, National Industrial Clusters Development Programme and Saudi Arabian General Investment Authority. Nikolai Dobrott, managing partner of one of K.A. Care's consulting partners, Germany-based Apricum-The Cleantech Advisory, told *GSN* that all these entities had "ongoing discussions on the idea of solar".

Dobrott was positive: with economic incentives already in place, "it's just a matter of time before the regulatory framework follows", he said. "While it is impossible to say if the K.A. Care programme will commence this year, there are strong indications that we will see movement very soon in Saudi Arabia's solar market."

Aramco takes a lead

This is because, while K.A. Care has lagged, Saudi Aramco and national utility company Seco have been making a solar push. "Saudi Aramco has a huge incentive to realise solar power generation, at least for its own use. [Seco] must greatly expand its power generating capacity in the next few years, and with their recent Dhuba-1 and -2 projects, we can see they are certainly investigating adding solar power to their conventional power mix for projects in the future. It would not surprise me to see both [independent power producer] IPP and [engineering, procurement and construction] EPC tenders issued towards the end of this year," Dobrott said.

Besides a few pilot projects, including Seco's 500kW plant on Farasan Island, Saudi Aramco is the only Saudi entity to have completed a significant solar project: its ambitious and symbolic 10MW PV rooftop project has been described as 'the largest solar parking lot in the world'; covering some 4,500 parking spaces, it provides power to facilities in Saudi Aramco's Dhahran complex.

In May, chief executive Khalid Al-Falih told a conference in Bahrain that Saudi Aramco was "looking at solar investments with great interest". According to Al-Falih, Saudi Aramco has signed initial agreements to develop solar plants to generate 300MW in remote areas, specifically to reduce the burning of diesel. In December, Seco invited proposals to develop the 550MW Dhuba-1 hybrid plant, with 500MW of combined cycle and 50MW of CSP. In July, companies were invited to bid for the EPC contract.

In 2012, Electricity and Co-Generation Regulatory Authority governor Abdullah Al-Shehri said that, by 2030, Saudi Arabia would burn 850m barrels/yr of oil to generate electricity, equivalent to 30% of its crude output. Such startling figures are matched by the cost of government subsidies for oil. A switch to solar energy might still require subsidies from a government mindful of the potential for social unrest. But it would reduce the burden on Saudi Arabia's main revenue stream: oil.

Thus, concludes Rice University's Baker Institute energy analyst Jim Krane, Saudi Arabia is "doing all it can to reduce this oil burn". Alternative fuels [such as solar energy] are a way around "reforming deep and more complicated issues such as subsidies".

QATAR

Al-Kaabi appointed QP head

Saad Sherida Al-Kaabi, previously Qatar Petroleum (QP) director of oil and gas ventures, was appointed QP managing director on 9 September. This is a long-awaited move: the separation of the roles of minister and head of the state-owned energy company has been on the cards since at least early 2011, when Mohammed Al-Sada replaced Abdullah Bin Hamad Al-Attiyah as energy minister. Joining the new QP board are two ministers appointed following Emir Sheikh Tamim Bin Hamad Al-Thani's takeover in June 2013, economy and commerce minister Sheikh Ahmed Bin Jassim Al-Thani and finance minister Ali Al-Emadi. Sheikh Ahmed is now deputy chairman of QP, replacing Hamad Al-Mohannadi, who remains on the board. Leaving the board are Qatar Electricity and Water Company head Fahd Hamad Al-Mohannadi, Qatar Fertiliser Company managing director Khalifa Al-Suwaidi and Qatar General Electricity & Water Corporation president Issa Hilal Al-Kuwari.

There have been reports of an intense jockeying for position at QP since 2013 (*GSN 975/6*). Al-Kaabi, who comes from a well-known family (his father was a prominent diplomat in the 1980s and is now a businessman in the construction sector), has long been regarded as a rising star; at one time he was talked about as a future minister and was thought to have been disappointed at missing out on the top job during the early 2011 changeover. He is said to be popular, and prepared to stand up to more senior people, such as former minister Al-Attiyah over the management of the North Field reservoir; the reservoir and associated moratorium have long been seen as his portfolio. Indeed, in some quarters, he is known as 'Mr Moratorium'.

Al-Kaabi is also said to have a tough negotiating style, which perhaps did not suit some of QP's foreign partners. According to a leaked April 2008 US diplomatic cable, the US' Anadarko Petroleum complained to US embassy officials after Al-Kaabi intervened in the company's licence extension for Block 11 – the extension had been approved by Al-Attiyah but Al-Kaabi reportedly told the company it could only continue exploration if it gave up rights to a significant part of the formation. Anadarko also complained that, after it had spent $12m shooting 3D seismic on Block 4 and identified a structure that could yield gas, Al-Kaabi put out a development bid for the area and ordered Anadarko to give its survey data to bidding competitors. The company is no longer present in Qatar, selling its assets to Occidental Petroleum in 2007 and GDF Suez in 2009.

