New Direction

NAVIGATING UNCERTAIN WATERS

DISRUPTION TO EU AND GLOBAL TRADE ROUTES

ROBERT TYLER

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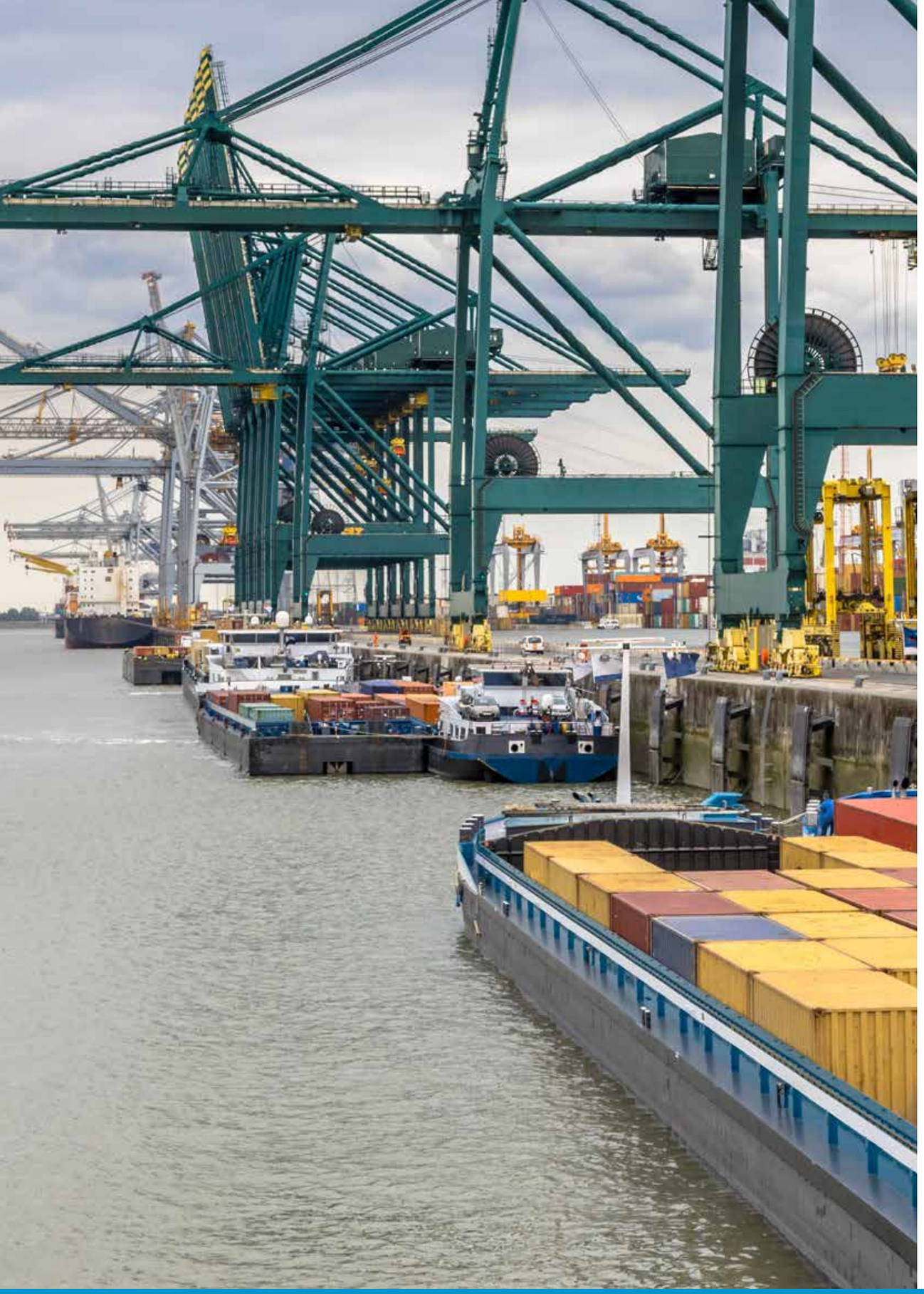


1

INTRODUCTION

Global trade sits at the heart of the European Union's foreign policy – and it is in many ways the EU's strongest diplomatic tool. The collective market of 27 EU Member States, with 500 million consumers, is of course an enticing prospect for countries the world over – and as such the competition to gain market access is fierce.

