

# Analysis selection for JCC

January 2021

## Further widespread inauguration-related protests likely in US following Capitol riot, opens door for limited bipartisanship on policymaking

7 Jan 2021 - Country Risk | Headline Analysis

During the counting of the electoral college votes on 6 January in the United States, protesters broke into the Capitol, where they stopped the proceedings and ransacked several congressional offices.

- **Thousands of demonstrators had been encouraged hours earlier by President Donald Trump, who had told them in a morning rally next to the White House to march to the Capitol to voice their displeasure at the certification of president-elect Joe Biden's victory.** After breaking through police barriers, protesters broke a window and forced open doors to enter the building. During the melee, one woman died from gunshot wounds and another three from unspecified 'separate medical emergencies'. There have been at least 52 arrests, mainly for breaking curfew and weapons charges, according to the police. Media sources have reported that pipe bombs were also found at the committee headquarters of both major political parties. About two hours after the break-in, President Trump released a video message relaying that although he empathised with the demonstrators' desire to overturn the process, they should go home and refrain from violent activity. Congress restarted the counting hours later, with politicians from both parties condemning the rioting.
- **It appears that despite warnings, Capitol Hill police were underprepared for potential violence, calling for the Washington (DC) police's backup only after the situation was out of control.** While most Republican politicians denounced the rioters, right-wing media has offered more of a mixed message on the events, with several outlets casting blame on individuals associated with the left-wing Antifa movement. These assertions appear to contradict multiple images, live television footage, and social media posts of Trump supporters walking throughout the Capitol building. Regardless of the evidence, many on the right will celebrate the disruption and are thus likely to feel emboldened to conduct further protests in the weeks ahead, especially around state capitol buildings and Washington, DC, the weekend before and during the inauguration (20 January). Most protests will not result in damage to property, especially as there is likely to be an increased police presence. However, altercations between protesters and counter-protesters, along with the police, are likely. Some government buildings are likely to be vandalised. Armed protesters may use firearms, with an increasing risk of the police using force, such as stun grenades, rubber bullets, and tear gas. A high risk of attacks by right-wing actors remains, including the use of improvised explosive devices, arson, and/or shootings using assault rifles, especially against government buildings and party headquarters, and potential assassination attempts against Democratic and Republican office holders that have espoused views against the president, especially against lower level, less protected election officials.

- **Since the riot, there have been calls by politicians and media outlets for the president to resign, be impeached, or for the cabinet to invoke the 25th amendment that would install Vice-President Mike Pence as president until Biden's inauguration on 20 January.** These efforts are likely to fail as there is not sufficient time to complete the impeachment/trial process and most cabinet appointees are strong Trump supporters who would likely wish for the president to serve out his remaining two weeks in office. Since the riots, the president has announced that he will respect the transition of power.
- **The election of two new Democratic senators in Georgia and Republican condemnation of the rioters present limited opportunities for compromise on some policy issues during Biden's early term, especially in areas of fiscal stimulus, such as expanding the recently approved USD600 checks to USD2,000, along with other bipartisan legislation, such as infrastructure spending.** This spirit is likely not to last beyond the first six months of 2021, especially if Democrats begin pushing more controversial legislation, as Republicans will need to begin coalescing with the opposition before congressional campaigns begin anew for the 2022 mid-term elections that will begin in late 2021 and early 2022.

### Indicators of changing risk environment

#### Increasing risk

- Media outlets suggesting that the president will not leave the White House on 20 January will raise risks of left-wing protests and result in violent confrontations with Trump supporters.
- Announcements by Democrats that they will initially submit controversial legislation on tax reform or healthcare will increase the prospects of legislative gridlock.

#### Decreasing risk

- Statements from more extreme right-wing groups suggesting that they will boycott protests related to inauguration following the 6 January violence will decrease the size of the protests, leading to fewer confrontations with security services.
- Further statements by Trump stating that he will respect the transition of power and calling for calm will lower the prospects of violent protests.

## Future EU-UK relations

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7 Jan 2021 - Country Risk | Strategic Report

- **The “no tariff, no quota” agreement is a positive indicator for the United Kingdom, but leaves key financial services issues unresolved.** Both sides compromised – notably on fishing rights in UK territorial waters and on competition and state aid rules – to reach the agreement on goods. The agreement on trade in goods is positive for the UK, despite the country running a net negative trade-in-goods balance with the EU, especially given it is currently applying strict coronavirus disease 2019 (COVID-19) virus-related restrictions, which will have a negative effect on economic activity. The UK succeeded in removing any role for the European Court of Justice in dispute resolution, with both sides agreeing to establish a new arbitration process to resolve disputes. Broad policing and law enforcement co-operation was also agreed. Overall governance of the agreement will fall to an EU-UK Joint Partnership Council, comprising members selected by the two sides. However, the contentious question of UK financial services access to the EU market remains unresolved; the two sides agreed to discuss a memorandum of understanding (MOU) and seek to agree text by March 2021, albeit that will not have the same legal status as a treaty.