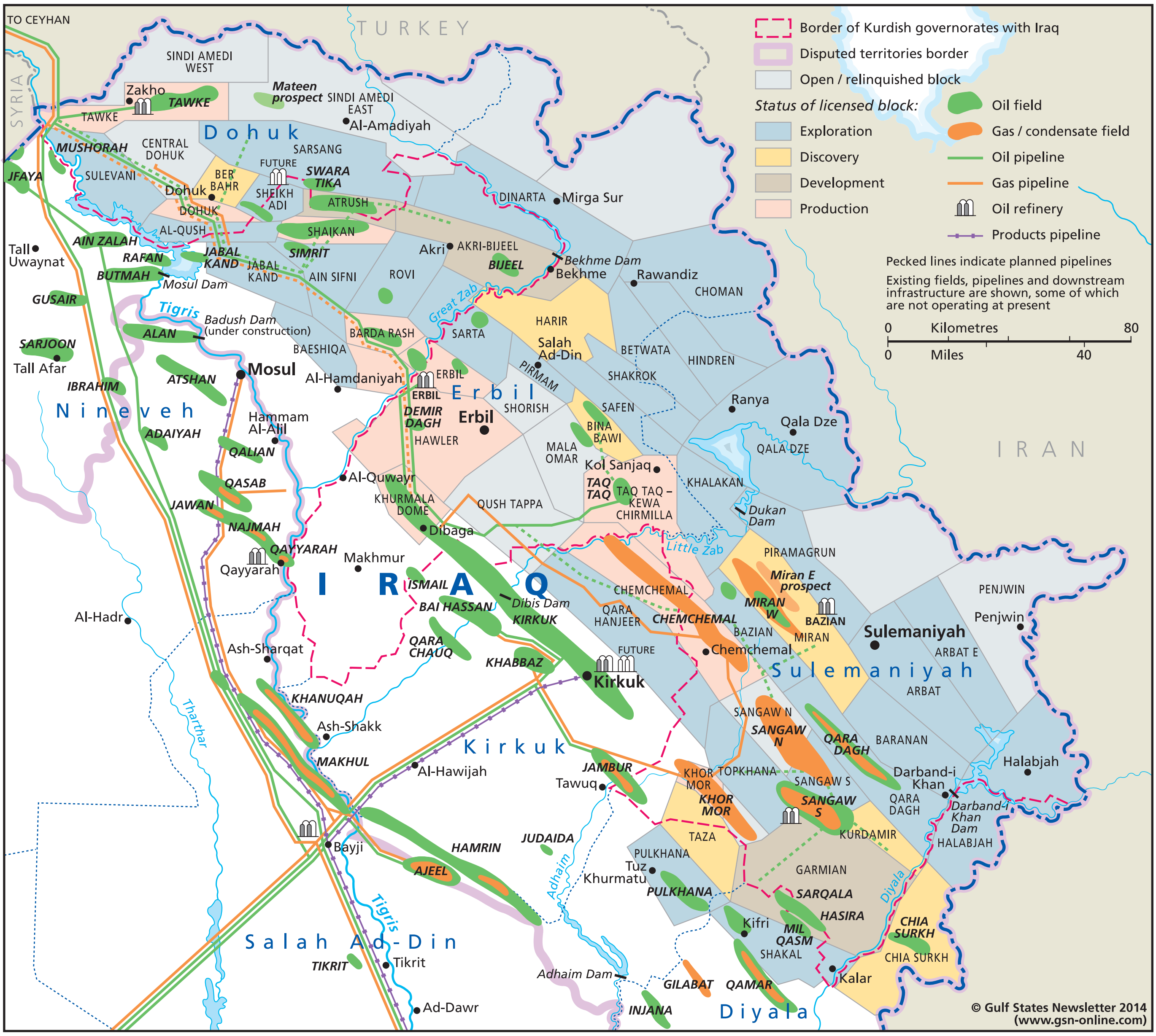
It is hoped that the separation of the roles of minister and QP head will make QP more efficient and competitive. Al-Sada reportedly had to sign off on every QP deal, no matter how small, meaning that his attention was constantly split, for example, between complex contracts, day-to-day operations and the expansion of QP entities such as Qatar Petroleum International.

NEWS IN BRIEF

BAHRAIN: Bapco FEED contract for Technip

Paris-based Technip has been awarded the front-end engineering design (FEED) contract to expand The Bahrain Petroleum Company (Bapco) refinery, to increase throughput at Sitra to 360,000 b/d from 267,000 b/d, while improving the refiner's product slate and profitability. The project – which is less ambitious than Bapco and the government originally envisaged – is essential to Bahrain, which generates most of its income from the export of refined products. Work will be carried out from Technip's operating centre in Rome, Italy, in co-operation with its Abu Dhabi unit. The FEED contract is scheduled for completion at end-2015. Bapco chairman and chief executive Adel Al-Moayyed has previously set a 2019 target date for the 35% output hike, which will use crude supplied by Saudi Aramco through an enlarged pipeline to carry 350,000 b/d of Saudi light crude to Sitra (up from 230,000 b/d now); that project has been scheduled for completion in 2017.

