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POLITICAL ECONOMY OF THE SUEZ CANAL AND THE “EVER GIVEN CRISIS”

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POLITICAL ECONOMY OF THE SUEZ CANAL AND THE “EVER GIVEN CRISIS”

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INTRODUCTION

Initially promoted to reduce distances between countries in terms of time and cost, canals have emerged over time as the main arteries of global trade. While 2.6 billion tonnes were transported by sea in the 1970s, this rate has steadily increased, reaching 10.7 billion tonnes in 2017 and exceeding 11 billion tonnes in 2019. Maritime transport is currently the backbone of global trade and economy, which accounted for around 80% of international trade by volume and more than 70% by value in 2017 alone.

As the main arteries of world trade, sea routes have made it possible to trade almost all goods, especially oil and its derivatives, on international markets. Moreover, they have also brought, through canals and straits, direct economic benefits to the countries concerned. With the development of maritime trade, the passages used in international trade have become more important than those used in regional trade between neighboring countries.

The Bosphorus, the Strait of Gibraltar, the Strait of Malacca, the Panama Canal, the Strait of Hormuz, the Bab-el-Mandeb, and the Suez Canal can be considered as the seven most important transit points for world trade. Known as the world's most crucial oil route, the Strait of Hormuz is located between the Gulf of Oman and the Persian Gulf. This strait accounts for about a quarter of the world's seaborne-traded oil and a third of liquefied natural gas. The Strait of Malacca, an 805-km-long strait between Peninsular Malaysia and the Indonesian island of Sumatra, is one of the busiest shipping routes with about 40% of global trade passing through. More than 100,000 ships pass through this strait every year. In addition to natural straits, the Panama Canal and the Suez Canal also occupy a significant place in global trade due to their location. The 80-km-long Panama Canal, which connects the Atlantic and the Pacific, accommodates about 5% of world trade with 14,000

transits every year. And the last crossing point worth mentioning is the Suez Canal, which connects the Mediterranean Sea with the Red Sea. With a share of about 12% in world trade in 2020, more than 18 thousand ships passed through this canal.

Among these, the Bab-el-Mandeb and the Suez Canal are considered as the most important transit points from a geostrategic point of view. Indeed, the Bab-el-Mandeb and the Suez Canal are the entrance and exit

points of the Red Sea, which is the main trade route from the Persian Gulf and Asia to the West.

The Suez Canal makes Egypt a strategically important country in terms of both regional and global economy and politics. Holding the rights of passage through the Suez Canal, Egypt not only receives economic revenue from the canal but also exploits the strategic value of this canal in its relations with regional and global actors.

THE SUEZ CANAL FROM PAST TO PRESENT



Inauguration of the Suez Canal on 17 November 1869.

The Suez Canal was built during the Ottoman era. The idea to build this canal came up as early as the middle of the 19th century. The construction began on 25 April 1859 and was completed on 16 November 1869 after more than a decade of work. The Suez Canal Company, responsible for managing the canal, was founded as an Egyptian joint-stock company with its headquarters in Paris. The company's shares were offered for sale by Ferdinand De Lesseps, a French engineer who was responsible for the construction of the canal. France and the Viceroy of Egypt, Said Pasha, bought 52% and 44% of the shares respectively. Although the shares of the company were in the hands of the two countries, a multinational board of directors was formed due to the global importance of the canal; the first board was composed of representatives from 14 different countries. Egypt sold part of its shares to Great Britain in 1875 due to economic difficulties and its foreign debts.¹ Britain's influence on the canal further increased after the

British occupation of Egypt in 1882. Nonetheless, Egypt continued to sit on the board and received 7% of the canal's revenue thanks to its existing shares.

British dominance in the management of the Suez Canal after 80 years of Franco-British control and the use of the canal by the British for colonial interests, the stationing of British troops in the canal region by referring to the Treaty of 1936 and the non-withdrawal of these troops despite the demands of the Arab nationalist government in Egypt strained the relations between Egypt and the UK. The problem was not solved although the UK and Egypt inked a seven-year agreement in 1954, replacing the 1936 Anglo-Egyptian Treaty and providing for the gradual evacuation of all British troops from the region. The US withdrawal and the British proposal for funding the Aswan Dam during this period resulted in the complete rupture of Egypt's relations with the West. Citing the 1952 UN General Assem-

¹ William B. Fisher, "Suez Canal", *Britannica*, 26 March 2021, <https://www.britannica.com/topic/Suez-Canal>.

bly resolution "Right to exploit freely natural wealth and resources", Egypt declared the Suez Canal Company nationalized on 26 July 1956.

