



The Global Oil Market and the Status of the Suez Canal

Yossi Mann

Abstract The Suez Canal has played a significant role in the economic history of the Middle East. It is an important source of revenue for Egypt and a conduit for the commodity that is identified more than any other with the nations of the region: oil. The most traded commodity in the world is considered a mainstay of the Suez Canal's revenue, constituting about 20% of the goods transferred through it. Despite its role as an important conduit of oil, geopolitical events, and international economic crises have undermined the Suez Canal's international status. This chapter aims to describe the reciprocal relationship between the oil market and the Suez Canal. The chapter will begin with a discussion of the impact of the Arab–Israeli conflict on global oil trade through the Suez Canal, and will follow up with an examination of the impact of economic crises and OPEC decisions on canal traffic. Finally, the chapter will suggest several factors that might damage the Suez Canal's international status in the long term.

Y. Mann (✉)
Bar-Ilan University, Ramat Gan, Israel
e-mail: yossimann1@gmail.com

Reichman University, Herzliya, Israel

© The Author(s) 2023
C. Lutmar and Z. Rubinovitz (eds.), *The Suez Canal: Past Lessons
and Future Challenges*, Palgrave Studies in Maritime Politics and
Security, https://doi.org/10.1007/978-3-031-15670-0_5

Keywords SUMED · Oil market · Arab–Israeli conflict · OPEC · Oil embargo · Oil crisis

The Suez Canal has played a significant role in the economic history of the Middle East. It is an important source of revenue for Egypt and a conduit for the commodity that is identified more than any other with the nations of the region: oil. The most traded commodity in the world is considered a mainstay of the Suez Canal's revenue, constituting about 20% of the goods transferred through it. Despite its role as an important conduit of oil, geopolitical events, and international economic crises have undermined the Suez Canal's international status. This chapter aims to describe the reciprocal relationship between the oil market and the Suez Canal. The chapter will begin with a discussion of the impact of the Arab–Israeli conflict on global oil trade through the Suez Canal, and will follow up with an examination of the impact of economic crises and OPEC decisions on canal traffic. Finally, the chapter will suggest several factors that might damage the Suez Canal's international status in the long term.

THE SUEZ CANAL AND THE OIL INDUSTRY IN THE MIDDLE EAST

Oil has a lengthy history in the Middle East. The ancient Egyptians used it for medicinal purposes, and already in the eighth century, the Arabs aimed to try to light up Europe with it. The ancient Persians used to coat their arrows with tar in order to severely injure their enemies. But the most significant use of Middle Eastern oil occurred in the beginning of the twentieth century, after First Lord of the Admiralty Winston Churchill decided in 1911 to convert the British navy from coal to oil. The accelerated development of the car and aviation industries following their use in World War I also had a crucial contribution to the development of oil in the region. The increasing demand for “black gold” brought the international oil companies to the Middle East to search for oil, and the consequent discovery of the world's largest oil reserves in the Persian/Arabian Gulf changed the entire history of the Middle East after World War II.¹ In the prominent Middle Eastern oil countries, oil fulfills a central role not only in the economy but also in preserving regime stability and shaping the relationship between the

regime and the people. Thus, for instance, an examination of the Arab Spring events shows that wealthy countries survived the wave of riots that swept through the region, while countries that are not typical oil-based economies (except for Libya) experienced an enormous political upheaval and some even turned into failed states. The Arabian Gulf oil states used the oil profits that had accumulated through the years to provide benefits and implement far-reaching reforms for the local residents, thus managing to restrain the riots and criticism of the regime.²

The estimated global consumption of oil in 2021 was 96.7 million barrels per day, and according to the United States Department of Energy (DOE), 61% of this amount was transported by oil tankers. The DOE defines seven international maritime routes utilized by most of the tankers carrying the “black gold.” A disturbance in any one of these routes can change the price of a barrel of oil and generate a search for alternate routes, which sometimes lengthens the delivery time. The importance of these routes is measured by the amount of oil transited through them every day. The three most important global chokepoints are considered to be the Strait of Hormuz, the Malaka Straits, and the Suez Canal. The global oil market, and especially the Middle East market, depends on the operational and security stability of the Strait of Hormuz, the Bab el-Mandeb Strait, and the Suez Canal for the uninterrupted supply of oil. Yet, throughout the years, transiting through these routes has become a challenge for shipping companies due to pirate attacks, political instability, sabotage of tankers, and weather.³

In 2019, tankers comprised 20% of the shipping traffic traversing the Suez Canal. In other words, every day 2.8 million barrels of crude oil and oil products passed through the canal. On its way to energy storage facilities in the Netherlands, Turkey, the United States, France, and Spain, 85% of the oil that transited the Suez Canal originated in the Gulf states, led by Saudi Arabia, Iraq, and the United Arab Emirates. From 2016 to 2018, the demand for oil products in East Asian countries grew, leading to an increase in the number of tankers making their way from west to east, particularly from Russia, Libya, and Norway. The type of tankers moving through the Suez Canal indicate its physical characteristics, namely its depth and breadth. Thus, the Suez Canal cannot handle Ultra Large Crude Carriers (ULCC) and fully laden Very Large Crude Carriers (VLCC). The Suezmax-type vessel was the largest ship that could navigate through the canal until 2010, when the Suez Canal Authority extended the canal depth to 66 feet to allow more than 60% of all tankers to transit the canal,

according to the Suez Canal Authority. In addition, almost 93% of bulk carriers and 100% of container ships have been able to transit the Suez Canal since 2010.⁴

