

The Strait's strategic significance

By Daniel Brett

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Dubai has announced that it is studying a new \$200 billion mega-project that is intended to by-pass one of the world's narrowest and strategically important shipping choke points, the Strait of Hormuz. The Emirati move to create a canal linking the Arabian Gulf to the Arabian Sea could destroy one of Iran's greatest levers over the West: the control of a waterway that is the transit route for up to 17 billion barrels of oil per day, the equivalent of 40 per cent of the world's traded oil. Yet with fears of an imminent conflict looming over the Middle East, the plans may come too late to avert a global oil crisis that will dwarf the crisis of the 1970s.

The proposed plan has already attracted its doubters, with many believing it impossible that a canal routed through the Al Hajar Mountains will be able to cater to supertankers with a deadweight of over 200,000 tonnes, which would require enormous locks. Although the project is thought to be popular within the Gulf Co-operation Council (GCC), a decision is likely to be held up due to the complexity of engineering the project and the massive costs involved – \$200 billion may be a conservative estimate, particularly given project cost over-runs in many other mega-projects in the Gulf.

The delays over the plans will ensure that, at least in the medium-term, Iran will have an option to close down the global economy if attacked by shutting down Hormuz, where the navigable waterway for oil tankers is as narrow as six miles wide: two two-mile wide navigation channels for inward and outbound traffic and a two-mile wide buffer zone between them. In an interview with the London Times, Mustafa Alani, of the Dubai-based think-tank Gulf Research Center, said: "Iran has clearly stipulated its intention to close the Strait of Hormuz in case of a military conflict in the region." If Iran chose to act in retaliation, it would have control over the transit of 90 per cent of Gulf oil.

Oil tankers have been a target in previous conflicts. The 'tanker war' between Iran and Iraq during their conflict saw Iran exercise military attacks on tankers carrying oil from Iraq and other Arab states that supported Iraq. According to Lloyd's of London, the war resulted in damage to 546 commercial vessels between 1984 and 1987. The conflict brought the U.S. into direct naval engagement with Iran, with the USS Samuel B. Roberts damaged by Iranian mines and the USS Vincennes' highly controversial downing of an Iranian civilian airliner, mistaking it for an Iranian fighter jet. More recently in January U.S. and Iranian vessels came close to an engagement, although the details of the event remain shrouded in mystery. It is clear that Hormuz is already a flashpoint and the option of a trans-Emirates canal is unlikely to shift the geopolitical dynamic over the medium-term.

Pipeline routes provide a more viable alternative to the Hormuz. Currently under construction, Abu Dhabi's 360km pipeline linking the Habshan oilfields to Fujairah, with a capacity of 1.5 million barrels per day from 2010, will not be enough to serve other oil-producers in the region, such as Saudi Arabia. At the maximum, it would reduce traffic through the Strait by just nine per cent. Another route is Saudi Arabia's 5 million barrels per day Petroline from Abqaiq to Yanbu, but the Saudis appear to be reluctant to use spare capacity to transport Kuwaiti oil. Moreover, the spare capacity available at

Petroline will still be far less than the amount needed to plug the deficit created by a shutdown of the Strait of Hormuz. The other option is piping oil to Oman's Sohar port, which last year saw the opening of a new refinery and a container terminal with an 18 meter draught. Nevertheless, this still means constructing a pipeline across the Arabian peninsula, which would take years.

If conflict with Iran is due to occur in the next 12 months, talk of canals and pipelines is largely irrelevant. Gulf states must, instead, focus on short-term risk mitigation. It is in the interest of Gulf states to ensure that the diplomatic route remains open, with the GCC perhaps acting as an arbiter between the U.S. and Iran. However, the Iranian strategy of brinkmanship, in which it draws out negotiations to their absolute limit and perhaps beyond breaking point, could derail any hope of a brokered resolution over the thorny issue of Iran's nuclear programme. The final months of the Bush administration are unlikely to see any radical moves against Iran, so a U.S. response to Iranian delaying tactics will depend on the successor: Barack Obama or John McCain. Obama has appeared to be more dovish than McCain by US standards, but it is unclear how much of a break he would make with the previous regime. Even following the outcome of the U.S. presidential elections, the formulation of a U.S. strategy on Iran will take a few months and will no doubt be influenced by various powerful interest groups in Washington. At the same time, the Israelis will be going through their own electoral cycle, which would further postpone any potential Israeli attack on Iran. Consequently, any strike on Iran is unlikely until mid-2009, which coincides with Iran's own presidential elections.

If the Israelis strike Iran in a pre-emptive move against its nuclear facilities, Hormuz is unlikely to be the logical point of retaliation for Iran since a blockade of the Strait would alienate Iran from potential allies or sympathisers in the Arab world. Iran will also be reluctant to bring Saudi Arabia into a conflict on Israel's side, which would be the likely outcome of retaliation exacted on Hormuz. As such, Iranian response to an Israeli strike is likely to be limited to attacking Israel rather than widening the conflict to the Arab world. If Iran were to attempt a shut-down of the Strait in response to an Israeli strike, it would be able to raise oil prices to at least \$200 per barrel, an act that could provoke the involvement of Asian states.

A more likely scenario is the steady deepening of the sanctions regime, with Iran targeting Hormuz in the event of a naval blockade on its ports. The tightening of sanctions is also more palatable to European governments than a military strike, although such a course would take at least a year until a naval blockade of Iran transpires.

While the U.S. would see 17.5 percent cut in its oil supplies as a result of the closure of Hormuz, the worst affected country would be Japan, which relies on the Gulf for 75 percent of its oil supply and would be severely damaged by any cut in supply. The U.S. may release some of its strategic reserves to stabilise the oil market and plug the gap in demand. However, energy-hungry China and India do not have sufficient reserves to mitigate the effects of a shut-down of the Strait of Hormuz and are likely to use their influence at the U.N. to appease Tehran and resume oil shipments.

Such action by Iran would be a last resort, since a conflict over Hormuz would also cut off a major route for Iranian oil. Nevertheless, the situations in which Iran would consider last resort action to demonstrate its power within the global economy are unclear, with scenarios ranging from a strike on

its nuclear facilities to a full-scale invasion. If Iran did decide to attack the shipping choke-point, it would be up against the world's most powerful navy and the largest economy, the U.S. It is conceivable that the U.S. could eliminate a large part of Iran's naval forces. Any conflict would be asymmetrical, with the U.S. armed with cruise missiles and other highly advanced technology. The U.S. may use the opportunity to occupy Abu Musa and the Tunbs, a strategic group of islands claimed by Sharjah but currently occupied by Iran. This would be a major set-back for Iran, which has used the islands to exercise control over the UAE and shipping lanes.

Much will depend on the outcome of the June 2009 Iranian presidential elections. If the hardline incumbent Mahmoud Ahmadinejad wins the election, there will be a heightened risk of a military conflagration in the Gulf. A return of the more pragmatic Mohammad Khatami, or someone similar, would lessen the danger of conflict in the Strait, giving Arab governments more time to establish land-based alternatives to Hormuz. If Supreme Leader Ayatollah Khamenei seeks to retain the leverage over the Hormuz, he may seek the re-election of Ahmadinejad or the election of a like-minded man to sustain political tensions with the West and draw out negotiations thereby heightening the potential for a closure of the Hormuz.

With the new U.S. President and his Israeli counterpart likely to have staked out their foreign policy by the time of Iran's presidential elections, Iran could be placed in a highly vulnerable position. And like any cornered animal, desperation will increase the possibility of an aggressive and irrational response. As such, the situation in Hormuz this time next year is a complete unknown, ranging from more of the same to a major catastrophe.