

Strategic Weekly Analysis

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From the Editor's Desk

Dear FDI supporters,

Welcome to this week's edition of the *Strategic Weekly Analysis*. This week, FDI Associate Jahn Russell investigates the prospects for talks between the United States and the Taliban.

We then look at Iran, to consider the ramifications of that country's continuing schedule of naval exercises, before heading to South Asia, where FDI Associate N. Sathiya Moorthy analyses the latest developments unfolding in the Maldives.

Next, we move to Africa, first to look at the prospects for the post-Ghadaffi Libyan oil industry, then at the escalating tensions between the two Sudans and, finally, the newly-signed South Africa-Mozambique-Tanzania anti-piracy initiative.

In our latest *Feature Interview*, to be released tomorrow, FDI discusses the importance of the Indian Ocean to Australia with Chief of the Royal Australian Navy, Vice Admiral Ray Griggs.

Strategic Analysis Papers to be released over the next month include an analysis of United States policy in the Horn of Africa region and profiles of the Ethiopian Army and the Lord's Resistance Army rebel movement. Also featured will be examinations of the national involvement in the Indian Ocean region of Indonesia, Qatar and Saudi Arabia. The Global Food and Water Crises Research Programme will investigate the future water situation in South Korea.

Major General John Hartley AO (Retd)
Institute Director and CEO
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To Talk or Not to Talk? US-Taliban Discussions in Qatar

Background

In December 2011, the first reports came to light of a Taliban plan to set up a diplomatic mission in Qatar to facilitate talks with the United States. Initial reports attempted to downplay the importance of the initiative. On 22 January, it was reported in the *New York Times* that the chief US envoy in the process,

Marc Grossman, had rejected the notion that actual peace negotiations had begun. This point was also reinforced by an official Taliban press release from its propaganda website, *Shahamat*, which stated that, while it was opening a diplomatic office in Qatar, it had not commenced any peace negotiations.

Comment

Related to this are reports that the entire process was kick-started last year by a secret letter sent directly from the Taliban's spiritual leader Mullah Mohammad Omar to US President Barak Obama. Omar had apparently offered the commencement of peace talks, conditional on the release of five high-level Taliban prisoners currently in US custody in Guantanamo Bay.

The Taliban has many reasons to downplay its level of involvement in this process. Reports are indicating that there are concerns within the Taliban that many field commanders would not accept any agreement unless the US made significant concessions. Some, of course, would never accept any agreement, believing the imminent 2014 withdrawal of the US-led NATO-ISAF forces gives them ascendancy.

When the news broke about talks between the US and the Taliban, it was met with surprise by a number of other key players; most importantly, the Afghan Government, which had not been notified of the initial contacts in Qatar. The initial response from Kabul was one of disapproval, with the government recalling its ambassador from Doha. The *New York Times*, on 15 December, quoted an Afghan official as stating, '... we need to make sure anyone who is involved in this process keeps us fully engaged and consults us every step of the way... Our American and German partners have kept us in the picture, but the Qataris have not consulted with us on this.'

The possibility of direct talks between the Taliban and the US also caused concern in Pakistan, which in the past had acted as the primary intermediary for all western contact with the Taliban, through the ISI, its powerful intelligence agency. Some progress has been made in bringing Pakistan onboard. The BBC reported on 6 February that Pakistani Prime Minister Yousuf Raza Gilani was visiting Qatar – in part to discuss the Taliban diplomatic initiative.

It was also reported in the same article that Afghan President Karzai was attempting to initiate separate talks, to be hosted by Saudi Arabia, involving the Taliban and the Afghan Government. The move is driven by Afghan concern over increased Pakistani involvement, which is perceived by many in the Karzai Government as a direct threat to their administration. The status of this counter-initiative looks weak, however. Taliban spokesman Zabihullah Mujahi released a statement on 1 February unambiguously declaring that the group would not be entering into any negotiations with the Afghan Government in Saudi Arabia.