The challenges posed by the Suez Canal as a narrow and quite shallow route, coupled with regional political difficulties, have led to routing oil through the Suez-Mediterranean Pipeline (SUMED), which bypasses the canal. The pipeline is 320 kilometers long and transports oil from Ain Sukhna on the Red Sea shore to Sidi Kerir on the Mediterranean, with a capacity of 2.34 million barrels per day (b/d). The pipeline is controlled jointly by several companies, including the Egyptian General Petroleum Corporation and the oil companies of Saudi Arabia, Abu Dhabi, Kuwait, and Qatar. It is the best alternate solution for transporting oil from the Red Sea to the Mediterranean without using tankers. However, in the background of the historic decision made in 2014 by Egypt's president to expand the Suez Canal, a significant drop in the use of SUMED was recorded. Thus, in 2016, 1.63 million b/d were transported through the pipeline compared to 1.33 million b/d in 2018.⁵

THE ARAB-ISRAELI CONFLICT AND ITS EFFECT ON THE TRANSPORT OF OIL THROUGH THE CANAL

The Arab-Israeli conflict highlighted the significance of the Suez Canal as an oil transport route. The conflict originated at the end of the nineteenth century and intensified with the establishment of the State of Israel in 1948. Following this event, the Arab states refused any economic and political ties with the newborn state, which caused the cancellation of the oil pipeline from Iraq to Haifa (the Kirkuk-Haifa oil pipeline). In addition, internal struggles over hegemony in the Arab world brought about the closure of the Iraqi Petroleum Company oil pipeline from Iraq to Syria in 1972 and the cancellation of the Trans-Arabian Pipeline (the Tapline) from Saudi Arabia to Lebanon following the civil war in Lebanon in 1975.⁶

The conclusion of World War II was supposed to usher in a golden age for the Suez Canal: the sharp rise in the number of private vehicles, which grew an estimated 22% in the United States alone in the years 1945-1947, brought about a great demand for oil products. The rehabilitation of Europe after the war also required a great deal of energy. Thus, for example, in 1950, the global demand for oil was estimated at 10 million b/d, rising to 20 million b/d in 1960. Furthermore, the proximity of

the Middle East oil industry to Europe created great demand for this product. German consumption of oil grew from 4.8 million tons per year in 1950 to 63.2 million tons in 1963. Improvements in the production, transport, and refining of oil in the 1950s also contributed greatly to the flowering of the global oil industry as a whole and in the Middle East in particular. For example, oil refineries in Germany were able to produce 10.3 million tons in 1955, compared to 3.4 million tons in 1950. Improvements in refining abilities and a significant growth in the number of oilfields in the Arab space raised the status of the Arab countries in the global oil market. In the years 1948–1955, oil searches in the Saudi Kingdom were accelerated, leading to the discovery of nine significant oil fields. Pumping rates swiftly increased in the country, from 60,000 b/d in 1945 to 966,000 b/d in 1954.⁷

The origins of the political crisis in the Suez Canal can be found in the 1950s, when Iran nationalized the oil industry in its territory. This act was aimed against the Anglo-Iranian Oil Company and was followed by a U.S. and British embargo on oil imports from the local market. This removed 19 million barrels per month from the global market in the years 1951–1953 and reduced the amount of shipping through the Suez Canal. The Iranian nationalization was therefore a prelude, if not an inspiration, for the nationalization of the Suez Canal in 1956 by the charismatic Egyptian president, Gamal Abdel Nasser. This was followed by an Israeli military action against Egypt, which put a stop to Suez Canal activity. This meant that 1.7 million barrels, which comprised 10% of daily global production in those years, could not transit through the shortest route, forcing tankers to sail the lengthier route, around the Horn of Africa.⁸

In Western consciousness, the Suez crisis had a great effect on the oil market. In the immediate term, Western countries feared that the oil tanker companies would be harmed. The closure of the Suez Canal meant that ships sailing from Ras Tanura Port in Saudi Arabia to New York had to route through the Cape of Good Hope, traveling 11,755 miles instead of 8288. In the long term, Western countries feared that Egypt would take over the weak oil countries, such as the Gulf emirates and Saudi Arabia, and indeed, as the West expected, the Suez crisis had far-reaching effects. Following Nasser's act, his status in the Arab world reached new heights and the masses in the Arab world joined his call to expel Western forces from the region. Two years later, the Iraqi monarchical regime was removed by a group of officers who were influenced

by Egypt. In other countries, such as Saudi Arabia, unprecedented riots broke out in the months following the Suez crisis, which led to years of acrimonious relations between the oil companies' Arab workers and their Western colleagues. As for the global oil market, the Suez crisis impressed upon the shipping companies the need to produce a greater number of ships and larger ones in order to compensate for the inability to use the Suez Canal. Consequently, between the years 1966 and 1970, global maritime transport capacity increased from 2 million tons to more than 50 million tons. This was made possible due to the construction of 188 new tankers that transported even more oil products from the Arab Gulf.⁹