Following the nationalization of the canal, the countries that had a share in the company made plans for a military operation against Egypt, and despite the ongoing diplomatic efforts, Israel attacked Egypt on 26 October 1956 and launched an invasion operation in line with the Franco-British-Israeli plan. The UK and France, who vetoed a US motion for withdrawal in the UN Security Council on 30 October, simultaneously issued an ultimatum to Egypt and Israel and as a result of Egypt's disregard of the ultimatum, the two countries began occupying the Suez Canal zone on 31 October. After the adoption of the second ceasefire motion, which was put on the agen-

da of the UN General Assembly on Yugoslavia's initiative, Britain and France withdrew on 6-7 November from the territories they occupied.² These two countries not only had to accept the armistice, but also the nationalization of the canal. Since then, the canal has been run by the Suez Canal Authority, which is entirely controlled by the Egyptian government.

The nationalization of the Suez Canal not only meant an economic gain for Egypt but also served as an instrument to feed the Arab nationalism that was on the rise at the time. This was seen by Egyptians as a development glorifying their national honor, while social support for President Gamal Abdel Nasser skyrocketed. Egyptian governments have used the Suez Canal as a geopolitical and economic asset to this day.

² M. Burkan Serbest, "Süveyş Kanalı'nın Ulusalallaştırılması Sorunu ve Süveyş Bunalımı" ("The Issue of Nationalization of the Suez Canal and the Suez Crisis"), *MANAS Journal of Social Studies*, Volume 6, Issue 4, 2017, pp. 689-711.

CHARACTERISTICS OF THE CANAL



The canal is mainly used by container ships.

The 193-km-long Suez Canal, the shortest sea route between Europe and the territories on the Indian and Western Pacific Oceans, allows ships to travel between Europe and South Asia without having to circumnavigate Africa, shortening the distance of the sea voyage by about 7,000 km. The canal was originally 164 kilometers long and 8 meters deep. Thanks to the improvements made since 1956, it has reached a length of 193 kilometers, a depth of 24 meters, and a width of 205 meters.³ Thanks to these improvements, the draught, which was initially 6.7 meters, was deepened to 20 meters in 2009, reducing the number of vessel types unable to use the canal due to size and draught.⁴

Due to the varying width of the canal, full two-way traffic is not possible, but thanks to the

ongoing development work, two-way traffic has already been partially achieved.⁵ Egypt announced the "New Suez Canal" project in August 2014, aiming to open a parallel route in areas where it would not be possible to expand the canal. The project would be financed by the bonds to be sold to the Egyptians.⁶ The Egyptian army carried out the project and completed it over only 11 months. Of the 72-kilometer waterway introduced as the New Suez Canal, 35 kilometers were constructed by digging a parallel route and 37 kilometers by deepening and widening the existing canal. Thus, the improvements made in August 2015 enabled two-directional traffic on a 35 km long route.⁷ This project aimed to reduce the waiting time of ships from 8-11

³ "Canal Characteristics", *Suez Canal Authority*, 28 March 2021.

⁴ "Ship Types", *Turkish Shipowners' Association*, <https://armatorlerbirligi.org.tr/gemi-tipleri>

⁵ Aydoğan Kalabalık, "Mısır Ekonomisinin 3'üncü Büyük Döviz Kaynağı: Süveyş Kanalı" ("The Third Largest Source of Foreign Exchange for the Egyptian economy: The Suez Canal"), *Anadolu Agency*, 17 November 2018.

⁶ Habib, H. & Cunningham, E., "Egypt's 'Gift to the World' Cost \$8 Billion and Probably Wasn't Necessary", *The Washington Post*, 6 August 2015.

⁷ "Egypt Launches Suez Canal Expansion", *BBC*, 6 August 2015.

hours to 3 hours and the crossing time from 18 hours to 11 hours.⁸

The project caused controversy in Egypt, which was facing a severe economic squeeze at the time. While the necessity of the expansion work with a cost of more than \$8 billion was called into question, it was suggested that the project was more of an attempt by the Sisi government to restore its image. It was claimed that the \$8 billion to be spent on expanding the Suez Canal, which generates an annual revenue of about \$5.5 billion, was an investment that would pay for itself after many years. The Sisi government, on the other

hand, claimed that the construction of the canal would increase the annual revenue from \$5.5 billion to \$13 billion in 2023. But even before the Covid-19 pandemic, canal revenues had never exceeded \$6 billion even at the times of highest revenue. Amr Adly, a scholar at the Carnegie Middle East Center, said that "Sisi is trying to gain legitimacy through his government's achievement".⁹ Furthermore, the importance and functionality of the Suez Canal, one of Egypt's most important foreign exchange earners, are predicted to decrease in global trade with the implementation of the planned Israeli railway line and the pipeline projects between Eilat and Ashdod.

⁸ Amr Mohamed Kandil, "5th anniversary: How New Suez Canal helped boost Egyptian economy, refresh global trade", *Egypt Today*, 6 August 2020.

⁹ Barbara Tasch, "'Build it and they will come' is not enough": Egypt's \$8 billion Suez Canal expansion sounds dubious", *Bloomberg*, 6 August 2015.

THE SUEZ CANAL IN THE EQUATIONS OF POLITICS, FOREIGN POLICY AND SECURITY



Egyptian forces crossing the Suez Canal on 7 October 1973.

