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Why Are Oil Exports Recovering Despite the Blockade of the Strait of Hormuz?

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Tensions surrounding the Strait of Hormuz remain high. The United States and Iran concluded a memorandum of understanding in June, prompting Washington to temporarily suspend its naval blockade of vessels entering or leaving Iranian ports. However, the agreement quickly broke down, and the United States resumed the blockade on July 14. Meanwhile, Iran has been demanding that vessels use routes designated by Tehran, leaving the United States and Iran advocating different rules for navigation through the Strait. Diplomatic efforts have yet to resolve the issue. On September 14, Iran, Iraq, and Gulf Cooperation Council (GCC) states, among others, were scheduled to meet in Oman to discuss the management of shipping through the Strait of Hormuz and the establishment of safe navigation routes. The meeting was postponed, however, as Saudi Arabia and others expressed reservations over the possible implications of the Iran-Oman proposal for the future management of the Strait.

Nevertheless, oil exports from Gulf states through the Strait of Hormuz have recently shown signs of recovery. One factor behind this improvement is a new transportation arrangement supported by the United States. According to media reports, tankers load crude oil inside the Gulf, transit the Strait of Hormuz, and then transfer the cargo ship-to-ship (STS) to other tankers off Fujairah or Sohar in Oman. Vessels using this arrangement reportedly submit information on the ship and its cargo in advance to the relevant U.S. Navy office for review and are then allocated a transit window. Rather than providing direct naval escorts, the U.S. military reportedly supports these operations through aerial surveillance, vessel screening, and monitoring during transit.

The UAE and Kuwait have been among the most active users of this arrangement. Kuwait, in particular, has no pipeline capable of bypassing the Strait of Hormuz. Its crude exports fell to almost zero in the spring, but recovered to around 800,000 b/d in June, according to estimates by ship-tracking company Vortexa. By early September, exports had risen to around 1 million b/d, roughly two-thirds of the pre-war level of approximately 1.6 million b/d. There have also been confirmed cases in which vessels operated by Kuwait's state-owned tanker company conducted STS transfers off Oman.

Iraq, by contrast, has restored exports in a somewhat different manner. Its crude exports through the Persian Gulf reached around 2.25 million b/d in August, a sharp increase from the depressed levels of less than 500,000 b/d through June. Of particular significance, it was reported in late August that Iran, in response to a request from the Iraqi government, had allowed certain tankers carrying Iraqi crude to pass through the Strait of Hormuz. The terms of the arrangement, including whether any payment was made to Iran, have not been disclosed, but it is highly likely to have contributed to the recovery in Iraqi exports. At the same time, there is also a strong possibility that Iraq has been consulting with the United States over transit arrangements. Unlike ADNOC and Kuwait's state-owned tanker company, it remains unclear whether Iraqi vessels are using a comparable U.S.-supported transit scheme. Nevertheless, Iraq is in a position to negotiate with both the United States and Iran, and in this case those relationships may have worked in its favor in maintaining exports.

Like Kuwait, Iraq has also restored exports by using STS transfers in the Gulf of Oman after passing through the Strait of Hormuz. There is, however, an important difference. Kuwait can organize shipments using its state-owned tanker fleet, whereas Iraq lacks comparable tanker capacity. As a result, Iraq's State Organization for Marketing of Oil (SOMO) has offered Basra crude at discounts of nearly $25-30/b below official selling prices, effectively transferring the transportation risks associated with passage through the Strait to buyers, including trading companies. Consequently, the recovery in export volumes has not been matched by a comparable improvement in revenues. The Iraqi government is therefore seeking to shift toward a model under which it charters tankers itself and transports crude beyond the Strait before handing it over to buyers.

In addition to these measures, since August, Iraq has expanded heavily discounted crude sales to ADNOC of the UAE. ADNOC is reportedly processing much of the Iraqi crude it purchases at its Ruwais refinery, thereby freeing up more of its own crude for sale on the international market. In effect, the arrangement can be seen as substituting Iraqi crude for UAE crude in the domestic market. ADNOC reportedly lifted 20 million barrels of Iraqi crude in August, equivalent to around 650,000 b/d, and a further 14 million barrels in the first half of September, equivalent to around 930,000 b/d.

Iran itself, by contrast, faces the most severe restrictions on exports. Since the United States resumed its naval blockade in July, Iranian crude exports have fallen sharply, while tankers carrying Iranian oil appear to have accumulated inside the Gulf.

Even for Gulf oil producers other than Iran, however, coordination with the United States does not guarantee safe passage. Attacks by Iran, as well as incidents in which vessels have been struck by projectiles of unknown origin, have continued along routes on the Omani side of the Strait and around Fujairah. U.S. support may reduce the risks, but it cannot eliminate them. All Gulf oil producers are seriously examining and utilizing alternative export routes. Yet for countries such as Iraq and Kuwait, where such alternatives remain limited, the Strait of Hormuz continues to be an economic lifeline. For the foreseeable future, they will therefore have little choice but to continue seeking ways to secure passage through the Strait through political and diplomatic negotiations, while combining such efforts with practical measures including STS transfers and greater use of their own tanker capacity, even as they remain exposed to a certain degree of security risk.

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