The Suez crisis caused greater harm to the Arab economy than to the economy of the West. In the months following the crisis, a sharp decline was recorded in the export of oil from Middle Eastern countries to Western Europe. Thus, on the eve of the crisis, Western European countries imported 74% of their oil from the Middle East, while between November 1956 and March 1957, Middle East oil comprised only 48% of the imported oil in Western Europe markets. On the other hand, the effect of the crisis on Western European countries was limited, as immediately after the crisis, Venezuela increased its production by 10% and the United States did so by 7%.¹⁰

The tension that characterized the Arab–Israeli arena in May 1967 moved the Iraqi government to summon representatives of the Arab oil-producing countries to a convention held in Baghdad on June 4. Three days prior, the Arab oil ministers received a document of principles put together by the Iraqi government, which included a prohibition on exporting oil to countries that would assist Israel or take part in the coming war. The memo even included a warning to oil companies not to exploit Arab sources of oil contrary to the wishes of Arab governments. Finally, the Islamic countries were issued a demand to stand by the Arab countries in their struggle against Israel. Two days after the discussion in Iraq, the Six-Day War started, after which the oil ministers of Iraq, Saudi Arabia, Kuwait, Libya, Qatar, Bahrein, and Abu Dhabi as well as representatives of the governments of Syria, Lebanon, and Egypt were faced with a demand to stop exporting oil to countries that provided military assistance to Israel. As a result, oil exports from Saudi Arabia, Kuwait, and Iraq to British and US tankers were halted, and countries, for example, Syria, stopped pumping oil altogether.¹¹

The fighting came to an end on June 12, 1967, with the rout being received with utter surprise in the Arab world. The oil countries were now facing heavy pressure from Arab states to avoid resuming the supply of oil to the countries that had cooperated with Israel. The demand to continue the embargo was a major challenge, especially for the government of Saudi Arabia, which found itself between a rock and a hard place: the embargo it had imposed on the United States and Britain in the six days of the war had cost an estimated \$30 million of economic damage. Furthermore, an embargo meant worsening the relations with the United States, which the Saudi King Faisal was unwilling to do, as the former was providing military support to the Kingdom.¹² Another problem was the economic challenges facing the Arab world, which precluded the possibility of imposing an embargo that would harm the income from oil. It was, in fact, President Nasser-led Egypt that understood during the Khartoum summit held in August 1967 that an oil embargo might inflict mortal damage on the Arab economy and especially on Egypt itself. As a gesture of reconciliation, Egypt suggested that instead of an embargo, the oil countries would dedicate part of their earnings to the rehabilitation of the countries that had taken part in the conflict with Israel. Following this compromise proposal, Saudi Arabia transferred to Egypt and Jordan an estimated \$140 million. Libya and Kuwait joined the initiative and together with Saudi Arabia agreed to transfer to Egypt and Jordan an estimated \$378 million, which constituted 20% of the oil countries' profits in that year. In return, the countries that had participated in the summit agreed to resume passage of US, British, and West German tankers, thereby officially ending the embargo.¹³

The 1967 oil crisis did not create significant challenges for the global energy market. In the immediate term, the export of Middle Eastern oil to the United States, Britain, and West Germany was damaged. The crisis also caused the ruin of several oil rigs in Bahrain, Iraq, and Saudi Arabia. It is estimated that the direct economic harm caused to Arab countries by the crisis was no more than 5% of their profits that year, compared to the immense harm caused to them by their commitment to assist the countries that had taken part in the war. On the other hand, Western European countries, such as Britain, were compelled to buy oil from the United States and Venezuela at higher prices than Middle Eastern oil in order to avoid an energy crisis. Thus, Britain paid \$3.80 per barrel for American oil and \$3.23 per barrel for Venezuelan oil, compared to \$3.00 that Britain had paid on the eve of the crisis for a barrel of Arab Gulf

oil transported through the Suez Canal. The United States, on the other hand, was forced to increase its inland oil inventory at a cost of \$240 million because at the time it was reinforcing its army in Vietnam and most of the oil for its soldiers came from the Arabian Gulf.¹⁴

The major challenge caused by the crisis was the closure of the Suez Canal until 1975, which desperately harmed the Egyptian economy and the long-term status of the canal. From 1967 to 1974, the size of the global oil tanker fleet grew significantly, as the lengthy closure of the Suez Canal forced the shipping companies to build giant tankers with a capacity of 300 thousand tons in order to compensate for the inability to shorten the journey. In addition, the crisis elevated the status of oil countries such as Libya, whose location did not require passing through the canal. This led its charismatic leader, Muammar Gaddafi, to demand a higher price for Libyan oil. Another negative effect was that between 1957 and 1967, global oil trade increased by 918 million tons. The demand raised the price of leasing tankers, which increased the number of contracts for constructing tankers, and eventually the number of tankers—all of which did not create income for the Suez Canal Authority in the following critical years, from 1967 to 1973.¹⁵

The oil embargo that began after the Yom Kippur War had a significant impact on the political arena, on the economic resilience of the Middle Eastern oil countries, and on the Western consumer's conception of the importance of oil as a critical energy source that can shape the policy of superpowers. The embargo altered the consciousness of decision-makers regarding how to prepare for geopolitical threats so as to maintain the stability of the local economy. Until the recent decade, research showed a strong correlation between sharp rises in the price of oil and unemployment in Western countries, which made decision-makers realize that they must establish a developed conception of "energy security" in order to guarantee the functioning of the economy in times of war, such as the one that erupted in the autumn of 1973.¹⁶ Thus, as a result of the war, Western countries established the International Energy Agency, which has 30 participating members signed to an energy defense pact. In case the energy economy of any country is harmed, the others are obligated to provide its energy needs until the threat is removed. Furthermore, due to the embargo, the developed and developing countries committed themselves to a severe standard for the establishment of three-month oil reserves, aimed at reducing the risk to the local market from the loss of external energy supplies.¹⁷