Status of production-sharing contracts in Iraqi Kurdistan



Status of production-sharing contracts in Iraqi Kurdistan, August 2014

Ain Sifni	Hunt Oil, Afren
Akri Bijeel	GKP, MOL
Al Qush	ExxonMobil, TEC
Arbat East	ExxonMobil, TEC
Arbat	TEC
Atrush	Taqa, Shamaran, Marathon
Baeshiqa	ExxonMobil, TEC
Baranan	Total
Barda Rash	Komet, Afren
Bazian	KNOC
Ber Bahr	Genel, GKP
Betwata	ExxonMobil, TEC
Bina Bawi	OMV, Genel
Chemchemal	Pearl Petroleum
Chia Surkh	Petoil, Genel
Choman	TEC
Dinarta	Hess, Petroceltic
Dohuk	DNO, Genel
Dohuk Central	Relinquished
Erbil	DNO, Gas Plus
Garmian	West'n Zagros, Gazprom Neft
Halabja	Gazprom Neft
Harir	Marathon, Total
Hawler	KNOC, Oryx
Hindren	TEC
Jabal Kand	TEC
Khalakan	TEC
Khor Mor	Pearl Petroleum
Khurmala Dome	North Oil Co, KRG
Kurdamir	Western Zagros, Talisman
Mala Omar	Relinquished
Miran	Genel
Penjwin	Open
Piramagrun	Repsol
Pirmam	ExxonMobil, TEC
Pulkhana	TEC
Qala Dze	Repsol
Qala Dagh	Chevron
Qara Hanjeer	ExxonMobil
Qush Tapa	Relinquished
Rovi	Chevron, OMV
Safen	Total
Sarsang	HKN Energy, Marathon
Sangaw South	KNOC
Sangaw North	Open
Sarta	Chevron, OMV
Shaikan	GKP, MOL
Shakal	Gazprom Neft
Shakrok	Hess, Petroceltic
Sheikh Adi	GKP
Shorish	Open
Sindi Amedi East	Open
Sindi Amedi West	Open
Sulevani	Petroquest
Taq Taq	Genel
Tawke	DNO, Genel
Taza	Oil Search, Total
Topkhana	Talisman

TEC - Turkish Energy Company

Source: Kurdistan Regional Government and companies

IOCs return to Iraqi Kurdistan

Continued from page 1

control of the critically important Mosul dam. Confrontations have taken place in Baeshiqa, east of Mosul – an area licensed to ExxonMobil in 2013. Along with Exxon, the other company with significant exposure to licence areas along the new ISIL-Kurdish frontier is Turkish Energy Company. However, even some several-year-old licences, such as Gulf Keystone Petroleum's Shaikan production-sharing contract, are located in officially disputed territories.

While the United States and its allies prepare for military operations in Iraq – with the bombing of ISIL targets to support Iraqi security forces near Sinjar and south-west of Baghdad on 14-15 September – IOCs will have to adjust to the security consequences of operating adjacent to an unofficial terrorist state. These will include problems created by the huge influx of refugees which followed ISIL's occupation of Nineveh and Salah Ad-Din provinces (*GSN 973/11*). There are more than 1m refugees in Kurdistan, a burden with which the KRG would have struggled even without its present budget troubles.

Lack of financial resources

The KRG's lack of financial resources presents a significant threat to stability. According to one recent visitor to Erbil, Baghdad's refusal over the past nine months to remit the KRG its allotted 17% of budget expenditure means that many government officials have not been paid for six months (*GSN 967/12, 962/5*). The KRG's initial list of conditions for supporting the government of Prime Minister Haider Al-Abadi included the immediate payment of these arrears, which it said now amount to nearly $8bn. Other demands included agreement on a referendum on Kirkuk's status and recognition of Kurdish oil exports and licensing.

Somewhat unwillingly, but facing up to the reality of their situation, Kurdish leaders agreed to support Abadi's government even though these conditions were not met. According to a US financier with Iraqi projects, Baghdad does not have the resources to repay the arrears. The holding of a referendum in Kirkuk and other disputed territories is another difficult demand for Baghdad to accept while also trying to find ways of tying Sunni Arab communities back into Iraq.

While Baghdad is nervous about hasty decisions on oil exports which could set precedents for southern Iraq, the appointment of senior Islamic Supreme Council of Iraq (ISCI) former finance minister and vice-president Adel Abdul-Mehdi as oil and gas minister, and the fact that the hardline former deputy prime minister Hussein Al-Shahristani no longer has an energy-related portfolio, suggests that the federal government may be preparing to adopt a more emollient position (*GSN 974/10*, *972/1*, *971/12*).

NEWS IN BRIEF

UAE: Australia sends military aircraft and personnel

Australia is to send military aircraft and 600 personnel to the UAE as part of the international coalition to counter the threat from the Islamic State. Prime Minister Tony Abbott told a news conference in Darwin on 14 September that the Australian defence force would send up to eight Royal Australian Air Force F/A-18 combat aircraft, an E-7A Wedgetail airborne early warning and control aircraft and a KC-30A multi-role tanker and transport aircraft. A special operations task group would also be sent to assist Iraqi and other security forces "that are taking the fight to the ISIL terrorists".

UAE: Meeting with French defence minister

Abu Dhabi Crown Prince Mohammed Bin Zayed Al-Nahyan (MBZ) met French defence minister Jean-Yves Le Drian and his delegation on 15 September at the Al-Mamoura building in Abu Dhabi. MBZ and Le Drian discussed strategic co-operation and co-ordination in the areas of the military and defence, and the latest regional and international developments. Also attending the meeting were Lieutenant General Hamad Mohammed Thani Al-Rumaithi, chief of staff of the UAE Armed Forces, and a number of officials.

Federation to confederation

Any compromise from Baghdad on the parallel issue of oil exports would significantly alter the outlook for IOCs and would relieve some of Erbil's financial pressures. To date, the KRG is believed to have shipped about 10m bbls of crude to Ceyhan, but only four or five vessels have been unloaded using secretive, ship-to-ship transfers in international waters at night. Some other tankers are at sea and unable to dock, including one in waters off the Gulf of Mexico which is the subject of what may be a decisive legal challenge in the Texan courts.