The Suez Canal has been seen not only as a source of economic revenue for Egypt but also as an instrument in the country's politics, as well as an element instrumentalized by Cairo in the context of regional and international political developments. In the post-military coup era, the Sisi government's project to expand the canal was viewed by many commentators as part of the regime's quest for legitimacy. During the 2011 revolution, the security of the canal came to the fore. It was predicted that, if instability continued, the disruption of the passages through the canal could bring heavy economic losses to the country. The Suez Canal has been an element of foreign policy rather than domestic policy. The canal has witnessed closures due to the crises in foreign policy.

The Suez Canal was first closed as part of the international crisis after Israel, France, and

Britain launched a military operation against Egypt following Gamal Abdel Nasser's nationalization of the canal. Egypt did not back down during this process, in which the canal remained closed for months, and managed to repel the three aggressor countries with the support of the United States. These developments made the canal a symbol of national honor for the Egyptians and it became a "red line" in Egyptian foreign policy.

The next closure of the canal was indeed due to a war that followed the crossing of this red line. The Suez Canal was kind of a bulwark for both sides in the 1967 War between Israel and Egypt. Egypt's struggle continued against Israel, which was controlling the eastern side of the canal, and Egypt was able to regain full control of the canal after the second war in 1973. The canal was reopened in 1975 with an agreement¹⁰ inked between Israel and Egypt

¹⁰ "Interim Agreement between Israel and Egypt (Sinai II)", *The United Nations*, 4 September 1975, <https://peacemaker.un.org/egyptisrael-interimagreement75>

The Sisi government treats the Suez Canal as a strategic tool in its relations with Russia as well and seeks to win Russia's support in foreign policy by giving Moscow priority in projects in the Suez Canal Zone.

in which Egypt agreed to allow Israeli ships to pass through the canal, except for warships.¹¹

The canal did not suffer a closure similar to those mentioned above in the following years. It has always retained its geopolitical importance for Egypt. Indeed, both regional and global actors have taken into consideration the strategic importance of the canal and Cairo's sensitivity in this regard in their relations with Egypt. Egypt has exercised its right on the canal in accordance with its relations with its allies. Being a close ally of the US, Egypt has not allowed for many years the passage of Iranian warships through the canal, which the US considered as the most important rival in the region. Partially going against its traditional foreign policy after the 2011 revolution, Egypt allowed two warships to cross the Suez Canal at Iran's request, provided they did not carry "war equipment, weapons, and nuclear material". The ships were allowed to cross the canal in February 2011 after Iranian officials said the ships would head to Syria for military exercises. Egyptian officials responded to Israel's reaction to the crossing, saying passage through the

canal could only be blocked in the event of war.¹² This shows that the passage of Iranian warships is not allowed due to political reasons and Egypt's foreign policy priorities; because, under normal circumstances, there should be no obstacle to crossing the canal. To put it another way, Egypt views the Suez Canal as a foreign policy tool in the changing political circumstances.

Another example of Egypt using the Suez Canal as an instrument of its foreign policy is its cooperation for investments in the region with countries other than the US, its traditional ally, such as China and Russia, which are the adversaries Washington. While trying to cooperate with Beijing and Moscow to ensure diversity in its foreign policy, Cairo has also started mega-projects in the Suez Canal thanks to this cooperation. China is one of the main investors in the Suez Canal Corridor Project, which Egypt launched in 2014 to put the Suez Canal in a central position in global trade.¹³ The Suez Canal Economic Zone, which Beijing attaches great importance to as part of the Belt and Road Initiative, has attracted many investors from China.¹⁴ In this context,

¹¹ Yelene Dzhanova, "The Suez Canal has a contentious history and has been blocked and closed several times since opening", *Bloomberg*, 28 March 2021.

¹² "Egypt allows Iranian warships 'can use Suez Canal'", *BBC*, 18 February 2011.

¹³ Haisham Hassanein, "Egypt Takes Another Step Toward China", *The Washington Institute for Near East Policy*, 19 August 2019.

¹⁴ "China, Egypt join hands to write new chapter of Suez Canal development", *Xinhua*, 18 November 2019.

China Harbour Engineering Company has paved the way for China's permanent activities in the region by building logistic and industrial zones in the Suez Canal Zone.¹⁵

The Sisi government treats the Suez Canal as a strategic tool in its relations with Russia as well and seeks to win Russia's support in foreign policy by giving Moscow priority in projects in the Suez Canal Zone. To this end, Cairo approved the construction of an industrial zone by Russia in the Suez Canal region and, at Cairo's invitation, Russia quickly started the work. It was reported that the industrial zone would start operation by 2022. According to Russian officials, dozens of Russian companies will move their production facilities to the region and invest \$7 billion for factories that will employ thousands of Egyptians.¹⁶

