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**Cooperation between the UAE and Israel in the Oil Market:
Can it go beyond Political Considerations?
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Introduction

The [Israeli-Emirati Memorandum of understanding and cooperation](#) on the use of storage capacities and pipeline infrastructure of Israeli Europe-Asia Pipeline Company (EAPC) (first of all, the Eilat-Ashkelon oil pipeline) will undoubtedly benefit both Abu Dhabi and Tel Aviv. However, this agreement is unlikely to have a strong impact on the oil market currently stated by the signatories.

The agreement on normalization of relations signed between the UAE and Israel in September this year is gradually becoming the cornerstone of the legal and contractual base for the development of the future Israeli-Emirati relations. During the bilateral business summit held in Abu Dhabi in the second [half of October 2020](#), the two countries managed to sign a number of important documents, including a Memorandum on the use and development of the EPAC oil and oil products infrastructure. According to the Israeli and Emirati press, this step should open the UAE wide access to the European oil market. However, such statements may still be somewhat inconsistent with reality.

Can It Fly?

Indeed, at first glance, the Eilat-Ashkelon pipeline provides the UAE with a number of important advantages. Traditionally, when exporting oil to European and American countries, geography was the curse of the Gulf oil producers: the Suez Canal has a limited capacity in terms of the number and

tonnage of tankers able to pass it while the existing political regime in Egypt is characterized by a certain degree of instability. The alternative route implies the need to circumnavigate the African continent, which increases the delivery time and transport costs accordingly, although allowing the use of tankers of a larger tonnage. As market analysts sometimes joke, for the Arab monarchies of the Persian Gulf, the Cape of Good Hope gives no hope. Under these circumstances, the Israeli pipeline infrastructure provides a certain alternative to both the route bypassing Africa and the Suez Canal, thus, helping exporters save time and cut freight costs, as well as reduce the political risks associated with the internal situation in Egypt. The Eilat-Ashkelon pipeline's capacity in the European direction is estimated at 1.2 million barrels per day. If the UAE provide Israel with promised investments into the pipeline development, this figure can even be increased in the future. In addition to the pipelines themselves, the UAE will also get access to oil storage facilities in Eilat (8.8 million barrels) and Ashkelon (14.5 million barrels), which, in theory, will contribute to more effective regulation of Emirati oil supplies to the European market. Finally, the pipeline system has links to Israeli refineries in Haifa and Ashdod, which potentially makes Tel Aviv one of the potential consumers of Emirati oil.

Not Really...

However, in practice, the prospects for using the above-

mentioned opportunities by the Emirates are much more limited. Indeed, either due to the market situation or some political concerns, Israel is actively diversifying the sources of its oil supply, moving away from the exclusive reliance on the oil imports from the Kurdish regional government. This opens up certain opportunities for the UAE to enter the Israeli market. However, in terms of capacity, it is not so large, and the level of profitability leaves much to be desired. Moreover, there are other players who want to dominate it, including, for instance, Russia.

An even bigger question is whether the UAE actually needs the Israeli pipeline for the transit of its oil exports to Europe and does it have enough customers in the EU to fill it in. It is important to keep in mind that the region already has the infrastructure to pump a much larger volume of oil without using the Suez Canal or navigating through the Cape of Good Hope. Moreover, the UAE owns a 15% stake in the company that controls this pipeline. We are talking about the Egyptian Sumed oil pipeline connecting Ain-Sukhna oil facilities at the Red Sea with Sidi-Kerir infrastructure at the Mediterranean. However, at least since May 2018, Emirati oil has not been delivered via this route due to limited supply volumes exported by the Emirates to the EU. Currently, the European direction is not a priority for the UAE oil producers. Their main market is in Asia that accounts for up to 98% of deliveries. Currently, there are no prerequisites for a significant reorientation of the Emirati oil exports to Europe.

Apart from the question on the Eilat-Ashkelon pipeline's feedstock, there is also no consensus on how

much the UAE will be able to save on logistics. Significant savings on the operation of pipelines like Sumed or Eilat-Ashkelon are possible for the GCC states when the country has an oil loading infrastructure on the Red sea (such as the Saudi Yanbu terminal). Otherwise, the benefits are somewhat reduced.

What's It All About?

The practical effect of the Emirati access to the EAPC infrastructure will be much less than the declared one. It will be fair to notice, however, that the UAE can have certain interest in using not the oil pipeline but the other EPAC transport infrastructure for the transit of Emirati oil products to Europe and America, the stable UAE customers. Yet, even in this case, the potential export volume is small and cannot bring much profit: 100 – 160 thousand barrels per day. Another potential benefit for the UAE is connected to the fact that Eilat-Ashkelon pipeline runs in both directions. Thus, the Emirates gets control over the flow of [oil that can come from the US and Europe \(Black sea and Caspian regions\) to Asia](#).

However, Israel receives far greater benefit as with the UAE participation it will be able to use this pipeline in many ways more openly. Previously, information about the deliveries that passed through Eilat-Ashkelon pipeline and the names of the parties in whose interests they were carried out was classified. On the one hand, Israeli clients feared the wrath of Iran that owned 50% of this pipeline's shares before the Islamic revolution of 1979. [Tehran was extremely unhappy](#) that Israel expropriated its stake in the 1980s. On the other hand, until recently, there was an unspoken warning from

the United Arab Emirates and Saudi Arabia that tankers exporting oil and petroleum products from Eilat should forget about access to the oil terminals of the Arab monarchies. Now, at least from the Emirati side, the ban will be lifted, meaning that business can be done relatively openly.

How is to benefit?

All in all, the main effect from the Emirati-Israeli MoU remains political rather than economic. For the first time, a GCC country gained access to Israel's oil infrastructure. It is probably expected in Israel that this should symbolize the clear benefits of establishing ties with Tel Aviv for the Arab States and encourage other countries to follow the example of the UAE. Consequently, the main beneficiary is not the Arab Emirates, but Israel and the United States whose leadership stays behind the Israeli-Emirati agreement on normalization of relations. Only time will tell how great the benefits from this documents will be for Abu Dhabi.

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