

# The weekly briefing | 14 October 2013

## Political and security risk update

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**Africa:** Natural resource management threatens political stability in Somalia.

**Americas:** Risk of institutional crisis in Argentina looms as President Cristina Fernandez suspends her public duties ahead of crucial congressional elections.

**Asia-Pacific:** Tensions surface as Seoul exhibits a reluctance to shoulder military responsibility.

**Europe:** EU financial transaction tax proposal resurfaced by Germany's opposition Social Democrats.

**Middle East:** The United States suspends military aid and reduces economic aid to Egypt.

**Polar regions:** Inaugural meeting of Arctic Circle Forum begins in Reykjavik.

## Africa

### Natural resource management threatens political stability in Somalia

In an effort to reassert control over the war-ravaged country, the Federal Government of Somalia has expressed the need for foreign energy companies to negotiate oil exploration licensing centrally. On 7 October 2013, National Resources Minister Abdi-Razaq Omar Mohamed stated that any contract issued by a Somali federal member state was invalid. This is likely to pave the way for further inter-state tensions between Somaliland, Puntland and the federal government in Mogadishu. On 11 October 2013, the Puntland State Minister for Planning and International Relations Sayid Mohamed Abdulle Hassan stated that the federal government's remarks could undercut hopes of inclusive cooperation between Mogadishu and the federal states.

This development follows the withdrawal of the Anglo-Turkish oil exploration company Genel Energy from Somaliland due to political instability and the risk of their oil exploration license being revoked by the federal government. Such developments threaten to spark new conflict in Somalia, which is also engulfed in a conflict between the Islamist movement al-Shabaab and Kenyan/AMISOM troops in the southern Somali states.



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In the past week, federal government representatives in Somalia also stated that they are working on new petroleum legislation, including a change to the constitution regarding the ownership of natural resources. The parliament in Mogadishu would have to ratify such proposals, thus enforcing Mogadishu's authority over the federal member states.

### **Other developments**

**Somaliland has pledged to invest in security and infrastructure in order to attract foreign direct investment.** A team that will include John Holmes, a former UK special forces commander, will deliver a report in Somaliland's capital Hargeisa regarding security in the region. Such foreign involvement is likely to further legitimise Somaliland's standing in the oil exploration divisions.

**At least 10 people were killed in fighting between federal government troops and suspected al-Shabaab militants in southern Somalia on 10 October.** The fighting erupted after a convoy of government troops attacked al-Shabaab strongholds in the Waajid district area. The presence of al-Shabaab militants continues to undermine the security situation in the southern states of Somalia, and further operations against al-Shabaab militants by Kenyan and Ethiopian government troops are likely to occur.

**Somali Prime Minister Abdi Farah Shirdon welcomed the US raid in the Barawe coastal town on 5 October and voiced support for the US role in combating al-Shabaab.** He also stated that the federal government had prior knowledge of the raid and that military operations against the group would be intensified. Such rhetoric is, however, unlikely to deter al-Shabaab militants, who still control many rural areas in southern Somalia.

– *Mohammad Nur*

## **Americas**

### **Risk of institutional crisis in Argentina looms as President Cristina Fernandez suspends her public duties ahead of crucial congressional elections**

Last Tuesday, Argentinian President Cristina Fernandez successfully underwent surgery to remove a blood clot on her brain. Although she has responded well to the surgery, she will have to suspend her official activities for at least 30 days, leaving Vice-President Amado Boudou to carry out her public duties. This is not the first time the President has had to suspend her activities due to health concerns but the timing is particularly bad on this occasion, as Fernandez's political party will face tough congressional elections on 27 October.

Following the success of opposition figure Sergio Massa in last August's primary elections, the upcoming midterm elections are crucial for the government to sustain its majority in Congress. Fernandez's incapacitation has brought to the forefront one of Argentina's least appreciated politicians, Boudou. However, in order to limit the negative impacts on Fernandez's image, the vice-president is likely to play a restrained role in the political arena and little change is expected from the government in the coming month. It is also believed that Secretary of Technical and Legal affairs Carlos Zannini and Fernandez's son, Maximo Kirchner, represent the real nexus of power in the absence of the president.