The security of such a strategic canal is a crucial matter for Egypt. In fact, Cairo has always been on high alert to prevent any attacks that could affect the operation of the canal. In recent years, the canal zone has witnessed the activities of some terrorist groups and their attacks on the ships crossing the canal. The Al-Qaeda-affiliated Al-Furqan Brigades and the so-called Sinai Province of ISIS are the terrorist organizations worth mentioning in the post-2013 era. Taking advantage of the security gap following the military coup in Egypt in 2013, the Sinai Province has become active in the Sinai Peninsula and has from time to time posed a serious threat to the security of the Suez Canal. Likewise, the Al-Furqan Brigades are a significant threat to the security of the canal. The 31 August and 29 July attacks,

which took place shortly after the 2013 military coup, were the most serious ones perpetrated by this organization. Two ships passing through the canal were the targets of missile attacks. The organization announced that it would continue to target the ships using the channel.¹⁷

As is well known, the Suez Canal is the waterway that separates the Sinai Peninsula, Egypt's border region with Israel, from the other part of the country. The militant groups active in the Sinai Peninsula for many years and the increasing attacks on Egyptian forces in recent years are not only the main sources of instability in the region but also serious security threats to the Suez Canal. Security forces in the areas adjacent to the canal have been targeted from time to time and terrorist organizations, such as Ansar Beit al-Maqdis, have got the capability to perpetrate attacks on the canal. Because of the attacks and the increasing threat perception, Lloyd's List, one of the insurance agencies for international shipping, noted that the Suez Canal could experience increased military activity and recommended that ships take the Cape of Good Hope route, which would add 6 thousand miles to the voyage.¹⁸

Increasing security threats to the canal caused Egypt to take intensive measures. The Suez Canal Authority ensures the security of the canal with radar and surveillance systems, while the Egyptian Armed Forces are in charge of the security of the Mediterranean coast, the Port Said region in the north, and the Gulf of Suez and Ismailia in the south.¹⁹ Owing to

¹⁵ "Suez Canal, and the Belt & Road Initiative: The Role of the Mediterranean countries", *Docks the Future*, 11 November 2020.

¹⁶ Muhammad Ebu Zaid, "Suez industrial zone to attract \$7bn in investments: Russian envoy", *Arab News*, 24 August 2020; Muhammad Ebu Zaid, "Production could start by 2022 at Russian industrial zone in Egypt", *Arab News*, 19 October 2020.

¹⁷ Stephen Starr, "Are terrorists targeting the Suez Canal?", *USA Today*, 4 November 2013.

¹⁸ Niklas Anzinger, "Is Egypt's Instability a Threat to the Suez Canal?", *Center for International Maritime Security*, 17 January 2014.

¹⁹ Ibid.

these measures, international companies have not abandoned the Suez Canal route and thus have not directed their commercial activities to the Cape of Good Hope route. Nevertheless, the openness of the bridges on

the canal to civilian traffic, ferries, and boats traveling between the two sides of the canal, and the security risks posed by the heavily populated areas can be seen as vulnerabilities that could affect the canal's traffic.²⁰

²⁰ Stephen Starr, "Attacks in the Suez: Security of the Canal at Risk?", *Combating Terrorism Center at Westpoint*, January 2014, Vol 7, Issue 1.

ECONOMIC DIMENSION OF THE CANAL



"New Suez Canal" project in Egypt 2015

The Suez Canal accounts for about 12% of the world's maritime trade. Although the economic importance of the canal and the number of transits fluctuated from year to year, the canal has been, with few exceptions, in active operation since its inauguration. 486 ships passed through the canal in 1870, when it became fully operational, a rate of fewer than 2 ships per day, while this number reached as high as 21,250 per year in 1966, corresponding to a daily average of 58 ships. In the mid-1980s, passages through the canal dropped to a daily average of 50 ships. To date, a daily average of 45-50 ships has more or less been maintained. It is worth noting, however, that the total tonnage of the vessels passing through the canal has increased, thus increasing the revenue from the canal as well as its importance in global trade. The volume of net transit, which was 444 thousand tonnes in the canal's

first year of operation, exceeded 278 million tonnes in 1966.²¹

Although tonnage volumes declined in some periods due to crises in the global economy, the upward trend continued (Figure 1). The increase in tonnage values at times when the number of ships did not increase or even decreased indicates that ships with larger tonnages passed through the canal almost every year.²² This shows that the improvement works carried out in the canal have delivered the expected contribution.

Since the canal is controlled by Egypt, its revenues also flow directly to the Egyptian government. After workers' remittances and the tourism sector, income from the Suez Canal is considered as the third most important source of Egyptian national income.²³ Despite being the third-largest source of revenue, income

²¹ William B. Fisher, "Suez Canal", *Britannica*, 26 March 2021, <https://www.britannica.com/topic/Suez-Canal>.

²² Mehmet Alagoz, "Türkiye Ekonomisinin İnşaat Çıkması: Kanal İstanbul" ("Construction Impasse of the Turkish Economy: The Istanbul Canal"). *21. Yüzyıl Türkiye İnstitute*, 6 April 2020.

²³ Ezzat Kenawy, "The Economic Impacts of the New Suez Canal", *IEMed Mediterranean Yearbook 2016*, pp. 282-288.

