

“Crisis in Egypt” and International Energy Landscape

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Anti-government demonstrations started in Egypt on January 25 and have expanded with tensions growing. After anti-government protesters called for a protest rally of one million people on January 31, large-scale demonstrations took place in the capital city of Cairo and other regions on February 1. In the face of protesters' resignation demand and criticism, President Hosni Mubarak first offered the nomination of Omar Suleiman as the vice president, a cabinet reshuffle, dialogue with anti-government groups and emergency economic measures. Simultaneously, the president toughened security through a curfew and the enhancement of safety at major facilities in a bid to manage the turmoil, while refusing to resign. Through the state-run television on February 1, however, Mubarak for the first time vowed to refrain from running in the next presidential election coming in September this year, indicating his intention to cede power. How the political situation would change in response to the new development is uncertain. Would Mubarak resign? How would he cede power? Could anti-government movements escalate in response to future developments? Answers to these questions are uncertain. The situation in Egypt is very volatile. Western medias have begun to describe the situation as the “crisis in Egypt or Egypt crisis.”

There are various factors behind the crisis. The most important structural or fundamental issue may be the presence of accumulated discontent and anger in Egyptian society. President Mubarak has retained his dictatorship about 30 years since his succession to Anwar Sadat in 1981, while the unemployment rate for young people has risen to a very high level with wealth gaps expanding in the country featuring a population of 80 million, the largest among Arab countries. These conditions have allowed the magma of political, economic and social discontent to accumulate. As well, the Jasmine Revolution has come in Tunisia. The overthrow of President Zine Al-Abidine Ben Ali after more than 20 years under his dictatorship amid anti-government movements in Tunisia has undoubtedly stimulated Egyptian society. As the Internet and other modern information technologies have developed their potential to spread key phenomena regionally and globally at quick speed, the Jasmine Revolution has rapidly spilled over to neighboring countries plagued with structural discontent similar to Tunisia's.

While how the Egypt crisis would develop in the future is still uncertain, its influences over the entire international situation have attracted global attention. There are three angles for looking at the crisis. The first is how far the Egypt crisis will spread. Anti-government demonstrations in Yemen, Jordan and Algeria as well as Egypt have followed the Jasmine Revolution. Whether the Egyptian turmoil would spread to Persian Gulf oil producing and other Middle East countries with similar social structures is extremely important for the stability of the Middle East and the entire

international situation. Second, the fate of the Egypt crisis will have great influences on Middle East-linked international relations including the U.S. Middle East policy and the Middle East peace problem. Under President Mubarak, Egypt, as a major pro-U.S. Arab country, has been positioned as a cornerstone of the U.S. Middle East policy. For Israel, Egypt has been a major country adopting a rare pro-Israel stance in the Arab world. It has also played a role in mediating Middle East peace negotiations. Therefore, the fate of the Egypt crisis has the potential to change international relations and balances of power in and outside the Middle East. The third angle is the impact of the crisis on the international energy landscape that is closely linked to the first and second angles.

How would the Egypt crisis affect the international energy landscape? Egypt produced 740,000 barrels per day of oil (0.9% of global output) and 62.7 billion cubic meters of gas (2.1% of global output) in 2009, indicating that as an oil producing country, its global weight is limited. But the first point attracting global attention is that Egypt controls the Suez Canal as a choke point for oil transportation. In 1956, then Egyptian President Gamal Abdel Nasser's decision to nationalize the canal, and Egypt's military clash with Britain, France and Israel led tankers to be blocked from passing through the canal. This is called the Suez Crisis. The canal has basically remained a key path for the transportation of oil from the Middle East to Europe. According to the U.S. Energy Information Administration, oil traffic through the Suez Canal totaled 1.8 million bpd in 2009. The Sumed Pipeline, which links the Red Sea to the Mediterranean Sea via Egypt, transported 1.1 million bpd in the same year. As a key path for the transportation of oil from the Middle East to Europe, Egypt is among the oil transportation choke points, which also include the Strait of Hormuz and the Straits of Malacca. At present, the Egyptian turmoil has fallen short of affecting oil transportation. On crude oil futures markets that play a central role in oil price formation, however, expectations of market players about possible oil supply interruptions can affect actual price movement. The markets may now be vulnerable to fears about oil supply interruptions for Europe from the logistics viewpoint, although the global impact of the crisis as well is a matter of concern to market participants.

The second point for global attention is a concern about the potential impact of the Egypt crisis spilling over to major Middle East oil producing countries. Although there are no signs of such spillover, market players have no choice but to become nervous in view of Middle East oil producing countries' significance for oil supply in the world. Such concern or fear has been reflected into crude oil price movement. On January 31, in fact, the benchmark West Texas Intermediate crude oil futures price posted a substantial gain of \$2.85/barrel from the previous day to \$92.19/barrel, the highest level since October 2009. In Europe, the benchmark North Sea Brent crude futures exceeded \$100/barrel to \$101.01/barrel. These crude oil futures prices soared on expectations about possible oil supply interruptions, despite the absence of actual interruptions. This means that market participants have already viewed the Egypt crisis as potentially important. Therefore, oil markets may fluctuate wildly depending on the fate of the crisis. If some developments or information indicate oil supply interruptions, crude oil futures prices may chase even higher ground. At the same time, if present price hikes are interpreted as reflecting concerns over future supply interruption and if there will emerge a shift in perception that the possibility of supply interruptions is likely to be small despite the continuation of the political turmoil, excessive price hikes may drop out. In any case, we may have to keep close watch on the

In addition to these effects as seen from macroscopic viewpoints, there are some effects to which I pay attention from a slightly different viewpoint. Given the growing anti-government movements and citizens' discontent behind such movements, we may fear that energy pricing system rationalization measures including the reduction of energy subsidies as considered in many developing countries including those in the Middle East could come to a lull. Energy prices as well as food prices are significant for consumers. Energy price hikes might have become more difficult particularly in countries that are dominated by low-income, unemployed and other socially vulnerable people or that are attempting to stabilize society through pork-barrel spending on an affordable supply of daily necessities. At least, such countries may grow more cautious of raising energy prices. In countries that set energy prices at lower levels, energy demand tends to increase substantially. Over the recent years, many developing countries have moved to consider enhancing energy conservation policies and rationalizing energy pricing systems in response to rapidly growing energy demand. But the political crisis in Egypt could make it difficult for developing countries to implement energy demand conservation measures including the rationalization of energy pricing systems. Rather, financially rich countries may growingly favor energy supply expansion policies. These future developments are still uncertain at present. But we may have to closely watch influences of the Egypt crisis on the energy supply and demand mix in the Middle East and other emerging countries.

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