Since the poor results in last year's primary elections, the government has been increasingly pressed to pass fiscal reforms to avoid an eventual political gridlock over public finances. This particularly concerns the 2014 budget laws that extend the exceptional tax regime in place since the 2002 economic crisis. If Fernandez's Victory Front party does not reach a majority in the forthcoming elections, it will have to pass these crucial reforms before the turnover of Congress members on 9 December. Failing to do so will present serious problems for the government and in the worst scenario could trigger an institutional crisis similar the ones of Raúl Alfonsín in 1989 Fernando de la Rúa in 2001.

### **Other developments**

#### **Signs of political renewal in Brazil are putting extra pressure on the Dilma Rousseff administration.**

Marina Silva's decision to join the Brazilian Socialist Party (PSB) for the October 2014 presidential elections is a boost for Socialist leader and presumptive candidate Eduardo Campo. Already benefiting from a high approval rate since the June protests, Silva's alliance with the PSB makes Campo a key runner for the presidency.

**Venezuela's President Nicolas Maduro is seeking to rule by decree.** Last Tuesday, the president asked the General Assembly to pass a law that would empower him to rule by decree in order to 'fight corruption' and the 'economic war of the right'. This happens in a context where Maduro's legitimacy has suffered from the country's poor economic performance.

**President Barack Obama is unlikely to yield to Republican Party brinkmanship.** The US president has declined the Republican offer of a six-week hike in the debt ceiling and new budget talks to reopen the government. The administration has until the 17 October to extend its debt ceiling in order to avoid a sovereign default.

### **On the radar**

- Violent **protests in Rio de Janeiro** show the sustained popular discontent in Brazil.
- **Mexican President Peña Nieto** faces a tough challenge to pass fiscal reforms in congress.
- **Canada accused of spying** on Brazilian ministry of mining and energy.
- **Inflation in Venezuela** reaches highest level in 15 years.
- **Dengue epidemic in Honduras** kills 26 since start of 2013.

– *Tancrede Feuillade*

## **Asia Pacific**

### **Tensions surface as Seoul exhibits a reluctance to shoulder military responsibility**

Combined Forces Command is the joint operational control (OPCON) over American and South Korean forces and is currently due to transfer from Washington to Seoul in 2015. However, due to South Korean nervousness over their own military's capability to check the unpredictable North Korea, this transfer will now be reconsidered by a joint working group. American disappointment at this is palpable: a US Senate report argued it is 'critical that the growth in South Korea's [military] contributions keep pace with US costs... since 2009, that has not been the case'.

This places strain on the US-South Korea alliance and leads to uncertainty over who, if anyone, will plug the hole in military spending. The US public are clearly reluctant to contribute: financial pressures on the US defence department cannot be ignored and the case of Syria demonstrates the renewed strength of America's pacifist and isolationist lobbies.

The Australian Prime Minister Tony Abbott argued at the East Asia Summit in Brunei last week that armed conflict in the South and East China seas cannot currently be ruled out due to competing claims over strategic islands and offshore oil and gas reserves. The prospect of real conflict however seems almost unthinkable; Obama has made it clear American military funding will not decline in the near future. However, we cannot ignore the fact that regional rivals such as China and North Korea will be further emboldened by what they might perhaps interpret as cowardice.

### **Other developments**

**The Burmese government and the Kachin Independence Organisation signed a deal on 10 October to work towards a ceasefire, establish a monitoring committee for the conflict and open channels for refugees to return.** This will certainly build confidence in the stability of Asia's most rapidly changing region. Burma/Myanmar is seen as the last frontier of Southeast Asia and democratisation efforts have led to what Aung San Suu Kyu calls a 'foreign investor frenzy'. Although investors are still concerned over ethnic tensions and poor infrastructure, this agreement is a sign risks stemming from the Northern independence movement are perhaps diminishing.