The current status of the Qatar talks still appears to be tentative, with both the US and the Taliban at pains to state that the current discussions are not "peace talks". Currently, the Taliban remains resolute on the demand for a prisoner transfer before actual peace talks can even commence. Given that the Obama Administration is facing an election this year, any move in this direction would represent a significant political risk. It is clear that Republicans are gearing up for a fight if the President does authorise a prisoner transfer. The Republican Chairman of the House Intelligence Committee, Mike Rogers, stated that the administration would be crossing a 'dangerous line' with its plan to facilitate peace talks with the Afghan Taliban by transferring the five prisoners in question from US military detention.

Given the current political environment, progress is likely to be slow. That is, however, unless the Taliban drops its demand for the release of its prisoners before peace talks can begin, or if it can somehow offer

the Obama Administration concessions that are adequate to offset the political risk that it faces by acquiescing to those demands. In the longer term, the status of the peace talks might very well depend on the result of the 2012 presidential elections.

Jahnu Russell

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About the author: Jahnu Russell manages the international research team for the Melbourne-based company, Export Results. He has a Bachelor of Business (Finance) and a Bachelor of Arts (Asian Studies), and was formerly a member of the Export Consultants Association of Australia (ECAL). He has an ongoing interest in strategic issues and the critical role of Australia's trading relationships.

Continuing Iranian Naval Exercises: Implications and Possibilities

Background

Iran's Islamic Revolutionary Guard Corps is set to continue exercises both in the Persian Gulf and further inland. These exercises are publicly designed to impress upon both potential aggressors and Iran's population, its intention to confront, and therefore possibly deter, any perceived military attack.

Comment

This month's exercise, following similar exercises last month, undoubtedly reflects Tehran's concern over the latest sanctions. It is also possible that the exercises, particularly those in the Persian Gulf, are aimed at impressing Saudi Arabia, Iraq and the UAE; all of which may be prepared to increase their oil production.

Tehran recognises that it would suffer irreparable damage should United States' and other naval forces in the region target its military assets and nuclear facilities. But, equally, it seeks to impress upon any would-be attacker that they, too, would sustain considerable damage.

In recent times, Tehran has sought to demonstrate its ability to mine the Straits of Hormuz, to emphasise the effectiveness of its Russian designed anti-carrier torpedoes and to use "swarm" tactics whereby scores of fast, missile boats are deployed. Nor is there any doubt that the passage of oil and gas through the Straits would be delayed at least temporarily.

But Tehran also seeks to impress upon its people that it is not overawed by threats of retaliation and further sanctions.

The likelihood of conflict, therefore, is small, although there is always a risk of miscalculation.

Major General John Hartley AO (Retd)

Institute Director and CEO

Future Directions International

Maldives: Putting Democracy Back On Track

Background

A week after President Mohammed Nasheed resigned, to be succeeded by his Vice-President Mohammed Waheed Hassan, Maldives is limping back to normality. Hassan is to complete the residual part of Nasheed's five-year term, ending November 2013. The deep political divisions remain, and the wounds of the previous week's events have left a bad taste in the mouths of the people at large, and Nasheed's Maldivian Democratic Party (MDP) cadres in particular. All now need to take stock of the recent developments with equanimity and arrive at solutions for the medium- and long-term good of the nation.

Comment

Nasheed's sudden resignation had been preceded by a series of events, not just over the previous weeks, as is often being said now, in a reference to the "protect Islam" call by the "December 23 Coalition" launched by religious NGOs, to which desperate Opposition political groups, whose egos were matched only by the personal ambitions of their leaders, tagged along. It had commenced as early as mid-2010, when the parliamentary polls threw up a minority for the President's party.

Still Living in the Past

Though a new Constitution aimed at ending the 30-year long autocracy of President Maumoon Gayoom and ushering in multi-party democracy was adopted in 2008, it did not provide for the former in spirit. Although it did usher in multi-party democracy, all the stake-holders at the time had drafted the new Constitution while keeping in mind a high possibility of President Gayoom returning to power. This meant that the divided Opposition of the time focussed more on introducing checks and balances through Parliament, rather than ushering in the Westminster-style scheme that President Gayoom favoured.