The embargo on countries that traded or provided military assistance to Israel during the war caused a sharp rise in the price per barrel and a significant increase in the income from the “black gold” countries. On the eve of the war, the price of a barrel of oil was \$2.90, whereas the embargo caused an immediate rise in price to \$12.00 per barrel. To a great extent, the embargo helped pin the price per barrel to a level above \$10.00 and solidified the economic status of the Arabian Gulf countries. It also caused the other Middle East countries to flourish, as they now benefited from the income sent back by their workers, now employed in the Arabian Gulf countries, from financial investments by the wealthy oil countries, and from an increase in tourism and in the traffic of commodities passing through the prominent ports and passages in the region, such as the Suez Canal and the Port of Beirut. All of these were game changers for the economies in the region and helped the Middle East countries establish a welfare economy in the pursuant decades.¹⁸

The 1973 crisis had positive and negative effects on the passage of oil through the Suez Canal. The Yom Kippur War was followed by a reduction in global oil consumption and a drop in imports from OPEC countries due to the high cost of transport and the rise in individual consumers’ expenditure on energy. The global economic slowdown brought about a collapse of the shipping market and especially for tankers, to such an extent that in 1975, 70% of the tankers in the market were scrapped. In 1970, the cost of a very large crude carrier (VLCC) was \$31 million, while in 1973, on the eve of the oil crisis, the cost of a secondhand tanker was estimated at \$52 million. The same type of VLCC was sold for \$10 million in 1975. In other words, following the closure of the Suez Canal from 1967 to 1973, Egypt lost an enormous amount of money due to the increase in global tanker traffic, but when it reopened the canal in 1975, Egypt once again sustained losses due to the global economic slowdown.¹⁹ Nonetheless, in the long term, the reopening of the Suez Canal caused a sharp increase in the number of tankers passing through it, so that 5579 ships passed through the canal in 1975, compared to 16,806 ships in 1976, as the world emerged from the economic crisis.²⁰

OIL CRISES AND THEIR EFFECT ON CANAL TRAFFIC AND INCOME

The term “oil crisis” has a dual meaning. From the 1970s until the 2008 crisis, the term primarily referred to a sharp rise in the price per barrel of oil following geopolitical events, while from 2008, it primarily refers to a sharp decrease in price following economic crises. Specifically, from the year 2008, the oil market has undergone three major, formative events in which the price of oil dropped by more than 70% within several months. In some cases, the crisis was a result of a market structure that was unable to absorb the huge amount of oil that was produced, as in the 2014 crisis, while in other cases the price dropped due to fears regarding the stability of the global economy. Thus, following the subprime crisis in the United States in 2008, the price dropped within four months from \$147.00 per barrel of Brent crude oil to \$33.00; in the wake of the COVID-19 outbreak in 2020, the price dropped within several months from \$67.00 for a barrel of West Texas Intermediate (WTI) to minus \$46.00.²¹

The significance of oil crises for the Suez Canal is clear: less oil tanker traffic. For example, following the economic slowdown in 2008, maritime activity in the Suez Canal dropped by 25%. Numerous ship owners preferred to travel through the Cape of Good Hope rather than pay transit fees to the Suez Canal Authority. Furthermore, by lengthening the trip in this way and delaying arrivals at the destination ports, the owners aimed to create demand. In some cases, traveling through the Cape of Good Hope saved \$300 thousand per tanker trip. Other tanker owners managed to get a reduced Suez Canal transit fee due to the economic situation, saving money while still trimming seven days off the trip from east to west.²²

The COVID-19 crisis that erupted at the end of 2019 was a clear manifestation of the link between economic crises and reduced activity of ships and tankers, especially in the Suez Canal. Thus, due to the crisis, a sharp drop was recorded in the worldwide use of Suezmax-type tankers, as their number was reduced from 136 to 49. Although not all tankers of this type transited through the Suez Canal, such a severe drop in their activity demonstrates the damage to Suez Canal revenue. A further example can be seen in the sharp drop in tanker traffic from the Arabian Gulf to North Europe, from 127 tankers in January 2020 to just 38 tankers in May 2020.²³ Nonetheless, the economic growth that characterized the second half of 2020 was apparent in the financial results: the Suez Canal

Authority managed to balance its revenue so that it reached \$5.6 billion at the close of 2020, compared to \$5.8 billion on the eve of the crisis.²⁴

Unlike the oil crises of 2008 and 2020, the crisis in the years 2006–2008 was caused by a sharp rise in price, which positively affected Suez Canal revenue. In these years, the price of oil rose from \$60.00 per barrel to a peak of \$147.00 in August 2008. The reasons for this increase were diverse and included political crises in Iraq, Venezuela, Nigeria, and Russia that lowered the rate of production, accompanied by an increase in demand in the Far East, primarily in China, as well as an increase in the number of speculators involved in the trade of crude oil futures contracts. All of these created unprecedented revenue for the canal, which benefited from a large amount of tanker traffic. Thus, from 2000 to 2004, an average of 14,000 ships passed through the canal each year, while between 2004 and 2008 the annual average was 18,000 ships. The change was manifested in Suez Canal revenues, which were estimated at \$3.264 billion in 2007, compared to \$5.11 billion in 2008, when the price of oil peaked.²⁵