- **Business uncertainty levels remain high, with a significant risk remaining of cargo delays in 2021.** Road cargo transit has reportedly been light at UK ports, including the key Port of Dover, since 1 January, likely at least partly due to stockpiling in the immediate pre-implementation period and to the impacts of COVID-19 virus-related restrictions. This has meant there have been no widespread port delays in early January. However, there remains an elevated risk of significant cargo delays at UK borders and a related negative effect on supply chains, particularly those affecting perishable goods and just-in-time deliveries, later in 2021. Notwithstanding a trade agreement, the UK will have to begin using new and more time-consuming processes to clear customs into the EU, increasing the costs of doing business. Such processes will significantly extend the time that it takes road cargo in particular to cross from the UK into EU countries, making supply chains potentially more vulnerable to delay and disruption, as problems around UK ports related to COVID-19 in December 2020 indicated.
- **IHS Markit's Brexit baseline had assumed that the EU and UK would avoid a disorderly Brexit, reaching a narrow trade agreement or arrangement from 1 January 2021.** We do not anticipate any significant changes to our near-term GDP profile, with the economy expected to expand by 3.5% in 2021 and 4.9% in 2022. However, the deal is likely to present some economic costs to the UK, and supports our cautious assessment of growth for 2021. Nonetheless, it will provide some respite to a UK economy that is facing record-high COVID-19 infections because of the new variant and ever-tighter restrictions.

#### Indicators of changing risk environment

##### Increasing risk

- UK/EU governments' efforts and resources are dominated by their response to the COVID-19 virus pandemic, delaying the goal of a financial services MOU in early 2021.
- Repeated challenges regarding COVID-19 testing for truck drivers exacerbate delays related to new customs procedures at UK ports.

##### Decreasing risk

- An early detailed agreement in 2021 on the functioning of the Joint Partnership Council would increase confidence in dispute resolution mechanisms.
- Agreement in early 2021 on a financial services MOU signalling continued frictionless UK access to the EU.

## India's farmer protests

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6 Jan 2021 - Country Risk | Strategic Report

Farmers' unions and Indian government representatives held the seventh round of talks on 4 January 2021 to negotiate provisions of three agriculture laws (passed in September 2020). The talks were inconclusive, as the unions demanded to repeal the laws. Hundreds of thousands of farmers, particularly from Punjab and Haryana, have been blockading highways leading to Delhi to protest these laws since the end of November.

- **Stalemate between Indian government and farmers over agriculture laws will persist, with the government unwilling and unlikely to set the precedent of withdrawing its reforms.** More than 50 farmers' unions are opposed to these three laws, which reduce the role of government in setting the price of crops (Minimum Support Price; MSP) and which allow big retail businesses to purchase produce directly from farmers. Farmers argue that without government involvement, price setting by businesses will disadvantage farmers. The government's proposal of amending laws to specify its continued but limited involvement in MSP

is highly unlikely to be accepted by farmers. The demand to repeal laws is unlikely to be accepted by the government as it would appear to set precedence of the government stepping back on its reforms' agenda in response to civil society opposition. The stalemate will therefore continue at least in the one-month outlook until 26 January (India's Republic Day), when farmers have threatened to march into Delhi from the protest sites at the city's borders. In the improbable event that the government agrees to withdraw laws before then, it would fracture public perception of the Indian government, which has a majority to pass laws in parliament but appears to be losing civil society stakeholder support in key sectors. This will probably incentivise further protests, mostly by trade unions opposing recently passed labour laws and privatisation reforms, and civil society groups opposed to laws reportedly part of the government's Hindu nationalistic agenda.