**The chief justice of the Indonesian Constitutional Court, Akil Mochtar, has been arrested for corruption.** The arrest follows accusations of his involvement in the rigging of a disputed electoral district. While Indonesians are used to corruption, this arrest is of particular concern because the peaceful transition of power after parliamentary elections has historically been ensured through the credible rulings of the constitutional court. That the court's veneer of impartiality has been damaged constitutes a breakdown of a key electoral and constitutional arbitrator.

**The presidential election in the Maldives was scrapped on the basis of a secret police report that even the Maldivian Electoral Commission was not allowed to see.** Mohamed Nasheed, the leader of the Maldivian Democratic Party and a modernising candidate, looked set to win. In a clumsy attempt to intimidate the Democratic Party, the studio of the pro-Democratic Raajjee TV was set ablaze. The streets of the Maldivian capital, Male, are now the site of pro-Democratic strikes and protests. The first round in the election will be re-run on 19 October.

### **On the radar**

- **Chinese internal security looks set to be tightened** as all 250,000 Chinese journalists are ordered to undergo a training programme to strengthen their 'professional practices'.
- **China and Japan – the two largest foreign creditors of the United States – are growing increasingly worried** over the fallout of a failure to reach a deal to lift the US debt ceiling.
- **A Chinese court says it has agreed to consider an appeal by disgraced politician Bo Xilai.**
- **A naval drill between the United States and South Korea** had been scheduled to begin on the 15 October.

– Gary Chan

## Europe

### **EU financial transaction tax proposal resurfaced by Germany's opposition Social Democrats**

Plans for a European financial transaction tax have resurfaced in Germany's coalition talks as Angela Merkel's most eligible government partners, the Social Democratic Party (SPD), push for the hotly disputed levy. The SPD proposes a tax on financial transactions in order to finance a European resolution fund with the goal of bailing out ailing lenders – shifting the burden of future bailouts from German taxpayers to the banks. Until now, Merkel's Christian Democratic Union (CDU) party has opposed the creation of the fund, insisting that bank resolution should be subject to national control unless there are amendments to EU treaties.

The SPD proposal is occurring within the context of ongoing progress towards a eurozone banking union, with legislation on a eurozone banking supervisor having been approved by the European parliament. It is also occurring within a historical context of controversy regarding the current form of the financial transaction tax, which within the SPD proposal would be one step closer to a banking union. Specifically, there is opposition from German business and the UK financial sector on taxing the face value of stocks, bonds and derivatives, and there has also been opposition from the US financial sector. Due to this opposition, the Merkel government, which supported the tax, avoided any further discussion of it, though Minister of Finance Wolfgang Schauble has stated that it is still on the table. The tax will not be accepted in its current proposed form but a compromise should be expected.

A CDU coalition with the SPD is highly likely because there are sharp disagreements with the other potential partner, the Greens, over energy, taxation and the national minimum wage, as well as opposition from the CDU's sister party the Christian Social Union. The SPD has also collaborated with the CDU in the 2005-09 grand coalition government and supported all the bailout measures of the CDU government under Merkel. Although there is disagreement over the European resolution fund, it is highly likely that it will be accepted by the Merkel government.

### **Other developments**

#### **The International Monetary Fund and the European Union clash over Greek debt restructuring.**

Following revelations by the *Wall Street Journal* regarding the strong opposition by a third of the members of the IMF's Board of Governors over the first Greek bailout three years ago, the IMF has for the first time vocally opposed decisions by the other members of the Troika (the European Central Bank and the EU) over the future sustainability of Greece's debt. Specifically the IMF supports a haircut while the other members of the Troika support lower interest rates and an extension of maturities on Greek bonds, which according to them, and in an effort to bridge differences, amounts to a haircut on Greek debt. The revelations, however, do pose a public relations problem for the IMF. An eventual withdrawal of the IMF from the Troika is likely since it is unlikely that the other members of the Troika will compromise on the issue.