In March 2021, the *Ever Given* container ship passed through the Suez Canal. Fierce winds coupled with a brake malfunction caused the ship to get stuck between the two banks of the canal, obstructing the Suez Canal entirely. This caused an immediate rise in the price of Brent crude oil, from \$63.90 per barrel to \$67.00.²⁶ This event highlighted the direct link between canal activity and oil prices. The main parties harmed by the crisis were the primary users of the canal, namely Saudi Arabia, Russia, Iraq, the United Arab Emirates, Norway, Kazakhstan, Libya, and Algeria. Despite the direct damage to the canal, the price per barrel did not increase sharply due to the existence of alternative routes that enabled the continued transport of oil. Furthermore, in recent decades, the Suez Canal has demonstrated an ability to recover rather swiftly from momentary crises, which proves its importance to the world, as occurred after this case as well.²⁷

The passage of ships and oil tankers through the Suez Canal can reveal trends of global economic growth or slowdown. Ships carrying various types of commodities can travel to Europe or the Eastern markets without requiring the canal, contrary to other chokepoints such as the Hormuz Straits, to which there is currently no complete alternative in case it is blocked. In times of high demand, shipping companies aim to make as many trips as possible in the shortest time possible, so that the Suez Canal route is very tempting, providing increased revenue to Egypt. On

the other hand, global slowdowns enable ship owners to reduce transport expenses by using longer routes (saving the Suez Canal transit fees) and traveling more slowly, thus saving on fuel as well, which is the main expense in shipping. In other words, the Suez Canal is a pendulum that is highly influenced by global market events, especially those related to the East Asian and European markets.²⁸

THE EFFECT OF OPEC ON THE SUEZ CANAL

Organization of the Petroleum Exporting Countries (OPEC) is commonly considered the factor having the greatest impact on the global oil market. According to estimates, 80% of global oil reserves are located in the territories of the 14 OPEC members. The power of OPEC is also related to the fact that its members produce 40% of the world's daily consumption, as well as to the ability of some of the members, led by Saudi Arabia, Kuwait, and the United Arab Emirates, to increase production in times of crisis or suppress sharp rises in price through spare capacity. This means that the organization has the ability to both reduce production in order to raise prices if they drop sharply, and also to increase production in order to lower prices so as to prevent a global economic slowdown. Limiting production has occurred several times in recent decades, such as after the subprime crisis in 2008; after the collapse in price per barrel in 2014–2016 following the emergence of the US oil shale industry and Iran's post-embargo return to the market; and finally in 2020, after the coronavirus outbreak brought about the collapse of the global aviation industry as well as a significant reduction in the use of private vehicles.²⁹

Yet, throughout the years, OPEC has found it difficult to control the production rates of all its members. Many agree that in times of crisis, when oil prices fall to a level that threatens the oil states' ability to cover their budgets, they are quick to agree to and execute efficient production cuts. However, when prices rise significantly and threaten to cause a global economic slowdown, the organization finds it difficult to coordinate and supervise the production quotas that the members have agreed upon in order to maintain a fair price for consumers. The reason for this seems to be the gaps between the various members' economic needs, which leads to disagreements within OPEC regarding production policy. Most researchers believe that differences in population size, reserve sizes, type of oil possessed by each country member, per capita income,

equity, and foreign currency balance create disparate interests among the OPEC members, resulting in different policies regarding the oil market. For example, from the beginning of the 2000s, a major controversy has emerged between country members that favor a high oil price, such as Iran, Venezuela, Nigeria, and Algeria, and members that favor a pragmatic oil policy, such as Saudi Arabia, Kuwait, and the United Arab Emirates.³⁰

OPEC's decisions have a significant impact on the transit of oil through the Suez Canal. A decision to cut production means less oil being exported from the Arab Gulf countries, which make up a large portion of oil transport through the canal. Such a decision also affects the number of tankers required for transporting oil. For example, between 2014 and 2016, oil prices collapsed from \$103.00 per barrel to \$34.00. Consequently, in November 2016, OPEC announced a sharp cut in production in order to stabilize prices, which indeed rose sharply in the following years. In the months following the announcement, fewer tankers from Gulf countries passed through the canal, but this was accompanied by a rise in the number of tankers arriving from Europe. In other words, following the production cut, which affected mainly the OPEC members from the Arabian Gulf, there was an increase in the number of tankers coming from Europe at the expense of tankers coming from the East, because producers such as Norway were not part of the production cut.³¹ Specifically, in 2013, prior to the crisis in the oil market, 117 oil tankers from the Arabian Gulf passed through the canal to Europe, and 102 tankers went from Europe to the Far East. In 2017, after OPEC's decision on production cuts, 159 tankers from Europe passed through the canal eastward, compared to 133 tankers making their way from the Arabian Gulf to Europe.³²

FUTURE TRENDS IN THE OIL MARKET AND THEIR IMPACT ON THE STATUS OF THE SUEZ CANAL

The oil market is currently undergoing a real revolution. The transition to renewable forms of energy, the awareness of climate issues, the decrease in oil imports to the United States (with the emergence of its shale oil industry), and the significant increase in oil exports to East Asia at the expense of the West—all raise questions regarding the future status of the Suez Canal as a major conduit of oil. At the same time, regional political processes can also challenge the historic status of the Suez Canal and favor cheaper and more efficient solutions. Accordingly, there are several

issues with respect to the oil market that can challenge the status of the Suez Canal in the long term: alternatives to oil as a major energy source, geopolitical issues, environmental issues, and Egypt's ability to promote processes that will secure the status of the canal.