- **Continuing protests will expand to other state highways connecting Delhi, include rail blockades, and probably spread to other Indian states with support from opposition parties.** Protesting farmers have currently blockaded about 10 state highways leading to Delhi, mostly connecting Punjab, Haryana and Rajasthan. To pressurise the government further given the stalemate, the blockades are likely to expand to more highways from these states, and include those connecting Uttar Pradesh and Uttarakhand. To discourage new routes of protest, security forces will most probably respond to marching farmers with tear gas, baton charges and water cannons, as were deployed at the border with Haryana on 4 January 2021. In Punjab, farmers had also blockaded railway tracks in October but then withdrew that protest after the government suspended trains carrying essential commodities to the state; continued resistance from the government will probably trigger a repeat of rail blockades in these states for one to two days at a time. While sporadic protests in solidarity have already taken place in other states including Kerala, Tamil Nadu, Maharashtra and Odisha, support from regional opposition parties will likely trigger more sustained protests in these states where farmers will seek to hold sit-in protests outside government offices, houses of party representatives and/or undertake marches on highways connecting Delhi.
- **Besides blockades, targeted vandalism of the property of Indian conglomerates, which the protesters assume will benefit from these laws, is likely.** To disincentivise private businesses reported to benefit from these laws, farmer unions across states are likely to call for sit-in protests outside these offices. These groups have specifically named Reliance Industries, Adani Enterprises and the Birla Group. During the last week of December 2020, about 1,800 towers of Reliance Jio were vandalized – allegedly by farmers in Punjab and Haryana states – leading to communication outages. Further attacks will probably target small offices and staff located in semi-urban areas, and the conglomerates' cargo on highways, as farmers seek to intensify their protests ahead of 26 January. These will involve hundreds of farmers, also engaging in sloganeering and burning effigies of the companies' executive leaderships.

### Indicators of changing risk environment

#### Increasing risk

- Hoarding or sharp price rises for staple foods in response to the reduced government role in MSP would be likely to broaden farmer-led protests to include intermediaries who purchase produce for urban supply.
- Labour unions proposing a joint protest platform demanding repeal of agriculture and labour laws together will significantly increase the number of protests to reach a few million, triggering protests larger in scale and threatening government intent to sustain the laws.
- Transport unions in north India have proposed supporting farmers if the government delays on withdrawing the laws; millions of truckers joining the protest will very likely disrupt commodity supply in designated parts of the country.

#### Decreasing risk

- If big business pre-emptively approach the government to significantly increase its role in MSP, the government is likely to be more amenable to farmers' demands.

- The farm laws were passed with very limited parliamentary debate. If the government announces a delay to their implementation by resuming debate in parliament in end-January, then this would probably deter protest action on 26 January.

## Territorial conflict between criminal groups in Colombia's Cauca to exacerbate cargo-related extortion, kidnapping, and infrastructure damage risks

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7 Jan 2021 - Country Risk | Headline Analysis

The Colombian Army reported on 6 January it had identified, and was in the process of disarming, a series of improvised explosive devices (IEDs) located 300 m from a key hydroelectric plant distributing electricity to municipalities including Caloto and Santander de Quilichao in Cauca department. Security officials have attributed the IEDs to the former Fuerzas Armadas Revolucionarias de Colombia (FARC) militia Dagoberto Ramos Front, which has been expanding its territorial control in Cauca, increasing physical security risks through shooting and explosive attacks against government outposts. It has also been expanding illegal revenue-generating activities such as extortion, kidnapping, and drug sales through alliances with local gangs in Cali, northern Cauca, and Valle de Cauca; in competition with former FARC groups for territory in Cauca is the Ejército de Liberación Nacional (ELN). In Bolivar municipality, USD434,650 was stolen on 24 December 2020 from a grounded helicopter by a group that the police allege is linked to the ELN's Manuel Vásquez Castaño Front. In late November, the ELN issued a threat of armed reprisals against public transportation and road closures in Cauca, temporarily paralysing cargo transportation through the department.

**Significance:** The probability of extortions, kidnappings, and threats to employees increasing in Cauca over the year is very high, particularly for cargo transportation networks, manufacturing, and agribusinesses, because of the growing capacity of criminal groups with local backing. Protests or roadblocks occurring on a monthly basis by local communities to defend criminal actors against military operations, such as those seen on 22 November 2020 in El Mango, Argelia and on 1 December in El Tambo, reduce security forces' capacity to dismantle criminal groups. Security forces' inability to secure Cauca's cargo network is likely to exacerbate extortion, illegal toll, and employee kidnapping risks. Transportation routes, particularly along the Pan-American Highway from Ecuadorian border in the north through the department, have become targets for illegal checkpoints demanding payments for passage and local demonstrations pose supply-chain disruption risks for industrial parks located in northern Cauca and Valle. The solidification of former FARC alliances with gangs would indicate a further increase in extortion risks for companies.

**Risks:** Criminal violence; Terrorism; Kidnapping; Death and injury; Protest and riots

**Sectors or assets affected:** Cargo; Manufacturing; Agribusiness

## Rail cargo theft and derailments likely to increase throughout Mexico in 2021 despite incidents decreasing in 2020

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31 Dec 2020 - Country Risk | Headline Analysis

A freight train loaded with an undisclosed number of Volkswagen vehicles derailed on 30 December after gunmen attempting to steal its cargo cut about 2 m of Ferrosur company's railway tracks in El Mezquite, Acultzingo municipality, Veracruz, Mexico. The incident took place at about 3 am local time and damaged 11 wagons carrying Europe-bound vehicles. Local media has reported that the damage caused by the derailment

is worth millions of US dollars. However, neither rail operating company Ferrosur nor Volkswagen has issued official statements quantifying monetary losses.