The KRG has made no statement on revenues, and it is possible that even the relatively paltry sums earned from what will have been heavily discounted sales may be vulnerable to seizure or legal challenge if the government attempts to use them officially.

But while talk in Erbil has shifted from federation to the looser concept of confederation, the region's weak security position, its financial dependence on Baghdad, the opposition of both neighbours and the US, and its internal political dynamics combine to make a rapid move to independence unlikely (*GSN 973/22*). Not only can the KRG not afford to make this jump, the US and Iran would strongly oppose it. Crucially, a near-term call for independence might also be opposed by the Sulemaniyah-based Patriotic Union of Kurdistan (PUK), which could be a major loser in an independent Kurdistan dominated by Erbil and its rival the Kurdistan Democratic Party (*GSN 969/4*).

QATAR

QNB takes African stake

Qatar National Bank (QNB) has entered sub-Saharan Africa with the acquisition of a 23.5% stake in Togo-based Ecobank Transnational Incorporated (ETI). QNB took a 12.5% stake through the purchase of ordinary and convertible preference shares from Asset Management Corporation of Nigeria (Amcon) on the Nigerian Stock Exchange. Amcon is a Nigerian state 'bad bank', which took over the asset following Ecobank's disastrous merger with Lagos-based Oceanic Bank.

On 15 September, QNB announced that it had acquired an additional 11% for the equivalent of $283m, "funded through existing resources". QNB said it had taken a "fundamental step" towards its "strategy of being a MEA Icon by 2017".

Following the initial transaction ETI said: "Ecobank is discussing a strategic partnership with QNB which will enable the two banks to forge business relationships of mutual interest to their respective customers." The move was seen as a strong show of confidence after ETI has suffered a year of governance problems; chairman Kolapo Lawson was sacked in October 2013 and chief executive Thierry Tanoh, recruited to some fanfare from the International Finance Corporation, in March. Ecobank has since been rebuilding under new chief executive Albert Essien.

The deal pointed to QNB's ambitions to increase its business in high-growth African markets – it paid $2bn for Société Générale's Egyptian business in Q1 2013 – and may also signal the start of a battle over ownership of ETI, which has a dense network of operations across sub-Saharan Africa (Ecobank has top-three status in 15 of 32 of its Africa markets). South Africa's Nedbank could raise its holding to 20% by year-end, if it carries through the terms of an earlier agreement. South African pension fund the Public Investment Corporation currently holds 18.2%.

SAUDI ARABIA

Local debt market prospects

Riyadh plans to follow up the opening of the Tadawul stock market to foreign investors, who could buy up to 10% of the available paper (*GSN 975/14*), by allowing external investment in the local debt market. The Capital Market Authority (CMA) is working on new rules to promote the local currency bond and sukuk market, which are expected to allow foreign investors to buy bonds for the first time. The CMA is examining a number of measures, including requiring ratings agencies that rate domestic securities to have a local presence, but its rule changes are not expected to be published until 2015.

Bloomberg on 11 September quoted Dubai-based Mashreq Capital DIFC Ltd's Abdul Kadir Hussain as suggesting that banks with experience arranging Islamic bond sales could benefit from the potential debt market opening.

NEWS IN BRIEF

BAHRAIN: Investors pile into 30-year bond issue

Strong demand was reported at the launch of Bahrain's $1.25bn US dollar bond issue on 10 September, allowing the kingdom to benefit from apparently renewed investor confidence to raise an amount larger than previously expected. The 30-year sovereign bond carried a 6% coupon. Its order book exceeded $6bn, as arrangers Citi, Gulf International Bank (GIB), Mitsubishi UFJ Financial Group and Standard Chartered Bank reported a major success. Some 41% of the issuance was sold to investors in the United States, 33% to Europe, 23% to the Middle East and North Africa and 3% to Asia. Bahrain's last deal went to market in July 2013, raising $1.5bn, and was managed by BNP Paribas, Citi, GIB and JP Morgan. Bahrain's sovereign debt is rated BBB with a stable outlook by Fitch Ratings and Standard & Poor's.

QATAR: Shard owner sued

Qatari Diar, the owner of the Shard skyscraper in London, is being sued for £10m by its partner on the redevelopment of the US embassy in London because the project has ground to a halt. According to a report in London's *Financial Times* newspaper, property developer Chelsfield Partners, which has lodged a claim in London's High Court, alleges it is owed the sum under the terms of a contract the pair signed in 2009 to redevelop the Grade II-listed building in Grosvenor Square. This is the second time Qatari Diar, a subsidiary of Qatar's sovereign wealth fund, the Qatar Investment Authority (QIA), has faced a legal battle with one of its London development partners. Property tycoon Christian Candy won a case against the Qatari group in 2010 over their partnership to redevelop the Chelsea Barracks site in west London. His CPC Group later sold its stake to Qatari Diar, leaving the Gulf financiers to go it alone (*GSN 864/11*). The Chelsea scheme won planning permission earlier this year, after Qatari Diar was warned by Westminster Council that it should "start or sell" the site.

COFACE: New regional head

Massimo Falcioni has been appointed to lead French credit insurer Coface's expansion in the Middle East region. Based in Dubai, Falcioni will report to Coface Mediterranean and Africa regional manager Antonio Marchitelli. Falcioni joined Coface on 1 September from rival insurer Euler Hermes, for which he headed Gulf Co-operation Council operations from Dubai. He was previously a senior executive with Volkswagen, Philip Morris and ExxonMobil. Falcioni will have a more Gulf-focused role than his predecessor Jean-Christophe Batlle, who was based between Morocco and Milan promoting the insurer's Mediterranean and Africa department. Batlle – who also previously worked for Euler Hermes – is now responsible for Coface's Africa region.