History shows that the most severe damage to the status of the Suez Canal came as a result of political instability in the region. In this respect, it is possible to point out several challenges that may harm the future movement of tankers in the canal. Thus, in the past, tensions in the Arabian/Persian Gulf have caused a reduction in oil transports through the Suez Canal, as the regional producers lowered their production rates due to war, economic sanctions, or internal instability. Since the Gulf states are the most prominent users of the Suez Canal for the purpose of oil transport, the stability of these countries will have a major impact on canal traffic. In this context, the tense relations between Saudi Arabia and Iran, which have boiled over to Yemen, have created a dual challenge for owners of tankers and ships that wish to use the Bab el-Mandeb Strait on their way to the Suez Canal. First, the instability in Yemen is encouraging local forces to damage shipping in the area in order to strengthen their international standing. This may create a negative perception of the Suez Canal, as occurred during the 1950s and 1960s due to the Arab–Israeli conflict, which raised the need for a long-term alternative solution to travel through the canal. The lack of governance over the Bab el-Mandeb Strait has also increased the activity of pirates in the region, which has added another negative aspect regarding the long-term benefit of the Suez Canal.³³

The fear of instability in the Suez Canal alongside the rising cost of transit through the canal in times of high demand for oil resurfaced the possibility of using pipelines to bypass the canal. The Abraham Accords signed in September 2020 between Israel and the United Arab Emirates and Bahrain ignited the discourse over resuming the activity of the historic oil pipeline from Eilat to Haifa, namely the Trans-Israel pipeline, in order to transport oil from the Arabian Gulf to the Mediterranean at the expense of the Suez Canal. The agreements signed between Israel and these Arab oil states can in the future bring Israel and Saudi Arabia to the negotiation table in an attempt to revisit the vision of a pipeline from Saudi Arabia to Haifa that would transport oil directly to the Mediterranean, again, at the expense of the Suez Canal.

It is estimated that in the next few decades, oil consumption will rise mainly in East Asian countries such as China, India, and South

Korea. Accordingly, the status of the Suez Canal seems unlikely to improve, barring a rise in exports from Europe and North Africa. One should note, in this context, the gradual drop in daily oil production in Norway—which is considered an important carrier of crude oil through the canal—from a peak of 3.5 million barrels in 2005 to 2 million in 2018. Russia may also affect the status of the Suez Canal. Thus, for example, improvements in the ability of ice-breaking oil tankers may facilitate the transport of oil from Russia through its northern parts to Eastern markets. In addition, climate changes may create “warm waters” in regions that were historically covered by glaciers, which may encourage the transport of oil from northern Europe to the Far East, to the detriment of the Suez Canal.³⁴

The European Union is considerably dependent on energy imports. The decline in the status of Norwegian oil, alongside the fear of depending on Russian oil, has brought EU countries to aspire to an energy balance. Combined with its environmental awareness, this has led the EU to set ambitious targets for the use of renewable and less polluting energy sources, which may decrease future oil imports and harm Suez Canal revenue. In this respect, one must note that a stronger market for gas at the expense of oil may lead to increased exports of liquid gas from the Arabian Gulf to EU countries, thereby balancing out the loss of Suez Canal revenue from oil tankers.³⁵

The Arab Spring that erupted in the winter of 2010 threatened the stability of Egypt, and for the first time since the 1970s raised fears that the canal would be shut down again. Even though canal transit remained undisturbed during this period, apprehension regarding Egypt’s internal situation led to a decrease in traffic. Thus, in the first ten months of 2010, about a thousand ships passed through the canal, compared to 1200 in the prior year. Furthermore, the fall of Mubarak’s regime in the months following the beginning of the riots created a domino effect in which other regimes fell, as in Libya and Yemen, along with instability in Arabian Gulf states such as Bahrain and Oman. This demonstrates Egypt’s status and the importance of guaranteeing its internal stability in order to prevent regional instability that might impair regional oil production and reduce the volume of oil transported through the canal.³⁶

The rise in the status of the Arab Gulf states as suppliers of oil to Europe is also a result of the drop in production of North African states, primarily Libya. The Arab Spring events mortally damaged the stability of the country, which has substantial, high-quality oil reserves, at Europe’s

doorstep. The instability in North African countries, mainly in Libya and Algeria, caused Europe to turn to the Gulf states to provide oil. However, if stability will be restored to the region, exports from these countries will grow at the expense of the Gulf states. Furthermore, an increase in the production of oil in Libya may also mean an increase in exports to the east through the Suez Canal. However, considering the physical proximity and historic connections, alongside the Russian presence in the country in recent years, Libyan oil will most likely reach European destinations, which in turn will probably lead to a decrease in the number of oil tankers transiting from the Arabian Gulf to Europe through the canal.³⁷

CONCLUSIONS

The Suez Canal has an important historical role in shaping the economy and discourse in the Middle East. The significance of the canal as an international route for the transport of oil from producers to consumers rose along with the emergence of oil as a major energy source. Several events have undermined the status of the canal as an oil conduit, first and foremost the Arab–Israeli conflict, as well as economic crises and OPEC-related decisions regarding oil. It appears that in the upcoming years, Egyptian authorities will have to adopt significant measures in order to maintain the status of the canal as an important oil transport route. Above all, they must guarantee the stability of the country and the Red Sea in order to instill confidence in the countries and companies that transit oil through the canal. In the absence of significant measures, and considering additional factors such as climate changes, market structure, and alternative producers, the Suez Canal may suffer a decline in its status, as occurred in the middle of the 1970s.