For the EU itself, trade is important for growth. Trade creates jobs, stimulates innovation, and drives economic growth. Trade is at the centre of what keeps the continent competitive in an increasingly complex economic environment.

But most importantly, trade is the greatest equalizer of both nation states, and businesses. In the last century it has lifted millions of people out of poverty the world over, increased the quality of life by factors unimaginable before, and created the greatest sustained period of development in human history.

However, increasingly global trade and supply routes have found themselves disrupted, not just as a result of political protectionist trade measures, or burdensome regulation, but as a result of very real and physical threats. In 2021 alone, global trade routes have been disrupted by the COVID-19 global pandemic, by a ship blocking the Suez Canal, and by piracy along key trade routes. Billions of Euros of trade have been lost along the way.

With Europe's own economic stability dependent on its ability to trade with its external partners, these disruptions cannot be taken lightly. Europe depends on a network of well-established trade routes that crisscross the globe, cemented both in the free trade agreements it has established over the past three decades, and through the longstanding economic arrangements that came before. Perhaps the most important point to be made, is that the majority of the EU's trade is conducted at sea, as is the case with the rest of the world.

According to the United Nations Conference on Trade and Development (UNCTAD), a total of 11 billion tonnes of goods were transported by sea in 2019. This works out to around 1.5 tonnes of goods per person, per year. Or to put it in different terms, around 90% of global trade is now carried out over the waves. By some estimates this total trade is worth $14 trillion.

In the case of the European Union, some 80% of total imports and exports by volume arrive by sea, or 50% in terms of total value. It goes without saying that waterborne routes are at the core of Europe's economic stability and that being able to freely navigate the worlds seas and oceans should remain a top priority for the European Union.

The question must therefore be asked, what can the European Union do to protect its trade routes? What sort of obstacles does European trade face now, and what could it face in the future? And most importantly, what can be learnt from previous similar threats and disruptions to trade?

This report aims to look at several key scenarios and examples of disruption to global trade routes. From the threat of piracy off the coast of Africa, to the issue of access to key infrastructure such as the Suez Canal. As well as exploring several key emerging areas, such as access to the North-eastern Passage over Siberia as a result of receding ice caps, and the obstacles to trade that have been presented as a result of the global COVID-19 Pandemic.

More importantly, this report aims to offer several constructive suggestions for ways in which the European Union, and its Member States, can engage with global partners to secure global trade routes and supply chains, even in the event of obstruction by hostile powers, rouge organisations, or natural disaster.

2

COVID-19 AND GLOBAL TRADE

During the height of its power in the 1400's Venice was the centre of Mediterranean trade. The trade empire that sprawled from the mercantile republic, with its capital built on the water itself, came from across Europe, North Africa, and the Middle East. Goods flowed in from across the known world, spices from the Middle East, woolwork from Northern Europe, and tea form the Orient.

With so many ships arriving from far afield it was only inevitable that they would bring with them an unexpected additional cargo, disease. In the mid-1400s this posed a real risk as the 'Black Death' spread across the continent in the form of the bubonic plague.

Fearful for the public health of the city, the Doge and the Great Council introduced a system of disease control. For thirty days ships would have to stay at anchor outside the city limits to ensure that none of the sailors were carrying the disease. After reflection, the Great Council extended the isolation period to forty days – the so called *quarantena*.

Today we simply know it as quarantine, and the word no longer simply applies to the embargoing of ships from abroad but has been applied to more general preventative measures when dealing with disease.

Likewise, the history of disruption to shipping and trade as a result of disease extends far beyond the measures diligently adopted by the Venetian Republic. Ships arriving from Europe to America carrying goods and people in the late nineteenth century also required isolation. Famously, the immigration centre at Ellis Island in New York housed a hospital to isolate new commers and prevent the spread of diseases from the old world.