ITHMAR CAPITAL: $140m from Al Noor Hospitals

Dubai private equity firm Ithmar Capital has sold a 7.3% stake in Al Noor Hospitals for £10.30 ($16.7)/share, pricing the deal at £87.55m. It was the first such sell-down since the Abu Dhabi healthcare company was listed in July 2013. Ithmar retains a 20% stake, according to *Reuters*. The sale was managed by Deutsche Bank, one of the original flotation managers. *Reuters* said: "Gulf healthcare firms have become popular with investors, given the growing wealth of the region and also the increase in 'lifestyle diseases' – for example, five of the six Gulf states are in the global top ten for prevalence of diabetes." Al Noor's other main shareholders are founders Sheikh Mohammed Bin Butti Al-Hamed (28.25%) and chief executive Kassem Alom (10.32%).

However, the opening will be cautious, and initial reports of business opportunities could be overstated, analysts said. "We believe that, unlike equity markets, the opening of the local debt market will remain protracted and very gradual," wrote JP Morgan's Brahim Razgallah.

Saudi Arabia has issued $5bn of the $24bn-worth of Gulf Co-operation Council (GCC) bond issues so far this year; National Commercial Bank issued a SR5bn ($1.3bn) sukuk in February and Saudi Telecom Company and Saudi Electricity Company has also both issued.

In his 12 September analysis, Razgallah wrote: "With $603bn in total market capitalisation, international investors are set to be lured by the limited opening of the stock market. The Saudi local debt market contrasts sharply with equities. Although Saudi Arabia has one of the oldest local debt markets across the GCC, secondary market liquidity is very limited and local investors, typically banks, have a buy-and-hold profile. Importantly, the size of the local Saudi debt market remains very small with public debt-to-GDP at 2.7%."

The government has used oil revenues to actively reduce the public debt, which stood at 100% of GDP in 1999; it was down to $20bn in 2013. But securities that could be traded to develop the market remain limited; government bonds accounted for only 2.6% of domestic banks' total assets in 2013. Razgallah said that "government securities represent a high-quality collateral which should play an increasingly important role to comply with the new Basel III rules". Consequently, he said, "unless the kingdom actively increases net issuance of government securities and the debt-to-GDP ratio, the government is set to remain cautious in opening the local market for government securities. [And] access of foreign investors to local corporate debt is unlikely ahead of the opening of the market for government securities."

Crunch time approaches for Iran deal

GSN view, continued from page 18

confidence-building period will be required, but there is time for this, with European partners prepared to remove sanctions (the US process, involving Congress, will be messy), allowing Iran to rebuild its economy – a key aim of Tehran's decision to embark on the process, as stated by Khamenei.

Trust is the key issue. Jenkins and Dalton put considerable emphasis on the 'nuclear fatwa', a body of opinions issued by Khamenei; the Atomic Energy Organisation of Iran-affiliated Bamdad Institute has published a collection of some 30 extracts on weapons of mass destruction from the rahbar's sermons and statements since 2003, which show "beyond doubt" that Khamenei has consistently regarded weapons of mass destruction, including nuclear weapons, as *haraam* (forbidden).

But even if Khamenei has been consistent, can the international community trust the many-headed Iranian state structures to behave in accordance with the nuclear fatwa? Safeguards can and will be built into a new agreement, and internationally verified through the Non-Proliferation Treaty and other instruments. Iran wants a deal; the international community needs one. In a period marked by newsflow that is negative even by Middle Eastern standards, it is time to move towards a comprehensive agreement bringing Iran back from the cold.

**http://www.chathamhouse.org/sites/files/chathamhouse/field/field_document/20140904IransNuclearFutureJenkinsDalton.pdf*

COURTS

Saudi-Swiss case dismissed

A $350m lawsuit brought by Al-Khobar-based Al-Rushaid Parker Drilling (ARPD) against the private Swiss bank Pictet & Cie was dismissed from a New York court in early September for lack of personal jurisdiction. Justice Saliann Scarpulla said that a foreign bank's "passive" receipt of funds through New York did not amount to purposeful business conduct in the state.

The case was brought by the Saudi company in August 2011. ARPD alleged that three former senior employees laundered $4m in kickbacks through accounts with Pictet. "Pictet's part in the conspiracy was clear – it was charged by the corrupted employees with responsibility of concealing their receipt of the bribe money," its complaint said. According to the complaint, the employees pocketed the bribes from vendors who were awarded contracts to complete six oil rigs under an agreement between ARPD and Saudi Aramco. The alleged losses of $350m relate to the vendors' inflated prices and failure to deliver rig equipment in a timely manner.