As the 2008 presidential polls showed, Gayoom lost and MDP's Nasheed won in the second run-off round, with two candidates accounting for close to 32 per cent of the popular votes endorsing his candidacy. Yet, by causing their exit from the nascent government and coalition, President Nasheed ended up losing the parliamentary polls. The various players did not know how to act out their new responsibilities and effectively lived in their respective pasts.

It was the beginning of a process that culminated in President Nasheed's resignation, after over three long years of daily tussle between the Executive on the one hand and the legislature and/or the judiciary on the other. President Nasheed's tendency to deflect issues by introducing new elements and the MDP members' continuance of their pre-democracy, pro-activism stances in lieu of actual performance meant that the Opposition did not have to fight for issues. Instead, they had issues offered on a platter, to fight for and to fight over.

All this was in full view, first at the morning rally when some policemen joined the Opposition demands for President Nasheed's resignation on 7 February. It was also the case the same afternoon, when the MDP staged a protest equal to the "protect Islam" rally of 23 December, which was marred by violence. Though street-violence spread across the country almost simultaneously, with the MDP accusing the security forces of targeting them, normality was restored soon enough, with benevolent advice to all stakeholders by friends of Maldives. President Waheed, too, appreciated the need for him to play a positive role in the matter, and indicated that a subsequent arrest warrant issued against President Nasheed may not, after all, be executed.

“Democratic Transition” In Peril

Regardless of the controversy surrounding President Nasheed’s resignation, and apart from his belated disclosure of a mutiny in the armed forces, the development may have thrown up a situation for the nation to come to terms with its longish “democratic transition” since 2008 and find common ways to settle down and make it work. Given the geo-strategic locale of the Indian Ocean archipelago, the country’s perceived identity crisis in terms of it being an Islamic nation where religious conservatism bordering on fundamentalism has crept in, and the permanently perilous state of the economy, a rudderless future is the last thing that Maldives can afford at this very critical stage in its experiment with Western-style democracy.

The nation cannot fail itself. Nor can it fail the polity, either. They need to strike a compromise on the issues surrounding President Nasheed’s resignation. As successor, President Waheed has called for a ‘national unity government’ and, after demands from the international community, has also spoken about probing the circumstances surrounding his predecessor’s resignation. He has, however, denied President Nasheed’s charges that he was a part of the conspiracy.

Restoring Faith in Institutions

Friends of Maldives, starting with India and the US, and not excluding Germany and the UK, have called for the early restoration of normality, with some wanting President Waheed to prove his relative legitimacy early on. The US, in particular, has not accepted Nasheed’s demand for his successor to resign and order fresh polls within two months. Visiting US Assistant Secretary of State, Robert Blake, said that the state of independent institutions in the country, such as the Election Commission and the judiciary – a complaint reiterated by President Nasheed in office and afterwards – did not infuse confidence to order early polls.

President Waheed is unclear about the shape that the promised probe should take. One suggestion is for him to use the occasion to restore the confidence of the people and the polity alike in institutions like judiciary and the Election Commission, in that order. President Waheed has appealed to countries such as Australia to confer early recognition on his government, to which he has since added Cabinet Ministers from most parties except the MDP, for which he seems to have retained some slots, nonetheless. The MDP, however, is adamant. On that would also depend, not only the future of the MDP, but also that of Maldives.