**An unexpected break within Greece's centre-right governing party, New Democracy, seems to have taken place after a memorandum decision for proposed increases in fuel taxes.** The measure has sparked reactions from the Karamanlian wing of the party, which lean more towards the centre in both political and economic terms, as opposed to the more extreme right wing of the party surrounding Prime Minister Antonis Samaras. Current evidence suggests that there is an attempt to isolate Samaras.

However what form this isolation will take is not clear. Early elections is not something the Karamanlians desire, so a leadership replacement might be a likely result.

**The United Kingdom is blocking final approval of a powerful new supervisor for eurozone banks until it receives further guarantees that countries outside the eurozone will not be disadvantaged.**

Specifically, the United Kingdom demands written guarantees that double majority voting will remain in place. Under a deal hammered out in December 2012, binding regulation by the European Banking Authority has to be approved with double majority (i.e. a simple majority of both those countries inside the eurozone and those outside). The legislation has already been approved by the European parliament and all 27 other member countries, so it is at first puzzling that the United Kingdom is demanding further guarantees. However, there are fierce demands from the Eurosceptic wing of the Conservative party for a referendum on EU membership. Prime Minister David Cameron is simply trying to gain credibility with this wing of the party. Eventual approval by the United Kingdom is highly likely, especially after both British and European officials have stated that texts reassuring the British side's worries are expected to be circulated.

**On the radar**

- **The Greek finance minister's second proposal for an increase in fuel subsidies** is pending consideration by the Troika on 15 October.
- **The Eurogroup meeting** on 14-15 October on bailout programmes and banking union.
- **The budgets of eurozone member states** are submitted on 15 October.

– *Stelios Papadopoulos*

## Middle East

**The United States suspends military aid and reduces economic aid to Egypt**

Egypt has been one of the largest beneficiaries of US military and economic aid over the last 25 years. However, it was announced last week that the United States was preparing to suspend military aid and reduce economic aid to the current Egyptian government. Last year, Egypt received \$1.5 billion in US aid and Egypt remains a key regional strategic partner for the United States, but this latest action indicates that Washington is concerned by the military crackdown on supporters of former president Mohamed Morsi. A statement made by the US State Department outlined the suspended delivery of large-scale military systems, thought to include Abrams tanks, F-16 aircraft, Apache helicopters and Harpoon missiles.

Although military aid is to be suspended, the United States will continue to provide health and education assistance, alongside counter-terrorism assistance and equipment that is needed to reduce instability in less secure regions of the country, such as the troubled Sinai Peninsula. US law requires the suspension of aid in the wake of Morsi's removal by way of a military coup. The fact that the United States has until now continued to provide Egypt with aid since the coup in July demonstrates the importance of Egypt in U.S. security strategy in the Middle East.

The decision to suspend military aid to Egypt's interim government can be interpreted as a gesture of disapproval regarding the Egyptian military's crackdown on protestors and a lack of progress towards inclusive democracy. However, any aid deficit is likely to be picked up by Gulf States that have supported the interim Egyptian government since the coup.

### **Other developments**

**British Foreign Secretary William Hague has announced that significant steps have been taken towards renewed diplomatic relations between Britain and Iran.** Talk of reopening embassies in both Tehran and London coincide with a renewed diplomatic optimism between Iran and the West following the election of President Hassan Rouhani in June. The talks, held in September, could lead to the reopening of the British diplomatic mission in Iran that has been suspended since November 2011. Iranians protesting against British backed sanctions breached the British embassy in Tehran, resulting in the embassy closing and the ejection of Iranian diplomats from London. It is expected that further talks will be held in Geneva this week.