**Significance:** Criminal groups, sometimes working alongside willing or coerced local communities or corrupt law enforcement authorities, often cut or block railways across Mexico to derail or stop freight trains and steal cargo; a similar incident was averted by local security forces in the same municipality on 28 December. Although official statistics currently point to a declining trend (a 30.7% year-on-year reduction to 2,201 theft incidents during January-September), the likelihood of rail cargo theft, and associated derailments, increasing over the next year is high. Criminal groups throughout Mexico are currently reorganising because of coronavirus disease 2019 (COVID-19)-virus-related disruption affecting income generated via drug trafficking and extortion. This, in combination with the fragmentation of some organised crime groups due to the capture or killing of their leaders, has forced the organisations into diversifying revenue streams by focusing on activities other than drug trafficking such as rail and road cargo theft. Security forces' inability to provide security to Mexico's entire rail network will also continue to leave the sector vulnerable to theft and sabotage incidents in 2021. The most affected type of cargo include chemicals, iron, steel, medicines, electronic devices, auto parts, construction material, and grains. Top hotspots include Jalisco, Coahuila, Estado de Mexico, Sinaloa, Chihuahua, Tlaxcala Puebla, and Sonora states. The resumption of economic activity in Mexico and its main export market United States, as demand for products increases following the lifting of COVID-19-virus-related restrictions in 2021, is likely to lead to higher volumes of goods being transported by rail, further incentivising criminal groups into targeting the sector.

### Security incidents affecting freight trains during Q3 2020

State	Thefts	Vandalism	Derailments
Aguascalientes	13	52	1
Baja California	1	1	1
Campeche	0	0	2
Chiapas	2	0	1
Chihuahua	22	13	0
Ciudad de Mexico	2	0	1
Coahuila	63	206	1
Colima	5	5	0
Durango	9	27	1
Guanajuato	50	103	3
Hidalgo	31	41	0
Jalisco	67	115	3
Estado de Mexico	33	13	20
Michoacan	8	57	3
Morelos	1	0	0
Nayarit	5	5	1
Nuevo Leon	5	148	17
Oaxaca	4	3	0
Puebla	22	25	0
Queretaro	34	127	1
San Luis Potosi	35	139	4
Sinaloa	50	33	0
Sonora	57	40	0
Tabasco	8	1	4

Tamaulipas	5	132	2
Tlaxcala	33	25	0
Veracruz	8	30	4
Yucatan	0	0	0
Zacatecas	8	26	1
Total	581	1367	71
Source: Mexico's Railway Transport Regulatory Agency (ARTF)© 2020 IHS Markit			

**Risks:** Criminal violence; Ground

**Sectors or assets affected:** Rail freight; Automotive

## Reduced naval capacity to raise likelihood of armed robbery incidents in southern Gulf of Mexico in 2021

24 Dec 2020 - Country Risk | Headline Analysis

On 21 December, two armed men boarded and stole equipment from the Gersemi oil platform operated by Borr Drilling, located 9.5 km from the Dos Bocas port in Tabasco, the latest of several armed incidents on platforms and vessels in the southern Gulf of Mexico. The National Maritime Authority reported in November that the Mexican Navy's (SEMAR) 'Refuerzo Sonda' operation in Tabasco and Campeche had reduced maritime robbery incidents to zero since it was implemented in May this year; however, press and US Office of Naval Intelligence reports recorded at least 13 incidents occurring in Tabasco, Veracruz, and Campeche from April to December. Mexico's merchant navy reported more than 200 attacks on oil vessels and platforms in 2019, up from 140 in 2018 and 49 in 2017. Robberies in this area are typically perpetrated by groups of between five and 15 armed individuals using fishing boats to board vessels and platforms, stealing equipment, materials, and belongings from crew. Weapons used include firearms, machetes, or knives.

**Significance:** Evidence of poor availability of crime information from SEMAR, with no maritime robbery incidents reported since May, indicates a lack of capacity to monitor and investigate incidents. The US Maritime Administration (MARAD) and the World Maritime University of Sweden have pointed this year to a "significant under-reporting" of incidents and lack of "credible statistics" available from SEMAR. SEMAR has emphasised the effectiveness of its 'Refuerzo Sonda' operation and increased surveillance in the area in reducing incidents. However, SEMAR's capabilities in the Gulf of Mexico are likely to be reduced further in 2021 due to less information sharing with the US Drug Enforcement Agency, if the approved amendments to security legislation intended to limit activities of foreign agents in Mexico are implemented in their current form. The allocation of navy officials to new tasks in 2021, including managing all administration and customs operations at ports and the national distribution of coronavirus disease 2019 (COVID-19)-virus vaccines, will also reduce capacity for crime response without further deployment to affected areas, raising the likelihood of increased incidents. The focus on the Bay of Campeche under the 'Refuerzo Sonda' programme this year also makes it more likely that armed groups will increase the frequency of robbery attempts in the surrounding areas of Veracruz and Yucatán states in the coming months.

