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« Middle East : maritime perspectives »

For a century, one region of the world has focused many geopolitical problems while representing a high-value economic space. Since 1869, Egypt has possessed one of the most important maritime passages in the world, and globalization has only reinforced its importance. From Mesopotamia to the shores and depths of the Persian Gulf, hydrocarbons have driven the wealth of a handful of countries. Thus, from the deserts of Southwest Asia, opulent societies have emerged that consume at high levels, even though the difficult situations in Iraq and Lebanon, and the tragic ones in Yemen and Syria, must not be forgotten. For countries endowed with oil and gas, the economic rent translates into highly substantial container flows in the near-total absence of local production. Currently, a new wave of port development is underway, underpinned by a necessity for economic diversification to progressively prepare for the post-oil era.

The weight of hydrocarbon resources

Oil is the core of the global economic functionality of the Arab countries of the Middle East. To the oil of Upper Mesopotamia in the 1920s were added the resources of the Persian Gulf shores, driving the wealth of the six monarchies: Saudi Arabia, Kuwait, Bahrain, Qatar, the United Arab Emirates (UAE), and Oman. Today, no less than 28% of global crude extraction originates from this region (excluding Iran). The trend will remain favorable for the future with 40% of proven reserves. Even if self-consumption changes (domestic demand, refining), the zone will remain an essential pivot of global oil. Saudi Arabia largely dominates regional exports (358 Mt in 2019) ahead of Iraq (201 Mt), the UAE (139 Mt), and Kuwait (99 Mt), representing—together with neighboring countries—40% of global crude oil.

One of the economic challenges for extractors is to expand refining capacity in order to create value added and develop petrochemistry. Between 2000 and 2019, the region's refining capacity (excluding Iran) multiplied by 1.5. It even doubled in Saudi Arabia and the UAE, both countries having chosen to transform or develop super-refineries. The zone represents 12.6% of global refining and, with 230 Mt exported in 2019, 19% of refined product trade.

In 2019, almost 80% of Middle Eastern crude oil (excluding Iran) was directed toward Asia, from Pakistan to Japan. This leaves only 20% heading westward. In four decades, the West has lost its acute sensitivity to Arab oil, which used to be part of the complex regional equation alongside the Israeli-Palestinian question. Nonetheless, Western nations remain concerned as much with the state of the Arab world as with the price of oil. Furthermore, many American refineries are calibrated for processing the specific crude of the Persian Gulf. Disruptions consistently cause prices to spike, and for Americans and Europeans alike, the "complicated East" always carries the scent of oil.

Gas has become the other major resource of the Middle East. Nearly a quarter of the planet's methane reserves are located in the Arabian Peninsula. Regional exports represent 19% of global gas and 26.5% of liquefied natural gas (LNG). The potential is strong, but the growth of domestic demand must not be overlooked, notably for building climate control and seawater desalination.

Qatar shares a massive offshore gas field with Iran, which has allowed it to become one of the world's leading exporters (77 Mt in 2019). This is also one of Oman's resources (10 Mt) and a niche for the UAE (6 Mt). For Qatar, the gas windfall is set to grow further with six upcoming liquefaction trains, which will bring capacity to 110 Mt/year, even if the timeline is slightly delayed by the Covid crisis. Sometime later, two additional trains will bring capacity to 126 Mt.

Sensitivity of maritime passages

The region's oil and gas capacities tie directly into the strategic question of the Strait of Hormuz and, consequently, tensions with Iran. In fact, 95% of the Persian Gulf's crude oil exits through this high-

tension passage, where occasional incidents serve as a reminder of the risks. Few alternatives exist. Iraqi pipelines toward the Mediterranean have disappeared. There remains some capacity toward the Red Sea in Saudi Arabia and a small pipeline toward the Emirati coast on the Arabian Sea.

While news headlines occasionally report incidents involving vessels in Hormuz, another high-risk chokepoint has emerged today: the Bab el-Mandeb Strait between Yemen and Djibouti. With Somali piracy, the Gulf of Aden had become a dangerous zone between 2008 and 2014. Today, it is the Yemeni civil war that spills over into the maritime domain, marked by actions from the Houthis rebellion. This maritime space ranks among the most heavily trafficked in the world.

This very same traffic converges at the Suez Canal. In 2019, 18,800 vessels transited the waterway, representing 1.1 billion tonnes of cargo according to the canal authority. The latter completed an \$8 billion expansion project in 2016 to facilitate convoy transit. Egypt is highly protective of its canal's utilization¹, as its revenues constitute the country's second-largest source of wealth behind tourism, yielding \$5.61 billion in 2020 (a 3% drop due to the crisis).

