

Bypassing the Strait of Hormuz

Investing in alternatives to maritime chokepoints is costly but necessary.

As the US and Iran skirmish for control of the Strait of Hormuz, in the ministries, boardrooms and financial hubs of the Gulf a different battle is under way. The unprecedented closure of the vital artery for oil, gas, fertilisers and other commodities has sparked a rush to maximise exports through alternative routes — and to develop new ones that, over time, promise to reshape Gulf trade flows. But new ports, pipelines and land links will take years to develop, can never fully bypass the strait, and will have their own risks. What has happened in the Gulf, moreover, has exposed the vulnerability of other maritime chokepoints to being used as geopolitical tools. Investing in reducing reliance on them today could pay dividends tomorrow.

Saudi Arabia and the United Arab Emirates have diverted a sizeable portion of the 20mn-plus barrels a day of crude that previously transited Hormuz by maxing out existing pipelines. Saudi Arabia's 1,200km East-West pipeline to the Red Sea is pumping at up to its full emergency capacity of 7mn b/d — from 2mn b/d before the Iran war. The kingdom is looking to pipe out more of its 10.2mn b/d production through an expanded East-West link or new routes. The war is providing impetus, too, to enlarge Abu Dhabi's pipeline to Fujairah, outside the Strait of Hormuz. Iraq has announced plans for pipelines to the Red Sea and Turkey.

Fewer alternatives exist for the onefifth of global liquefied natural gas, mostly from Qatar, that transited the strait. But here, too, exporters are improvising workarounds and fasttracking new connections. Plans are being dusted off for gas pipelines from Qatar to Turkey via Saudi Arabia, Jordan and Syria, or through Saudi Arabia, Kuwait and Iraq, and another to Egypt.

Quantities of other commodities are being transported instead by rail and truck to Omani and Red Sea ports. Gulf countries are also looking at ways of “Hormuz-proofing” non-oil sectors, including expanding capacity at ports away from the strait, accelerating rail links and potentially building dedicated chemical pipelines.

Completing all planned oil links would lift Hormuz “bypass” capacity from 40 per cent to perhaps two-thirds of prewar flows — enough to make a future closure less calamitous. But no route is entirely secure. The Saudi oil pipeline has suffered drone attacks, and the Red Sea has its own chokepoint in the Bab al-Mandab strait, vulnerable to attack from Iran-backed Houthi militants and reachable by some Iranian missiles.

Iran's attempt to levy tolls on Hormuz transit — which US President Donald Trump initially suggested the US might share in, but which he is now rightly condemning — is also a highly dangerous precedent that breaches existing maritime rules. Indonesia last week had to deny any plans to monetise the 550-mile Malacca Strait, also bounded by Thailand, Malaysia and Singapore and another crucial oil artery, after musings by its finance minister.

China experts have similarly warned that Iran's closure of Hormuz could provide a template for China in the Taiwan Strait — making it all the more vital to diversify global sources of the most advanced semiconductors, of which Taiwan supplies more than 90 per cent. In an era of rising international instability and even freak weather events, the lesson of Hormuz is that trade highways previously taken for granted can suddenly be closed off. As in the Gulf, investing in reducing the centralisation of energy and other supply chain networks cannot bypass narrow corridors entirely. But it has gone from being seen as an expensive luxury to an economic and geopolitical necessity.