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About the Author: *The writer is Director and Senior Research Fellow at the Chennai Chapter of the Observer Research Foundation, a multi-disciplinary Indian public policy think-tank, headquartered in New Delhi.*

Libyan Oil 2012: Prospects and Implications

Background

Libyan oil production has defied expectations and has already regained pre-revolution levels. While the nation's "black gold" will provide much-needed revenue for the war-ravaged economy and infrastructure, considerable issues and challenges remain. These considerations should feature prominently as Libya enters the next stage in its post-revolution transition. Fundamentally, institutional reform is required, although doubts remain over the current governments' ability and conviction to achieve large-scale reform. For Libya to maximise its oil potential and, hence, its economic potential, the state must, as a matter of some urgency, develop initiatives to foster commercial confidence, within a stable environment bounded by strong regulatory and legal frameworks.

Comment

In early February, the Organization of the Petroleum Exporting Countries (OPEC) published its monthly report. While January's report warned that demand was likely to be negatively impacted by European debt fears and uncertain US economic growth, the news was more positive from Libya. Since the end of the Libyan revolution and the death of Colonel Gaddafi in late 2011, Libyan oil output has been recovering. Citing secondary sources, the report stated that Libyan oil production in January had risen to 30.9 million barrels a day, a production level not reached since October 2008.

Libya's rapid resumption of production ostensibly bodes well for the country. As demonstrated in Angola at the end of the civil war in 2002, oil revenues offer a vital way to fund reconstruction efforts. Correspondingly, in the Middle East, Iraq has benefited from exploiting its large oil reserves after the fall of Saddam Hussein in 2003, to fund infrastructure development and investment in rebuilding projects. Importantly, the economic opportunities created by oil, often have a positive correlation with security and stability. This relationship is likely to be a motivating consideration for Libya's interim National Transitional Council (NTC), which currently sustains a loose control over the country.

Libya is endowed with the world's eighth-largest oil reserves. Libyan crude oil has the additional benefit of a low-sulphur ratio, reducing refinery costs. An increase to Libyan production comes at an opportune time, with the European Union's embargo on Iranian oil and potential disruption in Nigeria, Syria and Yemen. It is vitally important that nascent developments in Libya's oil sector are harnessed to foster resilience, and strengthen the country against post-regime change vulnerabilities. For this to occur, solutions must be found for existing, as well as emerging, challenges within Libya's business environment, regulatory frameworks and the nation's security situation.

Although the damage to Libya's hydrocarbon infrastructure during the 2011 conflict was severe, the sector escaped initial projections of large-scale destruction. The NTC has been quick to capitalise on production, as they seek to resuscitate Libya's destroyed economy. This will be an arduous task; oil revenues may exaggerate or hide economic trends. According to the IMF, Libya's economic indicators are extremely poor; the nation's Gross Domestic Product (GDP) has contracted by sixty per cent since early-2011. Similarly, the Libyan *dinar* has fallen twenty per cent on the black market. Unemployment unofficially reached twenty-six per cent prior to the uprising; in post-Gaddafi Libya, this statistic is likely to be significantly higher. Libya's foreign assets were unfrozen in late-2011. So far, however, they have not been reabsorbed into the local economy, creating a significant shortage of liquidity. To counter this, withdrawals from banks have been capped, creating distrust of the financial system. Such developments

provide an insight into the systemic socio-economic issues facing the NTC, and provide potential catalysts for social unrest, which would further disrupt oil production.

Various trade missions have engaged the NTC, although few countries have confirmed long-term commitments to Libya. Concerns over the nation's business environment remain, largely as a result of the continuing economic and stability issues. Equally, doubts remain over the authority and limitations of the NTC's mandate to make long-term policy commitments and decisions. This has resulted in hesitation from foreign companies for placing tenders for larger, more resource and time-intensive projects, effectively limiting Libyan growth. Further uncertainty has been created by the NTC's comments in providing competitive advantage to companies from countries that supported the rebel movement. ENI of Italy, Repsol YPF of Spain, Total of France, BP of Britain, and Austria's OMV, were among the largest producers in pre-conflict Libya, and feature as those most likely to benefit under the NTC's rule. Chinese, Russian and Brazilian companies, whose governments were more reserved in support of the NATO-led campaign, will potentially experience hurdles in attempts to secure future projects.