2014

22-24 September: MEHSE, Doha

Web: *www.spe.org/events/mehse/2014*

12-14 October: Power-Gen Middle East, Abi Dhabi

Web: *www.power-gen-middleeast.com*

28-29 October: Monetising Mature Fields 2014, Dubai

Web: *www.matureoilfields.com*

17-19 November: META Projects, Dubai

Web: *www.metaprojectsexpo.com*

24-26 November: SAOGE 2014, Dammam

Web: *www.saoge.org*

2015

3-5 February: Middle East Artificial Lift Forum, Doha

Web: *http://www.mealf.com*

2-4 March: Solar Middle East, Dubai

Web: *www.solarmiddleeast.ae*

11-13 May: Saudi Energy, Riyadh

Web: *http://www.saudi-energy.com*

GSN Risk Grade – C2: Riyadh supports US strategy to tackle ISIL

Overview

Politics: Saudi Arabia is the giant of the Gulf Co-operation Council, not least because of its massive oil wealth. Established in 1932, the kingdom is an absolute monarchy. To date, all rulers have been sons of Abdelaziz Bin Saud, the first monarch; a few younger family members have recently taken more senior positions, but there is much speculation about what will happen when the aged first generation of Al-Saud eventually cede control. Reigning nonagenarian King Abdullah Bin Abdelaziz took over in 2005 on the death of his brother Fahd, and has overseen some reform of education and the judiciary. He faces many problems, including a poor underclass, booming population, high unemployment and unrest in Shiite communities in the Eastern Province. Foreign policy is driven by the desire to maintain regional hegemony and to compete with Iran. Riyadh's relationship with Washington has been stormy at times, but is sustained by a mutual dependence. Saudi Arabia has a poor record on human rights, and severely restricts freedom of expression. Despite small advances, women's rights continue to be limited: women may not drive, and must have permission from a male guardian to travel, work or enrol in higher education. King Abdullah has said women will be fully involved in the four-yearly municipal council elections (the country's only polls) and, in early 2013, women were for the first time appointed to the 150-member shura council.

Economy: Saudi Arabia is the world's largest oil exporter, and, according to Opec, has the second largest reserves (265.9bn bbls), behind Venezuela. Saudi production can reach in excess of 10m b/d (some estimates suggest as high as 12.5m b/d), and it is the only producer with significant swing capacity, making it critical to oil markets. The kingdom also possesses the fourth largest natural gas reserves in the world, according to the International Energy Agency. On a domestic level, oil wealth provides the bulk of earnings and revenue. The government is under pressure to change domestic fuel consumption patterns, which, driven up by population growth and fuel subsidies, could threaten exports. Crude exports have declined from their peak in 2012, but high global oil prices and a reduction in government spending are expected to maintain large (albeit reduced) fiscal and current account surpluses.

Away from oil, Saudi Arabia has set its sights on being one of the world's most competitive economies. This has led to huge infrastructure investment, improvements to transport systems (seaports, airports, road links, rail), moves towards a competitive wholesale electricity market, and massive investment in education (literacy rates have jumped from 33% in 1970 to 83% now), health and technology. Officially, the kingdom's unemployment rate is 10.5%, but that discounts large numbers of working-age Saudis. Around 90% of Saudis who work are thought to be employed by the government.

Recent developments

Islamic State: Saudi Arabia has agreed to host training camps for moderate Syrian rebels as part of President Barack Obama's broad strategy to combat Islamic State (ISIL) militants who have taken over parts of Syria and Iraq, US officials said on 10 September. The following day, US secretary of state John Kerry was in Jeddah, where he won support from six Gulf states including Saudi Arabia and Qatar, plus Egypt, Iraq, Jordan and Lebanon for a 'co-ordinated military campaign' against ISIL fighters. Saudi Arabia has said it might reopen its embassy in Baghdad if the security situation improves.

Iran: In the face of the ISIL threat to the region, Saudia Arabia and Iran appear to be taking a pragmatic aproach to relations. Iranian foreign minister Mohammad Javad Zarif told a news briefing on 31 August that he was ready to meet Saudi foreign minister Prince Saud Al-Faisal. "The first opportunity for talks between me and his excellency Saud Al-Faisal is on the sidelines of the United Nations General Assembly, and we hope to be able to use the opportunity. After that, I am ready to visit Saudi Arabia and welcome [Prince Saud] to Iran." Prince Saud had invited Zarif to Riyadh in May. Iran's deputy foreign minister for Arab and African affairs, Hossein Amir Abdollahian, was in Jeddah on 26 August for a meeting with Prince Saud. State news agency *SPA* said the men "reviewed bilateral relations between the two countries and discussed a number of regional and international issues of common interest".

Human rights: Lawyer and human rights activist Waleed Abu Al-Khair, who was sentenced in July to 15 years in prison, has been forcibly moved to a prison almost 1,000km away from his family, according to Human Rights Watch (HRW). HRW said on 16 August that Abu Al-Khair had been moved five times since his arrest in April, and that his wife had said prison officials "beat him on his back and dragged him from the prison with chains, injuring his feet, after he refused to co-operate in his transfer to another prison the previous day". Meanwhile, Amnesty International said there had been a surge in the number of executions; 22 people were executed between 4 August and 22 August, compared to 17 announced executions between January and July. Some of those executed have been convicted of non-violent offences.

Oil: Saudi Arabia reduced its oil output in August by 400,000 b/d, coinciding with a drop in oil prices towards its preferred level of $100/bbl. It said it produced 9.597m b/d in August, down from 10.005m b/d in July.

Tadawul: The Saudi cabinet approved the opening of the stock market to foreign financial institutions at a session on 21 July, headed in Jeddah by Crown Prince Salman Bin Abdelaziz. A statement from the Capital Market Authority on 22 July said it was hoping to allow foreign financial institutions to invest in "eligible" stocks during the first half of 2015.