**On 11 October, the non-governmental organisation Human Rights Watch published a report documenting serious abuses committed by Syrian opposition fighters on 4 August as they overran government positions and attacked villages in Latakia.** The report describes how more than 10 Alawite villages were attacked and opposition forces killed an estimated 190 civilians. Witnesses reported that residents were executed and civilians were fired upon. Most of the dead were adult males and an estimated 200 women and children were abducted. The coordinated nature of the attack by Sunni opposition groups and the level of abuse will make for uneasy reading for regional and Western backers of the opposition.

**Three soldiers and a policeman were killed and five others injured in an attack on a security checkpoint in the increasingly volatile Sinai Peninsula on 11 October.** A suicide bomber blew himself up as security forces approached his vehicle for a routine security check. This attack follows the deaths of four people as a car bomb was used to attack a state security building in Sinai on 7 October and the further deaths of six Egyptian soldiers as gunmen in Ismaïlia attacked their patrol on the same day. The attacks appear to be in retaliation for the heavy-handed tactics the government has used against protesting Morsi supporters.

### **On the radar**

- **Negotiations on Iran's nuclear programme are set to resume in Geneva** on 15-16 October, the first since the election of Rouhani in June.
- **Millions of Hajj pilgrims are set descend on Mecca,** Saudi Arabia, this week. Security is likely to be increased after supporters of Egypt's Muslim Brotherhood have called for demonstrations.

– *Daniel Taylor*

## Polar regions

### **Inaugural meeting of Arctic Circle Forum begins in Reykjavik**

Diplomats from Arctic and non-Arctic states were joined by representatives from international organisations and NGOs at the inaugural meeting of the Arctic Circle Forum (ACF), which began on 12 October. The ACF is an initiative of Icelandic President Olafur Ragnar Grimsson. The president stated that the aim of the ACF was 'to strengthen the policymaking process by bringing together as many Arctic and international players as possible under one large open tent.' Implicit in this manifesto is a sharp criticism of the Arctic Council (AC), which has long been the dominant forum for international regulation of the Arctic and has been criticised for its institutional bias to the eight Arctic states.

The ACF is seen as an opportunity for the participation of international actors usually excluded from the discussion of the Arctic's future. The most important of these is China, which took an active role in the promotion of the ACF by signing a free trade agreement with Iceland in April, the first of its kind between China and a European state. For China, the rapidly melting Arctic is strategically important as a source of oil and gas for its expanding economy and as the site of potential new shipping routes.

Environmental concerns dominated the agenda of the opening day of the forum. Yet while all participants agreed on the seriousness of the threat caused by melting ice and the potential release of methane from the permafrost, it is difficult to see how the ACF will facilitate genuine international action in this or any other area. The AC has existed for almost two decades and enjoys far more streamlined institutional procedures, affording votes only to the eight arctic states. Yet the AC has still failed to pass even one binding resolution on its members. While the ACF offers a new and promising model for the formulation of policy recommendations, the only organisation with the ability to act on them will, at least for the immediate future, remain the AC.

### **Other developments**

**Greenpeace International executive director Kumi Naidoo released a statement on 11 October calling the Arctic Sunrise activists prisoners of conscience.** The activists are currently remanded in custody by the Russian government following a peaceful protest of Arctic oil drilling in the Pechora Sea. Naidoo claims that the activists 'are not there because of what they did but because of what they represent'.

**Russian President Vladimir Putin pledged that Russia will expand its military presence in the Arctic at a meeting of activists of the United Russia party on 3 October.** Putin announced that work had already begun on the restoration of a Soviet-era military base on the New Siberian Islands that had been shut down after the Soviet collapse. He also used the meeting to reaffirm the claim to Russia's sovereignty over the Arctic, calling the region an 'unalienable part of the Russian Federation'.

### **On the radar**

- **Further bail hearings are expected next week for the Arctic Sunrise activists** currently detained in Murmansk.
- **The US government shutdown continues to affect National Parks Agencies in Alaska.**

– Patrick Sewell



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