**Risks:** Crime; Death and injury

**Sectors or assets affected:** Oil and gas; Maritime cargo

Maritime robbery incidents reported in southern Gulf of Mexico, April–December 2020			
Date	Target	Location	Nature of attack

4 April	Pipe-laying vessel	Northwest of Dos Bocas, Tabasco	Eight armed individuals fired at the vessel but eventually abandoned the robbery attempt.
8 April	Pipe-laying vessel	Northwest of Dos Bocas, Tabasco	Three armed individuals boarded the vessel but were repelled by the driver.
9 April	Supply vessel	Near Dos Bocas, Tabasco	Took crew members hostage and stole belongings and equipment, fired shots.
12 April	Supply vessel	Near Ciudad del Carmen, Campeche	Armed assailants boarded the vessel, took crew members hostage, and stole valuables.
14 April	Accommodation vessel	Near Ciudad del Carmen, Campeche	Assailants boarded the vessel, opened fire, stole high-value equipment, and injured one crew member.
7 July	Supply vessel	Near Dos Bocas, Tabasco	Armed assailants boarded the vessel, fired shots, and stole USD7,500 worth of equipment.
24 July	Supply vessel	Northeast of Coatzacoalcos, Veracruz	Robbers boarded the vessel, took crew members hostage, and stole personal belongings.
27 July	Oil platforms Cahua-Alfa/CosI Hunter	Near Coatzacoalcos, Veracruz	Three armed assailants boarded the platforms and stole 40 ventilators.
29 July	PEMEX equipment yard	Ciudad del Carmen, Campeche	Armed assailants arrived in boats and robbed workers' belongings.
5 September	Fishing vessel	Near Champoton, Campeche	Six armed assailants tied up crew members and stole the USD9,900 engine.
26 September	Oil platform Koban-A and <i>Tolteca</i> crane ship	Near Frontera, Tabasco	Armed assailants attempted to board but crew repelled them.
24 November	Oil platform Koban-A	Near Frontera, Tabasco	Armed group attempted to board the platform.
20 December	Oil platform Gersemi	Near Dos Bocas, Tabasco	Two armed men boarded the platform and stole equipment and materials.

Source: IHS Markit, US Office of Naval Intelligence

## GCC ends boycott of Qatar, benefitting aviation, tourism, and security co-operation but Qatar/UAE divergence unresolved

6 Jan 2021 - Country Risk | Headline Analysis

At a Gulf Cooperation Council (GCC) summit on 5 January, Saudi Arabia, the United Arab Emirates (UAE), Bahrain, and Egypt announced they would end an air, land, and sea boycott of Qatar in place since 5 June 2017. The GCC summit was attended by the Qatari emir, Tamim bin Hamad Al Thani, for the first time since the boycott was announced in 2017. Domestic and international media attribute the reconciliation to US and Kuwaiti mediation.