Figure 1: Suez Canal Traffic Statistics, 2011-2020

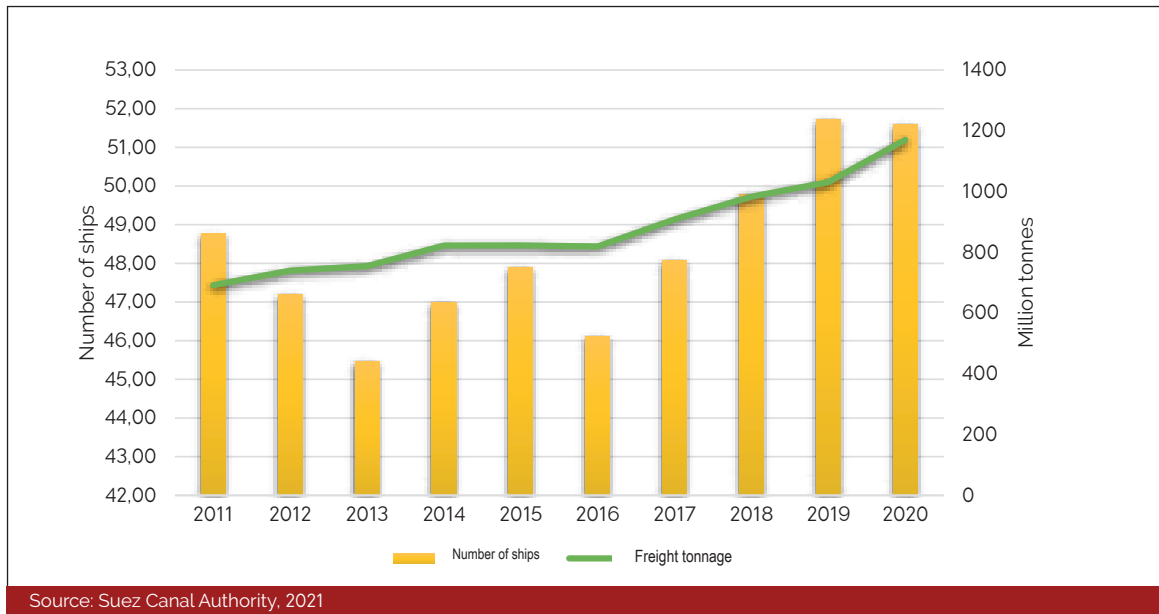
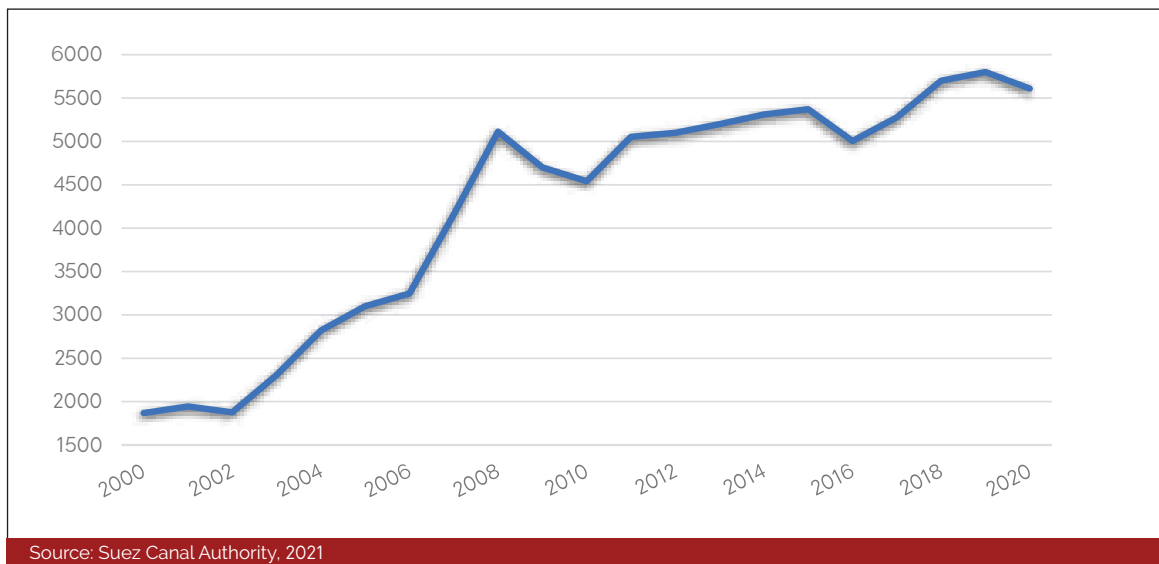


Figure 2: Suez Canal Revenues (million US dollars)



from the canal accounts for a fairly small share of Egypt's GDP. Moody's data shows that the revenues earned from the vessels passing through the Suez Canal account for 2% of Egypt's GDP.²⁴

According to the Canal Authority, the New Suez Canal Project of 2015 increased Egypt's revenue from the Suez Canal by 4.7% between 2015 and 2020.²⁵ According to the reports, the canal project, which was financed through the

²⁴ Marry-Ann Russon, "The cost of the Suez Canal blockage", *BBC*, 29 March 2021.