Acceleration of Egyptian port development

Naturally, the Near and Middle East constitute two distinct port spaces. One is anchored in the Eastern Mediterranean, while the other spans the seas surrounding the Arabian Peninsula (Red Sea, Gulf of Aden, Arabian Sea, Persian Gulf). A portion of these ports lies along the Asia–Europe corridors via Suez, while the others are located within the massive gulf that is the Persian Gulf.

Due to its scale (100 million inhabitants), Egypt represents a substantial domestic market, but its ports also capitalize on their strategic position at the eastern gateway to the Mediterranean. Port Said, at the northern terminus of the Suez Canal, has carved out a pivotal role as a transshipment hub, driven by Maersk's commitment, later joined by COSCO in 2005. Other Egyptian Mediterranean ports have followed this momentum: Alexandria, El Dekheila, and Damietta. For the latter, Eurogate (Germany) signed an agreement in 2019 for a second deepwater terminal (\$500 million) with a capacity of 1.8 million TEUs. In early 2021, CMA CGM² was announced for the Pier 55 site (1.5 million TEUs, \$318 million) slated for 2022.

The terminals at the neighboring ports of Alexandria and El Dekheila are managed by Hutchison. The Hong Kong-based operator will also partner in a new port east of Alexandria in cooperation with the Egyptian Navy. This greenfield site at Abu Qir is planned for 2 million TEUs at a cost of €730 million. The only major Egyptian port south of the canal and close to Cairo is Sokhna. In 2019, DP World decided to expand it to bring its capacity to 1.7 million TEUs. In the same region, Jordan relies on its unique port in Aqaba, which features a Maersk terminal.

Lebanon possesses a port in Beirut that had carved out a minor role (1.5 million TEUs in 2019) split between the domestic market, Syrian supply routes, and transshipment operations for CMA CGM. The catastrophic explosion of August 2020 severely damaged the port (\$3.8 billion in repair costs) but spared the container terminal. This event also provided an opportunity to develop the smaller port of Tripoli, which CMA CGM recently acquired in full from GulfTainer. As for Syria, its maritime weight was limited even before the civil war. CMA CGM maintains a presence in Latakia for the time being, while Russian interests are set to take control of the commercial port of Tartus.

Major Saudi Arabian projects

Saudi Arabia, beyond its monarchical and Islamic governance, is a unique nation. Its population has doubled in thirty years to reach 34 million inhabitants; while it holds a leadership position in the oil sector, it ranks only 15th worldwide in terms of GDP per capita. A petrostate status cannot alter a desert climate, but it can be leveraged to transform the economy. The oil rent, which provides 90% of the country's revenues, is not eternal. Industrialization³ is a long-standing objective, but under Crown Prince Mohammed bin Salman, the ambition is broader, targeting a liberal opening of the country. New industries, services, tourism, and international sports are now on the agenda. This is embodied by the

¹ Egypt did not hesitate to lower its tariffs to prevent any diversion of shipping lines via the southern detour around Africa.

² The French company was already involved as a minority shareholder in the first terminal controlled by Kuwaiti interests, with a small stake from COSCO inherited from its merger with China Shipping.

³ The industrial sector is active across the region, leveraging energy resources for steelmaking (Bahrain, Oman) and aluminum production (Bahrain, UAE) using imported iron ore and bauxite.

state program "Vision 2030" adopted in 2016. Today, a significant portion of port development fits directly within this framework.

Within the Saudi port architecture, Dammam covers the capital city of Riyadh on the Persian Gulf, complemented further north by Jubail. On the Red Sea, Yanbu is located close to Medina, and Jeddah serves Mecca. Saudi ambitions translate into sharp capacity growth across several gateways. King Abdulaziz Port in Dammam will be equipped with a second terminal constructed by Chinese firms for \$1.8 billion. Hutchison, which is also taking over the first terminal (formerly operated by PSA), will eventually operate a capacity of 7.5 million TEUs in Dammam. The Port of Jeddah features two terminals—one operated by DP World and the other locally owned, which recently saw COSCO acquire a 20% stake, with the objective of raising the port's capacity to 8.8 million TEUs.