NOTES

1. Laurence Lockhart, “Iranian Petroleum in Ancient and Medieval Times,” *Mondial du Pétrole* 25, no. 183 (1939): 7–16; Malcolm Yapp, *The Near East Since the First World War: A History to 1995* (New York: Routledge, 1996), 1–48; 49–115; 147–67; 209–376; 441–98.
2. Aydın Aydın, “Hereditary Oil Monarchies: Why Arab Spring Fails in GCC Arabian States?” *SDU Faculty of Arts and Sciences Journal of Social Sciences* 30 (2013): 123–38.
3. “Three Important Oil Trade Checkpoints Are Located around the Arabian Peninsula,” *U.S. Energy Information Administration*, 4 August 2017.

4. "World Oil Transit Checkpoints," *U.S. Energy Information Administration*, 25 July 2017.
5. "The Suez Canal and SUMED Pipeline Are Critical Chokepoints for Oil and Natural Gas Trade," *U.S. Energy Information Administration*, 23 July 2019; Massimo Deandries, "The New Suez Canal: Economic Impact on Mediterranean Maritime Trade," *ALEXBANK* (June 2015): 18–19.
6. David R. Reitsema, "The Iraqi Nationalization of the Iraq Petroleum Company: Implications for the International Law of Expropriation," *Denver Journal of International Law & Policy* 2, no. 2 (January 1972): 217–20; Asher Kaufman, "Between Permeable and Sealed Borders: The Trans-Arabian Pipeline and the Arab-Israeli Conflict," *International Journal of Middle East Studies* 46, no. 1 (2014): 97–101.
7. "Oil Consumption – Barrel (from 1965)," *BP Statistical Review of World Energy June 2011*; Peter P. Waller and Harry S. Swain, "Changing Patterns of Oil Transportation and Refining in West Germany," *Economic Geography* 43, no. 2 (April 1967): 143–48.
8. Peter P. Waller and Harry S. Swain, "Changing Patterns of Oil Transportation and Refining in West Germany," *Economic Geography* 43, no. 2 (April 1967): 144–48.
9. D. Hawdon, "Tanker Freight Rates in the Short and Long Run," *Applied Economics* 10 (1978): 3–5; Hallvar Gislås, Even Holte, Agathe Rialland, and Tor Wergeland, "Tanker Market Industry Analysis," *European Framework for Safe, Efficient and Environmentally-Friendly Ship Operations/Flagship Work Package D-A1-E Activity A32-Develop Scenarios Part 1 Industry Analysis* (October 2008), 2–18.
10. Harold Lube, *Middle East Oil Crisis and Western Europe Energy Supply* (Santa Monica, CA: The Rand Corporation, 1962), 2–27.
11. George Lenczowski, *Middle East Oil in a Revolutionary Age* (Washington, DC, 1976), 4; National Archives of the United States (hereafter, NA), RG59/2470/F.2, A-12, "Monthly Review for Saudi Arabia-June, 1967," July 10, 1967; The National Archives of the United Kingdom (hereafter, TNA), PRO, FCO 8/808 (BS 12/1), "Arab Oil Embargo," August 8, 1967; Morris A. Adelman, "The Real Oil Problem," *Regulation* (Spring 2004), 16–21; TNA, FCO8/808, "More Moderation over Arab Oil," June 30, 1967; TNA, PRO, FCO 8/760 (BS 2/4), "Saudi Arabia during and after the Arab-Israeli War," August 18, 1967; NA, RG59/2472/F.3, A-53, "Saudi Military and National Guard," June 6, 1967.
12. TNA, PRO, FCO 8/1546 (NBY 2/2), "Visit of Mr. E. Luard, M. P to Arabia," January 1, 1970.
13. TNA, PRO, FCO 8/808 (BS 12/1), "Further Criticism of Arab Oil Policy in Saudi Arabian Press and Broadcasting Service," August 24, 1967.
14. TNA, PRO, FCO 8/808 (BS 12/1), "Arab Oil Embargo," August 8, 1967; TNA, PRO, FCO 8/760 (BS 2/4), "Saudi Arabia during and after