Libya, like many former dictatorships, suffers from endemic corruption and a cumbersome bureaucracy. This has translated to poor regulatory frameworks, likely to create challenges for potential investors in the Libyan hydrocarbon sector. British risk advisory group, Maplecroft, predicts that the NTC, in an effort to 'retain a semblance of legitimacy', will tackle 'emotive issues', including the corruption in old oil contracts. Potentially, this may expose investors and pre-Gaddafi contracts to renegotiation or even annulment. New commercial codes and labour laws may further undermine investment, by creating legal and operational disruptions.

The security situation in Libya remains tense. Late-January's attack by pro-Gaddafi forces in Bani Walid, highlighted the fact that Libya remains in a period of transition. The revolutionary euphoria of militia brigades is quickly disappearing; these heavily armed groups now undermine NTC claims for control over Libya. The government must adopt strategies to disarm and integrate the militia groups into the political process, and create a security infrastructure to foster much needed legitimacy and control.

A successful post-Gaddafi Libya could provide the model for post-revolutionary nations throughout Africa and the Middle East, challenging ideas on the "resource curse". While oil provides much needed revenue, future Libyan prosperity will equally rely on developing a supportive business environment, a robust regulatory architecture and a stable security situation. Failure by the NTC to capitalise on the opportunities created by oil revenue during this seminal transition period would be severe. The results of such a failure could spread far beyond Libya, and result in the state becoming a security liability for Africa, the Middle East and Europe.

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Sudan on Brink of War As Leaders Negotiate Terms over Sovereignty, Trade and Oil

Background

Sudan and South Sudan commenced negotiations in the Ethiopian capital, Addis Ababa, on 11 February, aimed at resolving differences between the two countries on issues that include oil, trade, borders and immigration.

Comment

The talks come amid fears of further conflict between the two sides, after South Sudanese President Salva Kiir ordered the new country's army on 8 February to deploy along the border with Sudan and to prepare for a possible war.

Sudanese President Omar al-Bashir has warned that the climate between the two countries was 'closer to a climate of war than one of peace,' a statement that President Kiir said amounted to a declaration of war. Kiir cited fears that Sudan was preparing to 'invade the South and reclaim the territory by force after losing oil.'¹

When South Sudan gained independence in July 2011, it took with it three-quarters of Sudan's oil. With all the pipeline and export facilities located in the north, however, both countries have found themselves in a difficult position. Sudan is demanding US\$32 per barrel for the transit of South Sudanese oil. South Sudan, however, is unwilling to pay above normal international charges of around one dollar. It would rather the oil 'remain underground' to benefit the next generation.² This presents a problem for Sudan, a country now badly in need of hard currency.

On Saturday, the two countries signed a framework agreement, including a non-aggression pact and an agenda for negotiations. Sudan is awaiting South Sudan's reply to its commercial offer, which includes the sovereignty, transit and services fees for the exportation of South Sudanese oil through the north.

Global Witness, a human rights watchdog based in London, was quoted in the Sudan Tribune as saying that international intervention is needed to help the two countries reach peaceful resolutions. 'The longer this dispute goes on and both economies continue to suffer, the more likely it is that the situation will escalate.'

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¹ Radio Dabanga, 8 February 2012, 'South Sudan warns Sudan and threatens to deploy troops to border'.
<<http://www.radiodabanga.org/node/25111>>.

² *Sudan Tribune*, 10 February 2012, 'Oil talks between Sudan & South Sudan slightly delayed'.
<<http://www.sudantribune.com/Oil-talks-between-north-south,41575>>.

Tanzania Signs up to South Africa-Mozambique Anti-Piracy Agreement

Background

Tanzania has joined South Africa and Mozambique in a tripartite initiative to fight Somali piracy in the three countries' waters. Signing the Memorandum of Understanding in Dar es Salaam on 7 February, Tanzanian Defence Minister, Dr Hussein Mwinyi, committed his country to the [South Africa-Mozambique anti-piracy MoU](#) of 8 November 2011.