Saudi Arabia is also developing new master-planned cities. Located 100 km north of Jeddah, King Abdullah Economic City (KAEC) possesses its own port with a terminal capacity of 2.3 million TEUs. This is the first port in the Kingdom to be privately owned, structured as a joint venture between two domestic construction conglomerates. MSC, through TIL, has established a presence in the port alongside Maersk to create a regional hub. Further south, Hutchison secured the concession for Jizan in early 2021 to develop the port infrastructure of a peripheral region.

Port competition within the UAE

A form of port duality has emerged within the UAE. The country is a federation composed of seven emirates populated by 10 million inhabitants. The bulk of the oil reserves is concentrated in the Emirate of Abu Dhabi, whereas Dubai has relied on a highly active port and trading hub for centuries. The development of Port Rashid, followed by Jebel Ali, enabled Dubai to become the absolute pivot of containerization within the Persian Gulf and the foundation of its prosperity, which subsequently fueled real estate and tourism developments.

Its function as a regional hub coupled with an adjacent logistics zone propelled Dubai into the top 10 global ports. Nevertheless, the project for the fourth terminal at Jebel Ali has been suspended; regional tensions, port expansions across neighboring countries, and the impact of the Covid crisis have made its completion less urgent.

It is upon this foundational success that DP World (DPW) was established, rising to become the third-largest terminal operator in the world. The group evolved from a local port authority in a Gulf emirate into a major international corporation. To its initial purchases were added the strategic acquisitions of CSX (USA) and P&O Ports (UK). The group, controlled by the Emirate of Dubai, is now present across five continents⁴, standing as one of Dubai's premier international successes alongside the airline Emirates. Within the maritime domain, the emirate also relies on the ship repair yard Dubai Drydocks (DP World, 1983) and the tank storage provider Horizon (linked to the local state oil company).

The smaller operator GulfTainer belongs to the neighboring Emirate of Sharjah. Maintaining a corporate presence in Saudi Arabia (Jubail, Yanbu), the company manages small ports across the UAE, Sharjah on the Persian Gulf and Khor Fakkan on the Arabian Sea. Within the UAE, Hutchison maintains a presence in the smaller ports of Ajman and Ras Al Khaimah.

Rich in oil, the Emirate of Abu Dhabi decided to develop its own port industry, mirroring its approach with its national airline (Etihad). The strategic choice differs from Dubai's model: Abu Dhabi Ports (ADP), which already managed Port Zayed, decided to remain a landlord port authority for the new terminals at Khalifa Port. Concessions were granted in 2018 to COSCO and MSC's TIL for a combined capacity of 5 million TEUs, with a long-term target of 9 million TEUs. ADP, conversely, decided to involve itself directly in the port of the small emirate of Fujairah on the Arabian Sea. This port is internationally renowned for its ship bunkering activities, handling around 10 Mt per year.

Other regional gateways

The other Gulf monarchies are less populated but possess substantial hydrocarbon wealth. Their port activities are smaller scale and historically operated under Dubai's sphere of influence. Bahrain has operated a new gateway since 2009, named Khalifa Bin Salman Port, whose container terminal is managed by APM Terminals (Maersk). Kuwait complemented its old urban port of Shuwaikh with the

⁴ In 2020, the establishment of diplomatic relations between the UAE and Israel provided an opportunity to publicize and highlight DP World's commitment to the Port of Haifa.

modern port of Shuaiba, operated by a subsidiary of Agility Logistics, the 17th largest logistics group in the world.

Qatar used to be logistically dependent on Dubai's port network. To the world's surprise, Saudi Arabia and the UAE fell out with Qatar. The subsequent blockade resulted in a sudden realization of the country's logistical vulnerabilities. Rich in gas and driven by its sports diplomacy ambitions—the flagship event being the 2022 FIFA World Cup—the country relies on its own strategic blueprint, the *Qatar National Vision 2030*. Since 2010, Qatar has been developing the new Hamad Port, located 40 km south of Doha. Managed by the Qatar Ports Management Company⁵ (Mwani Qatar), it operates with a capacity of 2 million TEUs and projects a future expansion to 7.5 million TEUs.

The Sultanate of Oman is a long-standing maritime nation in the Indian Ocean, with historical trading ties to East Africa and Asia. The port of the capital city Muscat, Sultan Qaboos Port, is relatively small and now exclusively dedicated to cruise shipping, a growing sector across the region. The country's largest gateway is Salalah, located on the southern coast, functioning primarily as a major transshipment hub for Maersk. Oman is also playing the card of Sohar, situated in the country's economically dense region, featuring a new terminal operational by 2022 alongside an LNG bunkering supply option. Concurrently, an industrial port further south in Duqm is dedicated to oil, petrochemicals, and minerals, while another site to the east, Sur, has been envisioned for a macro-port project.