Factbox

- **Head of state and government:** King Abdullah Bin Abdelaziz Al-Saud (since 2005)
- **Crown prince:** Salman Bin Abdelaziz (since 2012)
- **Population (2012):** 28.3m (82% urban, 30% under 15)
- **Religion:** 97% Muslim (of which 10-15% Shia)
- **Perceived corruption rank (2013):** 46 (0-100, where 0 is highly corrupt)
- **Per capita GDP (2012):** $25,136
- **Human development index ranking (2012):** 57 (of 186)
- **Oil reserves (end 2011):** 267.9bn bbls
- **Currency (end 2012):** $1 = 3.75 Saudi riyals

Sources: UNDP, World Bank, Pew Forum, Transparency International, EIA, Sama

Selected economic indicators

	2012	2013	2014f	2015f	2016f
GDP (% change)*	5.8	3.8	4.1	4.2	4.2
GDP ($bn)**	734.0	745.3	772.6	790.9	815.9
Gross nat savings***	48.8	45.5	44.4	42.5	42.2
CPI inflation (% change)	2.9	3.5	3.0	3.3	3.5
Gen govt total exp***	35.7	36.1	35.5	36.2	35.7
Gen govt gross debt***	3.6	2.7	2.6	2.6	2.5
Current a/c bal ($bn)	164.7	129.8f	121.9	104.9	97.7

** Constant prices, ** Current prices, *** % of GDP, f = forecast*

Source: IMF, World Economic Outlook Database, April 2014

GSN Risk Grade – A▼1: Attempts to resolve GCC spat; foreign ownership rules relaxed

Overview

Politics: The Al-Thani family has ruled Qatar since the mid-19th century, its power entrenched at the end of the Ottoman Empire with British recognition of its right to govern. Full independence was declared in 1971 and, officially, Qatar is slowly moving towards democracy. Elections have been held since 1999 for a Central Municipal Council, though voter turnout has halved to around 40%, reflecting disillusionment. The 2003 constitution also approved plans for a 45-member parliament, two thirds elected, but has yet to be implemented.

In the last two decades, Qatar gained hugely in power and confidence, led by the ambitious partnership of former emir Sheikh Hamad Bin Khalifa Al-Thani (who overthrew his father in 1996) and his prime minister and foreign minister Sheikh Hamad Bin Jassim Al-Thani (HBJ). The tiny state is known principally for its extreme wealth and energetic foreign policy; Doha's support for Islamist groups has seen it highly involved in the politics of the region, post-Arab Spring, to the irritation of Gulf neighbours such as Saudi Arabia, which has opposed the Muslim Brotherhood. In late June 2013, Sheikh Hamad handed power to his son Tamim; the new emir had long been groomed for the top job, and is not expected to radically change Qatar's direction. Qatar has become an increasingly important ally to, and investor in, the West, and is home to Centcom, the Pentagon's regional command.

Economy: Rising energy prices and production have made Qatar increasingly wealthy: the tiny emirate topped Forbes' list of the world's richest countries in 2012, and had a predicted GDP per capita of $99,838 in 2013. Real GDP growth is forecast to accelerate as diversification into manufacturing, financial services, trade and hotels pays dividends. The government has invested massively in infrastructure, and economic expansion has led to rapid growth of the labour market. Around 94% of the workforce is foreign, and only a small percentage of nationals are employed in the private sector. Qatar is also known for its huge overseas investments: sovereign wealth fund the Qatar Investment Authority (QIA) was set up in 2005, and owns vast real estate portfolios worldwide.

Like most Gulf states, energy, and especially huge gas reserves, have been the mainstay of the economy, with hydrocarbons contributing around 58% of GDP. Qatar holds the third largest gas reserves in the world (around 895.8tcf, mostly located in an offshore field shared with Iran which is not much smaller than the country itself) and is the biggest exporter of LNG. Its capacity is still increasing, though it has a self-imposed moratorium on developing new projects until 2015 which will see hydrocarbons income slow. Qatar has relatively low reserves of oil, some 25.2bn barrels, and produces around 1.45m b/d of crude and condensate.

Recent developments

GCC relations: The Gulf states are confident that the diplomatic dispute between Qatar, Saudi Arabia, the UAE and Bahrain will be resolved soon, according to a report in Saudi-owned *Asharq Al-Awsat*. Speaking on 16 September on the sidelines of a two-day conference in Riyadh to discuss regional issues, UAE foreign minister Anwar Garqash said that, despite the tensions arising from the dispute with Qatar, "everyone is optimistic" that a solution will be found, in light of the "wise and patient" leadership of Saudi Arabia. The dispute saw Saudi Arabia, Bahrain and the UAE remove their ambassadors from Qatar in March. GCC foreign ministers gathered in Jeddah on 30 August for the 132nd session of the GCC ministerial council, which Kuwaiti foreign minister Sheikh Khalid Al-Hamad said was held in a "positive spirit", noting that the return of the ambassadors might "happen any time".

Human rights: Two British human rights researchers, who were detained for almost nine days, have been released. Krishna Upadhyaya and Ghimire Gundev, who were invesigating the treatment of migrant workers and worked for Norway-based human rights organisation Global Network for Rights and Development, disappeared on 31 August. Qatar's foreign ministry announced on 6 September that they were "being interrogated for having violated the provisions of the laws of the state of Qatar".

Fifa World Cup: The organisers of the 2022 World Cup are confident they will be exonerated in the independent investigation into the bidding process, a senior official said on 9 September. Communications chief Nasser Al-Khater told delegates at the Soccerex Global Convention: "We've always been confident of our position in the way we carried ourselves during the bidding stage." Fifa ethics committee investigator Michael Garcia delivered his report on the bidding process for the 2018 and 2022 world cups on 5 September to the head of the committee's adjudicatory chamber.