- the Arab–Israeli War,” August 18, 1967; Thomas Paterson, Garry Clifford, and Kenneth Hagan, *American Foreign Policy: A History* (Lexington, MA: D. C. Heath and Company, 1977), 586; *Petroleum Press Service* 26, no. 5 (May 1959), 202.
15. Elizabeth A. Sibilja, “Oceanic Accumulation: Geographies of Speculation, Overproduction and Crisis in the Global Shipping Economy,” *Economy and Space* 51, no. 2 (2019): 474–75.
 16. John V. Mitchell, *Renewing Energy Security* (London: Chatham House, Royal Institute of International Affairs, 2002), 10–25.
 17. Richard Scott, *The History of the International Energy Agency: The First Twenty Years Volume I: Origins and Structures of the IEA, OECD and EIA* (Paris: OECD/IEA, 1994), 27–58.
 18. Giovanni Covi, “The First Oil Shock, Stylized Facts, Reflections and the Easterly Puzzle in a Forty-Year Retrospective,” *MPRA* (August 2014): 1–27.
 19. Covi, “The First Oil Shock.”
 20. Suez Canal Authority, *Suez Canal Traffic Statistics, Annual Report 2018*, 2, 4.
 21. Mohamed Hammad, “Suez Canal Suffers Double Blow from Pandemic, Collapse of Oil Prices,” *The Arab Weekly*, May 22, 2020; Fabrizio Venditti and Giovanni Veronese, “Global Financial Markets and Oil Price Shocks in Real Time,” *European Central Bank* no. 2472 (September 2020): 8–12.
 22. “Review of Maritime Transport 2009,” *United Nations Conference on Trade and Development* (2009), 114.
 23. Clemens Breisinger, Abla Abdelatif, Mariam Raouf, and Manfred Wiebelt, “COVID-19 and the Egyptian Economy Estimating the Impacts of Expected Reductions in Tourism, Suez Canal Revenues, and Remittances,” *Middle East and North Africa-Regional Program Policy*, no. 4, (March 2020): 2–3.
 24. “Suez Canal Revenues in 2020 Hit USD 5.6 despite Covid-19,” *State Information Service- Egypt*, February 6, 2021.
 25. “Egypt Maritime Transport: Suez Canal Revenues: 1991–2017,” *Suez Canal Authority*.
 26. Musaed Sulaiman, “The Effect of Suez Canal Blockage on Crude Oil Prices: An Event Study Analysis,” *IOSR Journal of Business and Management* 23 (4): 64–65.
 27. Sameer Mohindru, Vickey Du, Carina Li, Isaac Eio, “Stuck Suez Canal Container Ship Disrupts Global Commodities Trade: Sources,” *S&P Global Platts*, March 24, 2021.
 28. James D. Hamilton, “Historical Oil Shocks,” *National Bureau of Economic Research* (February 2011), 10–12.
 29. Yossi Mann, “The Middle East and the New Era in the World Oil Market,” *The Journal for Interdisciplinary Middle Eastern Studies* 1 (2017): 108–109.

30. Mansoor Hamood Al-Harthy, "Stochastic Oil Price Models: Comparison and Impact," *Engineering Economist* 52, no. 3 (Fall 2007): 4; D. P. T. Young, "The Nature of OPEC and Oil Price Changes," *Energy Economics* 16, no. 2 (1994): 1–2.
31. Florence Tan, Mark Tay, "As OPEC Cuts, Traders Send European Oil Volumes to Asia," *Reuters*, January 11, 2017; Charles Kennedy, "Oil Tankers Shun Suez Canal in Search of Cheaper Route," *Oilprice*, March 2, 2016; Emiko Terazono, "Oil Tanker Rates Surge as Bulk Carrier Prices Languish," *Financial Times*, December 14, 2016.
32. "Navigation Statistics," *Suez Canal Authority*, 2013, 2017.
33. Luigi Narbone and Cyril Widdershoven, "The Red Sea Link: Geo-Economic Projections, Shifting Alliances, and the Threats to Maritime Trade Flows," *Robert Schuman Centre Research Project Report Regional Security Initiative Issue 2021/12* (July 23, 2021), 6–9.
34. John Mitchell, "More for Asia: Rebalancing World Oil and Gas," *Chatham House*, November 2010, 5–10; A. Kozmenko, "Arctic Oil and the Eastern Direction of Russia's Energy Policy," *SHS Web of Conferences* 84, 03004 (2020): 4–5; "Country Analysis Executive Summary: Norway," *U.S. Energy Information Administration*, January 7, 2019.
35. Koen Rademaekers, Luc Van Nuffel, and Jessica Yearwood, "EU Energy Independence, Security of Supply and Diversification of Sources," *European Parliament, Policy Economic and Scientific Policy* (2017): 10–15.
36. Hakim Darbouche and Bassam Fattouh, "The Implications of the Arab Uprising for Oil and Gas Markets," *The Oxford Institute for Energy Studies*, September 2011.
37. Richard Barltrop, "Oil and Gas in a New Libyan Era: Conflict and Continuity," *The Oxford Institute for Energy Studies* (February 2019): 12–14; Chiara Loschi, Luca Raineri, and Francesco Strazzari, "The Implementation of EU Crisis Response in Libya: Bridging Theory and Practice," *EUPACK* (January 2018): 4–12.

Open Access This chapter is licensed under the terms of the Creative Commons Attribution 4.0 International License (<http://creativecommons.org/licenses/by/4.0/>), which permits use, sharing, adaptation, distribution and reproduction in any medium or format, as long as you give appropriate credit to the original author(s) and the source, provide a link to the Creative Commons license and indicate if changes were made.

The images or other third party material in this chapter are included in the chapter's Creative Commons license, unless indicated otherwise in a credit line to the material. If material is not included in the chapter's Creative Commons license and your intended use is not permitted by statutory regulation or exceeds the permitted use, you will need to obtain permission directly from the copyright holder.