- **Saudi Arabia's leading role in lifting the boycott appears designed to generate goodwill with the incoming Biden US presidential administration.** Although the agreement was mediated by the current US administration, represented by incumbent President Donald Trump's son-in-law Jared Kushner, and Kuwait, willingness of the boycotting states to reach an agreement probably was intended to reduce the incoming Biden administration's foreign policy complications in the area and mitigate their past criticisms. Biden and senior members of his foreign policy advisory team previously have criticised the current Saudi leadership, notably over human rights. Exact details of the agreement are still unknown, but all boycotting parties have agreed to lift territorial restrictions, and Qatar has agreed to drop several outstanding lawsuits filed with the World Trade Organization. There also appears to have been an understanding that domestic media interests would limit mutual criticism. Such terms indicate that initial Qatari demands have been dropped in favour of reconciliation.
- **The agreement strengthens GCC unity ahead of potentially a renewal of a nuclear deal between the United States and Iran.** At the summit Mohammed bin Salman described resolution of the boycott as needed to permit the GCC to confront Iran in the region. The deal appears to reflect political calculation by Saudi and Emirati leaderships that the incoming US administration plans to restart nuclear deal negotiations with Iran. Saudi Arabia is likely to join Israel and, to a lesser extent, the United Arab Emirates in opposing a renegotiated nuclear deal that fails to impose meaningful limits on Iran's capacity to develop advanced missile technology and to provide military and financial support to militant groups. Public criticism of the US's negotiating position is unlikely until a deal is agreed, with the Saudi leadership keen to avoid strategic divergence with the US that would leave the country more vulnerable to potential Iranian attack, as with the 14 September 2019 attack on the Saudi Aramco facilities at Abqaiq and Khurais.
- **Underlying drivers of the initial boycott appear unresolved, increasing the likelihood of eventual renewed divergence between Qatar and the UAE.** The UAE has consistently been the most opposed to resolution of the boycott without extracting concessions from Qatar. The crown prince of Abu Dhabi and de facto leader of the UAE, Mohammed bin Zayed, notably missed the signing of the agreement. The president of Egypt and the king of Bahrain were also absent; the three have been amongst the strongest critics of the Qatari emir and the regional role of Qatar. Their absence suggests that the agreement will be limited to re-establishing diplomatic relations but lacks significant material or political reconciliation. The UAE and Egypt are therefore likely to continue to object to Qatari-based support for political Islam and its backing of a more expansive role for Turkey across the region.
- **The deal should benefit the Qatari aviation sector and wider GCC tourism.** Lifting the airspace boycott should ease financial pressure on Qatar Airways, which recorded a financial loss of USD2 billion for the 2019–20 financial year. Qatar Airways was paying Iran approximately USD100 million annually for transit access, and such access routes also implied higher fuel and insurance costs. Qatar would have been encouraged to resolve the boycott prior to the 2022 (soccer) World Cup. This will allow GCC citizens to attend matches, with Saudi citizens representing the largest consumer market in the region. It is unlikely that the trade dependencies in place prior to the boycott's imposition will be restored immediately. Pre-2017, Qatar sourced 30.16% of its raw materials from Saudi Arabia and the UAE but has since largely reconfigured its trade routes and suppliers reflecting the boycott restrictions.

## Indicators of changing risk environment

### Increasing risk

- States like UAE, Bahrain, and Egypt are slow or fail to renew Al Jazeera Broadcasting Network's licence to operate in their jurisdictions.
- Islamist clerics based in Qatar continue to criticise the policy decisions of the Emirati and Egyptian leadership.
- Qatar continues to encourage the deployment of Turkish military forces to bases on Qatari territory.

### Decreasing risk

- The Qatar Investment Fund announces a programme of investment into headline Saudi Vision 2030 projects, indicating that the reconciliation will be supported by mutual long-term investments.
- There are subsequent heads of state level visits between Qatar and the individual boycott states.
- State-supported media groups – particularly Al Jazeera Arabic – increase positive coverage of other Gulf states

## Any escalation between Iran and US and Israel before Biden presidency unlikely to cross regional war threshold

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15 Dec 2020 - Country Risk | Headline Analysis

On 27 November 2020, an assassination operation in Absard, Tehran province, successfully targeted Dr Mohsen Fakhrizadeh-Mahabadi, who had allegedly headed the covert military component of Iran's nuclear programme. Top Iranian officials swiftly and publicly accused Israel, heightening the pressure for Iran to retaliate. Fakhrizadeh's assassination was the latest in a series of incidents affecting Iran's nuclear and ballistic missile programmes, as well as in its regional military deployments, particularly in Syria. The clandestine 'war' with both Israel and the United States had already intensified over the past 20 months amid the Trump administration's 'maximum pressure' campaign, culminating in the 3 January 2020 assassination of Qods Force Commander Qassem Soleimani at Baghdad Airport. In previous incidents thought to involve Israel, including the 2 July 2020 sabotage attack at the Natanz uranium enrichment facility, Iran had mostly refrained from officially naming the responsible parties, likely in order to maintain its manoeuvre space.

**Significance:** Despite Fakhrizadeh's prominence and Iran's swift accusations, IHS Markit assesses that interstate war risks, currently within the 'very high' band, are unlikely to increase significantly for the remainder of US President Donald Trump's term. Both the elected and unelected components of Iran's leadership lean towards renewed diplomacy with the incoming Biden administration for the aim of sanctions relief, a national priority, but particularly important for Iran's oil export economy. This in turn calls for some self-restraint, at least until talks are judged to have faltered, at which point Iran could then increase its aggressive escalation as leverage. Secondly, even if Iran retaliates against Israel, a response is likely to range between symbolic to limited, probably in the form of missiles from Syria into the Golan Heights, or attempts to kill Israelis abroad, including in third countries like the United Arab Emirates, Bahrain, and Turkey. Any resulting Israeli response would probably remain limited to sabotage directed against Iran's military and nuclear facilities, and to a lesser extent, its energy, power utilities, and port infrastructure, with both sides, as before, taking pains not to risk crossing the threshold of interstate war. The risk of cyber-attacks from both sides on critical civilian and military infrastructure remains very high.