²⁵ "Egypt's Suez Canal revenues up 4.7% in last 5 years - chairman", *Reuters*, 6 August 2020.

sale of \$8 billion in bonds, costs about \$4 billion. However, given the 4.7% increase in revenue over the 5 years, the project is unlikely to meet the expectations. The project's goals included raising the Suez Canal's revenue from about \$5 billion to \$13.226 billion (a 250% increase) in 2023 and increasing the number of vessels to an average of 97 per day.²⁶ Even though the use and thus the revenues of the

aged revenues and the numbers of passage in 2023.

In addition to a daily passage of 1 million barrels of oil, 8% of the LNG trade is also handled via the Suez Canal. In terms of numbers, container ships are the vessels that use the canal the most, with 5,375 annual transits (Table 1). These vessels lead not only in terms

Table 1: Suez Canal Traffic by Ship Types

Ship type	Number of ships	Net tonnage (thousand)
Tanker	5163	238.193
LNG tanker	750	84.700
Bulk carrier	4200	159.457
Cargo ship	1499	16.467
Container ship	5375	636.107
Ro-Ro ship	222	6.386
Vehicle carrier ship	881	55.767
Passenger ships	105	5.489
Other	685	4.521

Source: Suez Canal Authority, Annual Report 2019

canal have decreased due to the worldwide decline in demand during the current period of pandemic, the Egyptian administration maintains its expectation to attain the envis-

aged revenues and the numbers of passage in 2023. They carried more than half of the net tonnage of 1.2 billion in 2019. After container ships, oil tankers rank second and bulk carriers third in terms

²⁶ "New Suez Canal: Facts and Figures", *Suez Canal Authority*, 29 March 2021.

of numbers. Looking at bulk carriers, the canal plays an important role in the trade of dry bulk commodities such as mineral ores, scrap metal, and grain, in addition to oil and LNG.

If we look at the direction of trade flowing through the canal, we see that the north-to-

south direction is used more than the south-to-north direction. According to the canal's 2019 report, the total tonnage of trade in the north-to-south direction was 572,346, while the total tonnage in the opposite direction was 458,847.²⁷

²⁷ "Suez Canal Traffic Statistics: Annual Report 2019", *Suez Canal Authority*, 30 March 2021.

COST OF THE SUEZ CANAL CLOSURE



There were great difficulties in getting the ship stranded in the Suez Canal afloat again.

Thanks to its access advantages, the canal is a crucial trade route used by almost all countries for export or import. Because of the canal's share in global trade, canal-related disruptions have not been just a matter of regional concern, but a global problem. But unlike other crossings in the region, the Suez Canal has not witnessed many problems in its more than 150-year history. We can list the periods of canal closures in chronological order as follows.²⁸ The passage through the canal was first stopped from October 1956 to March 1957 due to the Franco-British-Israeli occupation of the region in 1956.²⁹ The next closure of the canal was announced on 5 June 1967 during the "Six-Day War", also known as the Arab-Israeli War. The canal was reopened in 1975 after an 8-year closure. From then, until 2004, there were no problems with passages from the canal. In 2004, a ship named Tropic

Brilliance loaded with more than 142 thousand tonnes of crude oil ran aground, resulting in a three-day closure of the canal to traffic. Due to its heavy tonnage, the ship could only be tugged after transferring 25 thousand tonnes of oil to another vessel. The canal remained closed to passages for 3 days during this operation. Similarly, the 93,000-tonne Hong Kong-flagged Okal King Dor drifted at the wrong angle into the canal in 2006 due to high winds and a sandstorm, blocking the canal. The vessel was realigned after an 8-hour work by 4 tugboats. Later in 2006, a British container ship ran aground in the canal due to engine failure, halting northbound traffic.

In 2017, a ship named "OOCL Japan" veered off course due to mechanical failures and then ran aground. The ship almost completely blocked the canal for passages and was refloated by tugboats after several hours of work. And fi-

²⁸Nabih Bulos, "Dredgers try to free ship in Suez Canal, scene of plenty of past international drama", *Los Angeles Times*, 26 March 2021.

²⁹James Feyrer, "The 1967-75 Suez Canal closure: Lessons for trade and the trade-income link", *VoxEU & CEPR*, 23 December 2009.

Thanks to its access advantages, the canal is a crucial trade route used by almost all countries for export or import.

nally, on 23 March 2021, due to strong winds and sandstorms, a ship named "Ever Given", on its way from Malaysia to the Netherlands, ran aground diagonally across a one-lane section. Osama Rabie, the chairperson of the Suez Canal Authority, said, in addition to the reasons mentioned, the captain and mechanical failures had also played a role in the ship's grounding. The ship was refloated after 6 days of pulling and pushing by 13 tugboats.