Comment

In recognition of the potential southward spread of piracy, the 2011 agreement between Pretoria and Maputo had expressly left provision for Tanzania to join. As before, the focus of the trilateral MoU will be joint military exercises, information sharing and reconnaissance. The MoU gives the defence forces of the three countries the right to search, arrest and pursue any suspected pirate vessel.

While Somali pirates rarely venture into the Mozambique Channel, attempted attacks were reported in Tanzanian waters and as far south as the Comoros, at the northern entrance to the Channel.

Although South African waters are unlikely to ever be the scene of attacks by Somali pirates, for Pretoria the anti-piracy initiatives with Mozambique and Tanzania – and those it has with France – are important. In addition to contributing significantly to the building of regional relations and maritime security, they secure the safety of the Mozambique Channel as a vital corridor for almost all of South Africa's maritime trade.

There is, therefore, a pre-emptive element to these initiatives, particularly as Tanzania and, especially, Mozambique, lack the resources to stave off incursions by Somali pirates. Joint efforts, such as those covered under the MoU, should, along with the acquisition by Mozambique of a permanent piracy monitoring system, go some way towards preventing a repeat of the December 2010 hijacking of the *Vega-5* in the Mozambique Channel.

Equally important is the prevention of a future piracy industry in Mozambique or Madagascar. Both countries, like Somalia, have long, unpatrolled, coastlines, and high levels of poverty and unemployment. Unlike Somalia, they do, of course, have governments, albeit ones that are weak, under-resourced and, in the case of Madagascar, in a state of turmoil. While the causes of piracy invariably lie on land, in working with Mozambique and Tanzania, South Africa is demonstrating that it is not only serious about regional security, but that the prevention of piracy is indeed better than a cure.

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What's Next?

- The Metocean Awareness Course, organised by the Institute of Marine Engineering, Science and Technology, is taking place in Perth on 15-17 February. Among the topics covered will be the importance of meteorology and oceanography to the offshore oil and gas and marine renewables industries. For more, phone (08) 9446 9903 or e-mail: Perthevents@sut.org
- The *Bold Alligator* amphibious and mine warfare training exercise at continues at Camp Le Jeune, North Carolina until 18 February. It brings together troops and sailors from 11 “partnership” countries, including Australia, the UK, Canada, France and the Netherlands, along with the United States Navy and Marine Corps.
- Left-Right Think Tank is hosting a seminar on “US Foreign Policy and Political Shift in South-East Asia” on 21 February, from 6.00pm-8.30pm at the Curtin University Graduate School of Business, 78 Murray St, Perth WA 6000. RSVP to Kendall O'Connor on k.oconnor@leftright.org.au by 16 February.
- The Kokoda Foundation and Edith Cowan University are hosting a free seminar titled “Australia and Outer Space: Recent Developments” on 23 February, from 5.30-6.30pm. The venue is the ECU Mt Lawley Campus, 2 Bradford St, Mt Lawley WA 6050. Register at <http://kokodafoundation.memberlodge.com/Bookings> or info@kokodafoundation.org
- The “World Ocean Summit” will be held by The Economist from 22-24 February in Singapore. For more, see: <http://www.economistconferences.asia/event/world-oceans-summit>
- The UK Foreign and Commonwealth Office will host a conference on Somalia on 23 February. Representatives from some 40 governments are expected to attend, along with the United Nations, African Union, European Union, World Bank, the Inter-Governmental Authority for Development, the Organisation of Islamic Conference and the League of Arab States. Also invited are representatives of Somalia’s Transitional Federal Institutions, as well as the Presidents of Somaliand, Puntland, Galmudug and representatives of *Ahlu Sunnah wal Jamaah* (ASWJ). The aim of the “London Conference” is to establish a new international approach to tackling both the root causes and the effects of the problems in Somalia.

Any opinions or views expressed in this paper are those of the individual author, unless stated to be those of Future Directions International.