During the influenza pandemics of the early twentieth century, ships were used to isolate soldiers returning from war over fear of the spread of the disease. Indeed, it is widely believed that the influenza epidemic started in Europe as the result of trade ships arriving from China.

Most recently, trade has found itself disrupted as a result of the Coronavirus Pandemic. Cargo ships travelling around the world found their journeys delayed as governments scrambled to contain the spread of the COVID-19 virus.

This involved re-routing ships. With many major shipping companies struggling to keep up with demands, larger container ships were deployed to carry a greater number of containers. However, as they unloaded the ships, they did not load new goods, meaning that many ports around the world have been left with excess empty containers[1][2].

The shift to Very Large Container Ships (VLCS) and Ultra Large Container Ships (ULCS), with greater loads, has meant that smaller container ships have been left in port – with many companies taking the opportunity to upgrade or scrap parts of their fleet.

A side effect of this is that the cost of shipping has risen[3]. This has proven to be beneficial to shipping companies that had initially been struggling with lower revenues, however it proves bad for consumers for who the cost is passed.

Another major issue that has emerged from the pandemic is that of what to do with crews. This particular issue can be broken down into three parts: firstly, the crews health secondly the crews' contracts, and thirdly the crews' travel.

1 There are enough containers for global trade – they're just in the wrong places, *The Loadstar*, 27th April 2021: https://theloadstar.com/there-are-enough-containers-for-global-trade-theyre-just-in-the-wrong-places/

2 Why the world is in a shipping crisis, *Business Insider*, 11 June 2021: https://www.businessinsider.com.au/shipping-crisis-causing-shortages-why-2021-6

3 A surge of imports is causing havoc in the world's ports, *The Economist*, 9th December 2020 https://www.economist.com/graphic-detail/2020/12/09/a-surge-of-imports-is-causing-havoc-in-the-worlds-ports

In the first instance, the health of the crew is naturally already monitored. However, an outbreak of COVID-19 on a ship could be detrimental to the schedule of the ship. In the early days of the outbreak, ships faced longer quarantine times – with ships travelling from the Far-East forced to drop anchor and wait for as long as 14-days depending on port of arrival.

The risk of an outbreak on board poses a great risk when the ship is at sea – especially on more remote routes. Whilst ships are usually equipped as standard with medical facilities, they do not have the specialised equipment required to deal with serious cases of COVID-19. Ships won't have ventilators for example.

Equally, taking crew members ashore in the case that they are suffering from the virus is also problematic. The challenges are both legal and logistical, with questions arising over where and how to disembark patients.

Advice by the American Centre for Disease Control (CDC) on the subject was no less disruptive – calling for ships to either change their entire crews, continue with crew members quarantined, or for the ceasing of all activity by the ships[4].

The second issue that has arisen from the ongoing COVID Crisis in shipping, is that of assigning crews to ships. Most major shipping companies work on a contractor basis – rather than on fixed crews. A crew member will often work several months at a time, joining a ship in one port and disembarking at another – in most cases the crew members will join from somewhere other than their home nation.

As such, crew members are often flown out to meet their ships in major ports around the world and will travel with the ship in the direction of home. For example, a seaman based in Denmark might fly out to Singapore to join a cargo ship on its way to Rotterdam.

This system has proven difficult to maintain in the global pandemic, with many countries closing their borders or introducing strict quarantine measures. In August 2020 the Danish shipping company Maersk ran into contractual issues as two thirds of their crews had been on board for longer than their contracts allowed[5]. With reports that as many as 400,000 seafarers were stuck on ships beyond their contracts.