The process bogged down as ships were allowed to enter the canal after Ever Given ran aground in the hope that it would be refloated shortly. Both the closure of the canal and the congestion at the north and south entrances of the canal by the ships that did not change their routes due to their current position caused losses in millions every second. Moreover, the precise losses of the tankers whose costs increased due to change of routes are not known. After the closure of the canal, the number of ships waiting at the canal entrances increased day by day. While in the first hours of the incident, 42 ships were waiting on the south-to-north route of the canal and 64 ships on the opposite route, the number of the ships waiting exceeded 350 in a few days. On the other hand, many ships changed their

routes before approaching the canal and rerouted to the Cape of Good Hope. Richard Mead, the managing editor of Lloyd's List, a shipping magazine, told the BBC after the opening of the canal that about 450 ships were waiting to pass through the canal and underlined that clearing this backlog could take a while.³⁰

Taking the canal traffic into consideration, different organizations made different calculations and forecasts. Some product prices saw critical increase after the closure. According to shipping specialist Lloyd's List, 3.3 million tonnes of cargo worth \$400 million passes through the canal every hour. In other words, the daily damage of the ships stuck in the canal to global trade is around \$9.6 billion.³¹ Osama Rabie, head of the Suez Canal Authority, noted that the canal's revenue was dropping by about \$14-15 million each day it remained closed. German insurance company Allianz said the blockage could cost global trade between \$6 billion and \$10 billion a week and reduce annual trade growth by 0.2 to 0.4 percent.

Braemar ACM told The Wall Street Journal that the cost of leasing ships on the Asia-Middle East route had increased by 47%, and Jett McCandless, the CEO of project44, said that with the

³⁰ Marry-Ann Russon, "The cost of the Suez Canal blockage", *BBC*, 29 March 2021.

³¹ Justin Harper, "Suez blockage is holding up \$9.6bn of goods a day", *BBC*, 26 March 2021.

re-opening of the canal, there would be congestion in the major ports in Rotterdam, Antwerp, and Hamburg, which would harm the supply chain in the following months. Similarly, European oil traders reported that Russian shipments were leaving the Suez route and the cost of leasing tankers in the Mediterranean had increased by 25% in just one week.³²

The growing increase in the need for and importance of empty containers in global trade also came to the fore with the closure of the canal. Grant Liddell, business development director at UK shipping company Metro Shipping, said the backlog had increased the demand for empty containers and the delays in unloading the 55,000-tonne containers and returning them to Asia would lead to supply crises in the coming months.³³

Moreover, oil prices spiked with increasing speculation that the crisis would not be resolved soon, but partially dropped when the ships moved again. Experts point to future price fluctuations due to the interruption of oil supply. Indeed, the vast majority of the ships waiting in the canal were Qatari vessels carrying LNG to destinations in Europe. 63 of the

84 LNG vessels filled in Qatar in the previous period were shipped to Asia and the canal closure coincided with intensive European shipments in the current period. A one-week delay in deliveries, which takes an average of 20 days, can cause an LNG shortage in Europe.³⁴

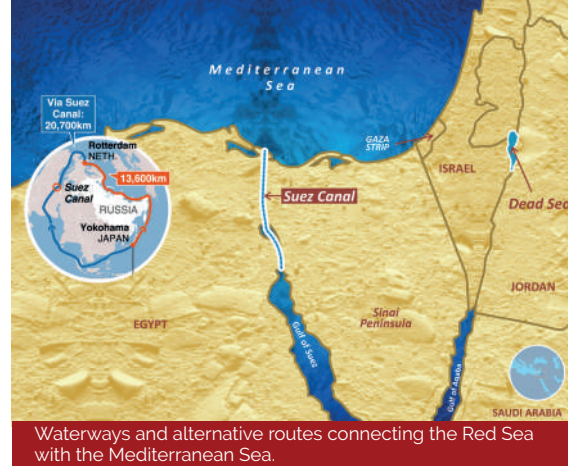
The week-long traffic blockage in the Suez Canal has brought about problems that could last for weeks or even months. The disruption of operation will cause supply problems in the coming months. In addition, the accumulation of ships at the entrances to the canal or the use of alternative routes, which will not only prolong the shipping time but also increase costs, will lead to an increase in the prices of many goods. Since the ships accumulated in the canal region will have to wait there for a while due to the canal's capacity, thus increasing the transit time through the canal, it seems inevitable that new ships from the regions where there is no shortage of empty containers will also be added to the ships waiting to cross the canal. It is therefore unlikely to accurately calculate the costs that consumers will incur.

¹⁹ Benoit Faucon, Sarah McFarlane and David Hodari, "Energy Industry Grapples with Fallout from Suez Canal Blockage", *The Wall Street Journal*, 25 March 2021.

²⁰ Noelle McElhatton, "Mega ship blocking Suez Canal is finally freed but what damage to 'just in time' supply chains?", *The Institute of Export and International Trade*, 29 March 2021.