**Risks:** Interstate war; Terrorism; Death and injury

**Sectors or assets affected:** Defence and security forces; Oil and gas; Utilities; Marine and ports

## Iranian vessel seizures, commercial disruption and coercion again likely to target debtor countries ahead of a US-Iran re-engagement

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5 Jan 2021 - Country Risk | Headline Analysis

On 4 January 2021, Iran's Islamic Revolution Guards Corps (IRGC) seized the South Korean flagged chemical tanker MT Hankuk Chemi in the Gulf near the Strait of Hormuz, brought it to Bandar Abbas, and detained its 20 crew members. Iranian media said the vessel had been polluting Gulf waters with chemicals, and that the crew members came from Myanmar, South Korea, Indonesia, and Vietnam. The Hankuk Chemi, owned by DM Shipping Co., had reportedly been sailing from Jubail, Saudi Arabia, to Fujairah in the United Arab Emirates.

- **Iran's tanker seizure is almost certainly motivated by South Korea's retention of Iranian oil revenues, and is hence likely to last until South Korea agrees to Iran accessing at least part of those funds.** Iran has steadily increased its pressure on South Korea for the release of some USD7 billion in Iranian trade and oil revenues, frozen after US sanctions waivers expired in September 2019. South Korea is also only one of a handful of jurisdictions, including the European Union and Switzerland, to have stood up special trade vehicles for Iran to purchase humanitarian assistance without violating US sanctions. Although the Trump administration has authorised such third-party humanitarian transactions with Iran, legal uncertainties and caution continue to impede their implementation. In mid-2020, South Korea dispatched USD500,000 worth of medication to Iran after two years of negotiations. In July, Iran threatened to take South Korea to the International Court of Justice. In recent months, Iran has accused South Korea of preventing it from using those funds to purchase COVID-19 vaccines.
- **IHS Markit assesses that the vessel seizure likely reflects both a two-track Iranian government policy and a struggle for domestic political dominance.** The latter conflict increases government instability and signals the hard-liners' renewed preference for aggression as leverage over the United States and its allies. South Korea's deputy foreign minister was reportedly scheduled to visit Tehran on 10 January 2021 to advance negotiations over the frozen funds. If resolution with the Rouhani government was indeed imminent, the Islamic Revolution Guards Corps (IRGC)'s move would likely have been aimed at undercutting Iran's centrist-moderates, and demonstrating that force, rather than diplomacy, achieves the desired results, setting the tone for Iran's June 2021 presidential election. Such a seemingly contradictory two-track stance is a familiar Iranian government approach, not least because of structural contradictions between the government's elected and unelected components. In June 2019, for instance, deniable sabotage operations, almost certainly mounted by the IRGC, targeted two tankers near the Strait of Hormuz, one of which was Japanese – on the same day that Japan's Prime Minister Shinzo Abe visited Tehran to mediate between the US and Iran. Although this undermines government coherence and stability, the IRGC's concurrent use of force is also a foil that could strengthen Rouhani's diplomacy, including on other foreign policy issues.
- **Iranian vessel seizures generate leverage ahead of Biden's presidency, but also raise similar risks for other governments withholding Iranian trade revenues.** Iran's claim that the MT Hankuk Chemi was polluting Gulf waters carries little credence. Iran has resorted to vessel seizures in the past as an instrument of statecraft, most prominently that of the Stena Impero, in retaliation for the British navy's seizure of an Iranian oil tanker off Gibraltar. As Biden contemplates resuming talks with Iran, vessels belonging to other debtor governments face elevated risks of vessel and asset seizures on various pretexts. These debtor states include Japan and India, both of which have so far abided by US sanctions. China remains the largest debtor state, but it is also of crucial strategic importance to Iran and continues importing some Iranian oil, making any Iranian move against Chinese vessels, other than trawlers engaged in illegal fishing, highly unlikely. Iranian vessel seizures, however, also increase the likelihood of standoffs between Iranian and foreign forces. After the Hankuk Chemi incident, South Korea rerouted a destroyer from anti-piracy duties off the Gulf of Aden to the Strait of Hormuz. Actual military confrontations would, however, be likely only in extreme cases. Additionally, Iran's pursuit of coercion over debtor states will also likely continue in other forms. On 28 December 2020, Iran reduced its gas exports to Iraq by 90%, threatening its neighbour with severe electricity shortages. Iran resumed exports two days later, but only after Iraq had agreed to open a Euro-denominated bank account to settle part of its USD6-billion debts to Iran in gas and electricity, including via third-party medical transactions.