Foreign ownership: Emir Sheikh Tamim Bin Hamad Al-Thani has issued a law enabling non-Qatari investors to own up to 49% of shares in Qatari companies listed on the Qatar Exchange, compared to the maximum 25% permitted previously. Law number 9 of 2014, issued on 5 August, states that companies must get approval from the Ministry of Economy and Commerce to raise their foreign ownership limit; they could potentially go above 49% if they get approval from the cabinet.

Qatar Petroleum: Saad Sherida Al-Kaabi, former QP director of oil and gas ventures, was appointed managing director on 9 September. Separation of the roles of minister and state-owned energy company head has been on the cards since at least early 2011, when Mohammed Al-Sada replaced Abdullah Bin Hamad Al-Attiyah as energy minister.

Factbox

- **Head of state and government:** Emir Sheikh Tamim Bin Khalifa Al-Thani (since 2013)
- **Head of government:** Sheikh Abdullah Bin Nasser Bin Khalifa Al-Thani
- **Population (2012):** 2.1m (99% urban, 13% under 15)
- **Religion:** 78% Muslim (of which 10% Shia)
- **Perceived corruption rank (2013):** 68 (0-100, where 0 is highly corrupt)
- **Per capita GDP (2012):** $93,825
- **Human development index ranking (2012):** 36 (of 186)
- **Oil reserves (end 2011):** 25.4bn bbls
- **Currency (04/2014):** $1 = 3.64 Qatari riyals

Sources: UNDP, World Bank, Pew Forum, Transparency International, EIA, QCB

Selected economic indicators

	2012	2013	2014f	2015f	2016f
GDP (% change)*	6.2	6.1f	5.9	7.1	7.4
GDP ($bn)**	192.4	202.6f	213.8	225.2	239.0
Gross nat savings***	60.9	58.4f	54.1	50.0	46.6
CPI inflation (% change)	1.9	3.1	3.6	3.5	3.6
Gen govt total exp***	30.6	30.4	31.2	30.9	30.1
Gen govt gross debt***	35.4	34.2	25.4	25.1	24.9
Current a/c bal ($bn)	62.3	59.2f	54.3	46.1	35.2

** Constant prices, ** Current prices, *** % of GDP, f = forecast*

Source: IMF, World Economic Outlook Database, April 2014

Crunch time looms for vital Iranian nuclear deal

Fears that Ayatollah Ali Khamenei's illness could lead to a major internal power struggle within the next, critical few weeks seem premature (*see Politics*). Meanwhile, even if the rahbar (supreme leader) has been clear that Iran will not be joining a US-led coalition to fight the Islamic State challenge, Washington has been talking about Iran in more constructive terms, seeing it as an important regional player that cannot be ignored in countering the jihadist challenge rising out of Iraq and Syria. The regional realignment gives welcome substance to President Hassan Rouhani and foreign minister Mohammad Javad Zarif's claims to be repositioning the Islamic Republic as a major regional actor – and trading partner – in the face of rival factions' scepticism (*GSN 975/11*). But the more positive mood does not necessarily mean that Iran is going to see a resolution of its intractable nuclear problem that will inevitably lead to an end to international sanctions.

Under the Joint Plan of Action (JPA) agreed on 24 November 2013 by Tehran and the P5+1 powers, moves have been made to address concern that Iran was positioning itself to 'break out', which would allow it to produce sufficient weapons-grade uranium to manufacture a bomb before the UN Security Council, or others, could stop its production. The JPA envisaged a comprehensive solution that should be negotiated by 20 July 2014, or within an agreed additional period (*GSN 959/1*). The JPA negotiators failed to achieve the July target, and agreed that 24 November should be the final date for reaching a comprehensive solution.

Some analysts – including former UK diplomats Peter Jenkins and Richard Dalton, authors of the *Iran's Nuclear Future* report published by London think tank Chatham House's Middle East and North Africa Programme* – believe 24 November could prove a final deadline. The process could founder, despite the evolving geopolitical environment and other positive factors, were the protagonists to fail to reach an agreement then.

Not everyone agrees: further talks to reach a comprehensive agreement could be envisaged in H1 2015, some analysts argue. But time is running out, with 'pushback' against the agreement building, from hardliners in the Iranian military/security, judicial and other elites, within the US Congress and from allies of anti-JPA hardliners Israel and Saudi Arabia.

A comprehensive agreement is clearly worth reaching. It should help to keep the Rouhani/Zarif tendency in office, outflanking more radical elements who might seek to revert to the more conflictual (if economically disastrous) policy of the Ahmadinejad era. It is unlikely to lead to a deeper rapprochement. *GSN* has written before about the potential for a potential 'Obama in Iran' moment, as the US president seeks to burnish his thin foreign policy legacy; the rahbar has clearly shown he doesn't want to play ball. But it should reduce tensions, whose flames are fanned by Israeli Prime Minister Benjamin Netanyahu, on the one side, and Saudi claims about an Iranian nuclear threat, on the other. At their report's launch on 4 September, Jenkins and Dalton argued that western policy-makers would do well to take less heed of Israel and Gulf allies while shaping a pragmatic, workable policy.

There will be much discussion of centrifuge numbers and sensitive questions to answer over Iran's non-operational centrifuges (up to 10,000 of them) between now and 24 November. Compromises will be needed on all sides, but this is not impossible. If agreement can be reached, a lengthy

Continued on page 15