²⁰ Joey Chua, "LNG market eyes price hikes, delays on Suez disruption", *Argus*, 26 March 2021.

CONCLUSION AND ASSESSMENT



After the security of supply was once again called into question due to the aforesaid closure of the Suez Canal, the countries in the region have begun to voice demands for alternative routes. Initially, the Israelis came up with the idea of building a new route parallel to the canal, but after Egypt's harsh reaction, they took a step back and put forward the proposal of an alternative land route instead of a sea route. However, alternative projects to the canal were re-raised after the canal's closure became a frequent topic in the world press and evolved into a kind of black counter-propaganda against the Suez Canal. Devising joint plans with the UAE to bypass the Suez Canal, Israel began to speak out more loudly about a project on an alternative route to Suez.

The conception of the land route and railway projects dates back to the 1960s, but they were pushed by Israeli Prime Minister Benjamin Netanyahu in 2012 with a view to connecting the port of Eilat on the Red Sea and

the port of Ashdod on the Mediterranean, and the projects were presented as an alternative to the Suez Canal. Egypt was the main obstacle to the implementation of these projects expected to bring great economic benefits to Israel. This obstacle was however eliminated when Egypt ceded to Saudi Arabia in 2017 the islands of Tiran and Sanafir, the last border before its territorial waters across the Red Sea. The cession of these islands means that ships coming from the Red Sea can now sail into the Mediterranean Sea via the Gulf of Aqaba without entering Egyptian waters. The political and economic weakening in the post-2013 era and the confrontation with serious foreign policy problems such as Ethiopia, Libya, and the Eastern Mediterranean are weakening Cairo's deterrent effect against the said Israeli-UAE project to bypass the Suez Canal. So, at a time when Egypt is facing these problems, Israel can accelerate some of the projects aimed at building an alternative land route, a railway or, less likely, a sea route to the Suez Canal.

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Indeed, there have recently been some developments in this regard. As part of the bilateral agreements made between the UAE and Israel during the Arab-Israeli normalization process, it was said that negotiations were also held to open a new shipping canal between the Israeli ports of Eilat and Ashdod. In October 2020, it became known that Israel and the UAE had agreed to work together on a project that would bypass Suez. The first partnership between the two countries that came about as a result of the normalization talks was an agreement signed between DPWorld, a UAE-owned company, and Israel's Doverpower to develop Israeli ports and free zones. Looking at the content of this agreement, one can see that the main reason for developing free zones and ports is to prepare the infrastructure for alternative projects to the Suez Canal. However, Israel announced that it had suspended the alternative canal project in order not to lose Egypt. But thanks to the normalization agreements, it has gained the opportunity to expand its existing railway line between the ports of Eilat and Ashdod to transport goods by land.

As expected, Egypt saw this agreement as a threat to itself

and opposed it. Not wanting to lose Egypt's support, especially in the Eastern Mediterranean, Israel let it be known that the existing railway line between Ashdod and Eilat would be upgraded in order to transport goods by land and that a new canal from the sea would not be built. Egypt's reaction to the above developments was to play the Turkey card in the Eastern Mediterranean. The observance of the Exclusive Economic Zone declared by Turkey in the agreement Egypt concluded with Greece was described as a political move by Egypt against Israel.

In addition, Turkey and Iran have also presented options for alternative routes. As is well known, Iran is currently working hard on the North-South Transport Corridor, which will connect the Indian Ocean and the Persian Gulf with the Caspian Sea and lead through Iran to St. Petersburg, to increase the importance of the former in regional trade. Kazem Jalali, Iran's ambassador to Moscow, called for the implementation of the North-South Transport Corridor as an alternative to the Suez Canal, noting that the corridor would reduce the transport time by 20 days and the associated costs by about 30% compared to the Suez Canal.³⁵

³⁵ "İran'ın Moskova Büyükelçisi: Süveyş Kanalı'na alternatif olarak 'Kuzey-Güney Ulaştırma Koridoru' etkinleştirilmeli" ("Iran's Ambassador to Moscow: 'North-South Transport Corridor' should be activated as an alternative to the Suez Canal"), *Asharq Al-Awsat*, 28 March 2021.

It is also worth mentioning the statement of Adil Karaismailoglu, Minister of Transport and Infrastructure of the Republic of Turkey, who said that the most suitable alternative route on the East-West axis was the Central Corridor, with a Caspian passage starting from Turkey and extending to the Caucasus and from there, across the Caspian Sea, to Central Asia and China. According to Karaismailoglu, the Central Corridor would reduce the current transport time by 15 days compared to the Suez Canal. Although options for a new route are

being considered, this does not mean that the Suez Canal will lose its importance, as these alternative projects have not yet been completed, and the Suez Canal will continue to retain its importance for a while and to have a direct impact on global trade and economy in the medium term, as it does today. Nonetheless, reminding the fact that alternatives exist in the face of the risks in the Suez Canal is of great importance for increasing the options for solving these problems in the long term.

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