## Indicators of changing risk environment

### Increasing risk

- South Korea continues deferring to US sanctions pressure even after Biden's 20 January inauguration, delaying medical, and especially COVID-19, assistance transactions to Iran.
- More governments allied with the US again increase naval patrols off the Strait of Hormuz and Gulf of Oman, in turn increasing the likelihood of naval confrontations and disruption to merchant shipping.
- For even greater leverage both abroad and domestically, the IRGC resumes (deniable) sabotage of vessels involving actual damage.

### Decreasing risk

- The Biden administration swiftly moves to relax selected US sanctions, including those targeting Iranian oil exports and revenues, allowing Iran to recover its frozen funds in South Korea and elsewhere.
- South Korea relaxes its adherence to US sanctions and reaches a compromise with Iran, at the very least for Iran to conduct medical transactions without using US dollars.

## Limpet mine attached to SOMO-leased vessel in Iraq highlights risks from ship-to-ship oil transfers

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4 Jan 2021 - Country Risk | Headline Analysis

On 31 December 2020, off Iraq's Khor Al-Zubair Port, a limpet mine was discovered attached to the hull of the Liberian-flagged crude oil tanker MT Pola (IMO 9493767), which is owned and used as floating oil storage by Iraq's State Organization for Marketing of Oil (SOMO) to conduct ship-to-ship transfers to other tankers at sea. At that time, the MT Pola was transferring out high sulfur fuel oil, which is also an Iranian export, to another vessel. Over the past fortnight, the MT Pola had also transferred oil to dozens of other vessels, according to IHS Markit Maritime & Trade data.

**Significance:** Images of the mine in this incident show that it is similar to Iran-used mines. However, limpet mines have also been used against the interests of Iran and its allies. On 22 June 2019, for instance, limpet mines were used to target a submarine pipeline linked to the Baniyas oil refinery in Syria, which was being used to offload Iranian crude oil. It is plausible that the United States used a recovered Iranian mine to warn the Iraqi government, or at least its pro-Iran components, to end or curtail assistance in smuggling Iran-origin petroleum products. US officials told the *Wall Street Journal* in October 2020 that Iran has been using ship-to-ship transfers off Iraq's coast to export crude oil in violation of US sanctions, blending it with Iraqi crude. Iraq has given no indication that it would comply with US demands to curtail this trade, although Iraq may have attempted to curtail this trade covertly. If it did, Iran would almost certainly retaliate, including by using limpet mines, to show that Iraq's ability to export oil depended on Iranian goodwill. In either scenario, ship-to-ship transfers off the Iraqi coast are vulnerable to sabotage attacks by the US and Iran as they continue their covert war.

**Risks:** Terrorism; War

**Sectors or assets affected:** Marine; Energy

## Attack on Aden airport likely perpetrated by the Houthis, highlighting growing aviation risks across Southern Yemen

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7 Jan 2021 - Country Risk | Headline Analysis

Three large explosions hit Aden airport on 30 December moments after a plane carrying Yemeni Prime Minister Maeen Abdulmalik Saeed and his Cabinet arrived from Saudi Arabia. According to Saeed, the attack was perpetrated by Houthi militants using three precision-guided missiles, which struck the tarmac, the arrival hall, and the VIP lounge of the airport, killing 26 people and injuring 110. Yemeni media also reported the same day that a remotely operated weaponised drone targeting Aden Mashiq presidential palace, where the Cabinet was taken to safety following the airport attack, was intercepted and destroyed. No group has claimed responsibility for the attacks. Operations at Aden airport were resumed on 3 January.

**Significance:** Although the Houthis have denied responsibility for the attack, precision short- and long-range missiles as well as weaponised drones are key weapons in the movement's arsenal, and no other non-state armed group in Yemen is known to possess such weaponry. The same weaponry was used in an attack on a military parade in Lahij, 20 km north of Aden, in January 2019 in which six people, including the head of Yemeni Intelligence, were killed. Despite much of the fighting between the Yemeni government supported by the Saudi-led coalition and the Houthis is taking place in central and northern Yemen, the 30 December attack demonstrates strong Houthi capability and intent to strike deep inside territory controlled by the Yemeni army and a high degree of intelligence capabilities. Further Houthi attacks across southern Yemen targeting coalition military positions as well as aviation assets such as Aden and Seyoun airport are likely in the two-month outlook, which are likely to lead to an intensification of Saudi airstrikes in areas controlled by the Houthis, especially around the cities of Taiz, Hodeidah, and the capital Sanaa. Coalition interception of further Houthi-manned drones in areas such as Abyan, Bayda, and Taiz would be a key indicator of attempts to expand the geographical range of attacks to southern Yemen.

**Risks:** Civil war

**Assets or sectors affected:** Aviation; Military; Government assets