Tomorrow's Affairs
Analysis of today
Assessment of tomorrow

By: TA | AP Insight

Gulf oil producers ready to invest billions to bypass the Strait of Hormuz

Before the war in Iran, roughly 15 million barrels of Persian Gulf oil were shipped each day through the Strait of Hormuz. Within a few years, much of that oil could bypass the strait.

As Iran’s chokehold over the strait drags on and oil prices surge, countries across the Gulf are planning to spend billions of dollars to build pipelines enabling them to redirect more supplies to ports on the Red Sea, the Gulf of Oman and the Mediterranean.

At least seven major pipeline projects are under construction, in the planning stage or being discussed as possibilities, according to government officials, oil companies and analysts.

The war has been a wake-up call for Gulf oil producers, who are determined to become less dependent on a transit point that hugs Iran’s coast.

But alternatives to Hormuz are also vulnerable to disruption. Yemen's Iran-backed Houthi rebels said early Thursday they had attacked two Saudi oil tankers in the Red Sea, a key alternative route to the strait for Saudi oil exports.

Some alternative routes will take the oil on longer and more expensive paths to market.

Regardless, producers have realized that relying so heavily on the Strait of Hormuz “is no longer a prudent long-term strategy,” said Victoria Grabenwöger, senior research analyst at data firm Kpler.

The Red Sea and Gulf of Oman have become vital alternatives to Hormuz

The effective shutdown of the Strait of Hormuz would have been an even greater shock to the world economy were it not for a pipeline Saudi Arabia built in the 1980s amid fears that Tehran would disrupt shipping through the strait during the Iran-Iraq war.

The Saudis' East-West pipeline carries oil across the desert nation from a processing facility in Abqaiq to the city of Yanbu on the Red Sea coast.

Once there, it is loaded onto tankers that head either south to the Arabian Sea or north to the Suez Canal.

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Combined, the two pipelines had spare capacity of about 3.5 million to 5.5 million barrels per day before the war began, according to the U.S. Energy Information Administration. The two pipelines are now running near full capacity.

More oil could begin flowing through a UAE port by next year

The state-owned oil company of Abu Dhabi, one of the UAE's seven emirates, is accelerating construction of a $3 billion, 300-kilometer (200-mile) pipeline to Fujairah.

That pipeline, which will run parallel to an existing one, aims to increase oil supplied to Fujairah by more than 1.2 million barrels a day.

The project, which started before the war, is now reportedly about halfway completed, according to Kpler.

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The pipeline is intended to be completed by early 2027, but Kpler says mid-2027 is more likely given the need to expand the port at Fujairah.

The ambitious timeline “has only become feasible against the backdrop of the Strait of Hormuz blockade,” Kpler's Grabenwöger said.

Plans to pipe more oil to Turkey and Syria will take longer

In Iraq, officials are ramping up plans to develop alternative export routes for southern oil fields around Basra.

Iraq is so dependent on the Strait of Hormuz that it has had to scale back production.

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One would take supplies from an oil terminal in Basra — through which more than 3 million barrels were exported daily before the war — to the port of Ceyhan in Turkey, along the Mediterranean Sea.

That pipeline would also have a branch extending to the Mediterranean port of Baniyas in Syria.

Some 2 million barrels a day of oil could ultimately flow through the pipeline to Baniyas, which the U.S. State Department has called “a critical energy corridor.”

Iraqi officials have also held discussions with Jordan on advancing long-discussed plans for a pipeline that would carry oil from Basra to Aqaba.

From there it would be exported via the Red Sea or the Suez Canal to Asia and beyond.

The new pipelines will add time and costs

Taken together, the new projects to bypass Hormuz could carry an added 3.8 million barrels of oil a day by the end of next year, and 7.3 million barrels per day by the end of 2028, according to analysts at the investment bank Goldman Sachs.

The projects would mean some 60% of the Gulf's total prewar exports of 23 million barrels a day could bypass Hormuz if needed, the analysts said.

Oil pipelines don't help with the disruption to supplies of liquefied natural gas carried by ship

Pipelines from the Persian Gulf to the Mediterranean Sea send oil in the wrong direction to help Asian countries that relied on exports through Hormuz, requiring a much longer trip around the southern tip of Africa.

Any additional supplies piped from Saudi Arabia to the Red Sea will also be vulnerable to attacks by Houthi rebels in Yemen, as Thursday's attacks show; the rebels have successfully disrupted shipping before at the Bab el-Mandeb Strait, which connects the Red Sea to the Gulf of Aden.

That oil could also be sent to the Suez Canal instead to reach the Mediterranean.

But the canal cannot accommodate the industry's largest tankers, which hold up to 2 million barrels per vessel and are often the most cost-efficient way to transport oil long distances.

And pipelines themselves are not immune to attack. The Saudi East-West pipeline was shut down by a Houthi drone strike in May 2019.

Meanwhile oil pipelines don't help with the disruption to supplies of liquefied natural gas, or LNG, carried by ship.

About one-fifth of the world's LNG — much of it from Qatar and headed for Asian customers — transited the strait before the war.