To this general overview must be added Iraq, whose maritime facade is minuscule, featuring only two ports. Despite the political situation, the country remains rich in oil and possesses a substantial population (39 million inhabitants). The port of Umm Qasr is located more or less on the Persian Gulf and features two small terminals, one operated by CMA CGM and the other by MSC. Basra, on the Shatt al-Arab, houses two terminals, one managed by ICTSI and the other by Hutchison. Finally, Yemen, despite its civil war, continues to route its traffic through Aden.

The overview of ports across the Arabian Peninsula raises a fundamental question regarding a phenomenon of port overdevelopment. Emirati competition, Saudi ambitions, and Qatari and Omani port autonomy feed a continuous growth in container port capacities. Between 2000 and 2020, regional box traffic quadrupled; however, according to a report by the Boston Consulting Group (2018), capacity growth is faster (+7% per year) than traffic growth (4%), dragging the global utilization rate of regional terminals down from 75% to 66%. Current projects in progress are bound to exacerbate this phenomenon. Here, as elsewhere in the world, port development is a national affair standing between economic requirement and political self-assertion. The petromonarchies clearly possess the financial means to afford such infrastructures.

A modest shipping fabric

Regional maritime transport is essentially tied to oil and gas export requirements. The fleets controlled by Saudi Arabia and the UAE stand at the same level as France's. Yet, for forty years, it was a container shipping line that embodied the Persian Gulf countries. The United Arab Shipping Company (UASC) was established in 1976 by five of the monarchies (excluding Oman) and Iraq. It maintained its rank for 40 years, not hesitating to equip itself with ultra-large container ships in the 2010s. However, in 2016, the company was merged into Hapag-Lloyd during the major consolidation wave of containerization. As Qatar held the largest capital share during UASC's final years, it is today a 12.2% shareholder in Hapag-Lloyd, while the Saudi sovereign wealth fund (PIF) holds a 10.2% stake.

Saudi Arabia decided in 2012 to merge its two maritime companies: the National Shipping Company of Saudi Arabia (Bahri, established in 1979) and Vela, the shipping subsidiary of the state oil giant Saudi Aramco. By early 2020, Bahri ranked as the 4th largest oil transport group in the world. Furthermore, Bahri operates a joint venture with a state enterprise linked to agricultural imports (Arasco), working in dry bulk transport, notably for foodstuffs. In 2020, Saudi Arabia imported around 17 Mt of grain.

The UAE counts a handful of shipowners, including Emirates Shipping Line (containers), ADNOC Logistics & Services (tankers), Emirates Shipping LCC (tankers), and Emarat Maritime (dry bulk). United Arab Chemical Carriers (UACC) passed under Greek control in 2021. For its part, DP World has secured positions in the shipping sector (Unifeeder, Transworld Feeders, Feedertech), though primarily outside the Middle East.

⁵ At the end of 2020, the company acquired a container and conventional terminal in Antalya, Turkey—a country with close political ties.

Oman Shipping Company (Asyad Shipping) operates a multi-activity national line (containers, tankers, LNG, dry bulk) to partly cover its transport requirements. Qatar possesses its own national shipowner, Qatar Navigation (Milaha), with a diverse fleet (LNG, LPG, tankers, container ships, offshore). Established in 2004, Qatar Gas Transport Company (Nakilat) is a joint venture between Milaha and QatarEnergy. The company already commands 70 LNG vessels, raising itself to the 4th rank worldwide for gas transport. In 2019, it initiated a massive new ordering cycle in South Korea for 60 LNG carriers slated for the coming years, dedicated to covering the export requirements of the emirate's expanding liquefaction capacities.

In the Near East, Lebanon preserves a portion of its maritime tradition, visible today in Ro-Ro shipping and live animal transport. On the Egyptian side, a state-owned shipowner was created in 1981 under the name National Navigation Company, equipped with a dozen bulk carriers and one container ship. In late 2020, the Egyptian government decided to establish a new entity named the *Atlantic Pacific Company for Shipping and Trade*, under the authority of the General Authority for Supply Commodities (GASC), which manages the country's essential food imports. With 26 Mt of grain imported in 2020, Egypt stands as one of the primary markets in the world, making it highly understandable that it seeks to secure absolute control over this major expenditure item.

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