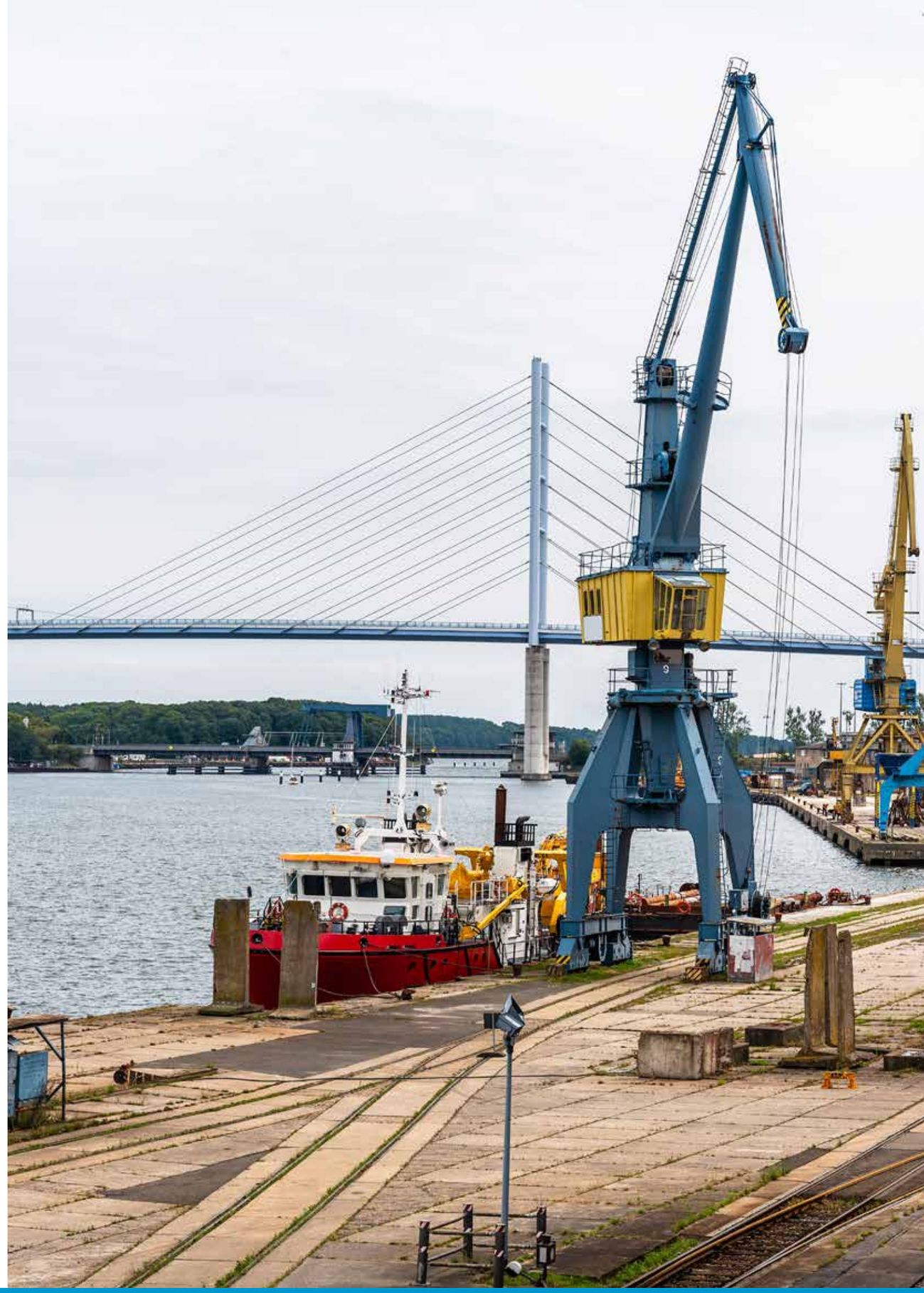
In the case of Maersk, the company booked out hotels in Hong Kong and Singapore in order to allow their crews to travel there and isolate. However, faced trouble when trying to bring crews back.

The issue of crew returns is in effect the third biggest problem that faced the containership industry over the course of the pandemic. With contractual limits on how long crews could be out at sea, and restrictions such as quarantine at port – many crew members found themselves stranded abroad away from their homes.

In one high profile case, a crew of Kiribati sailors found themselves stranded in Germany for more than a year due to COVID measures[6]. These incidents have created unexpected costs for shipping companies and left many crew members estranged from their families.

The disruption caused to trade by a global pandemic is difficult to mitigate. Many industry analysts have stated the global shipping may not return to normal until well after 2022. Such disruption will continue to push up prices, and slow supply chains. The economic impact to Europe will be felt across almost every sector.

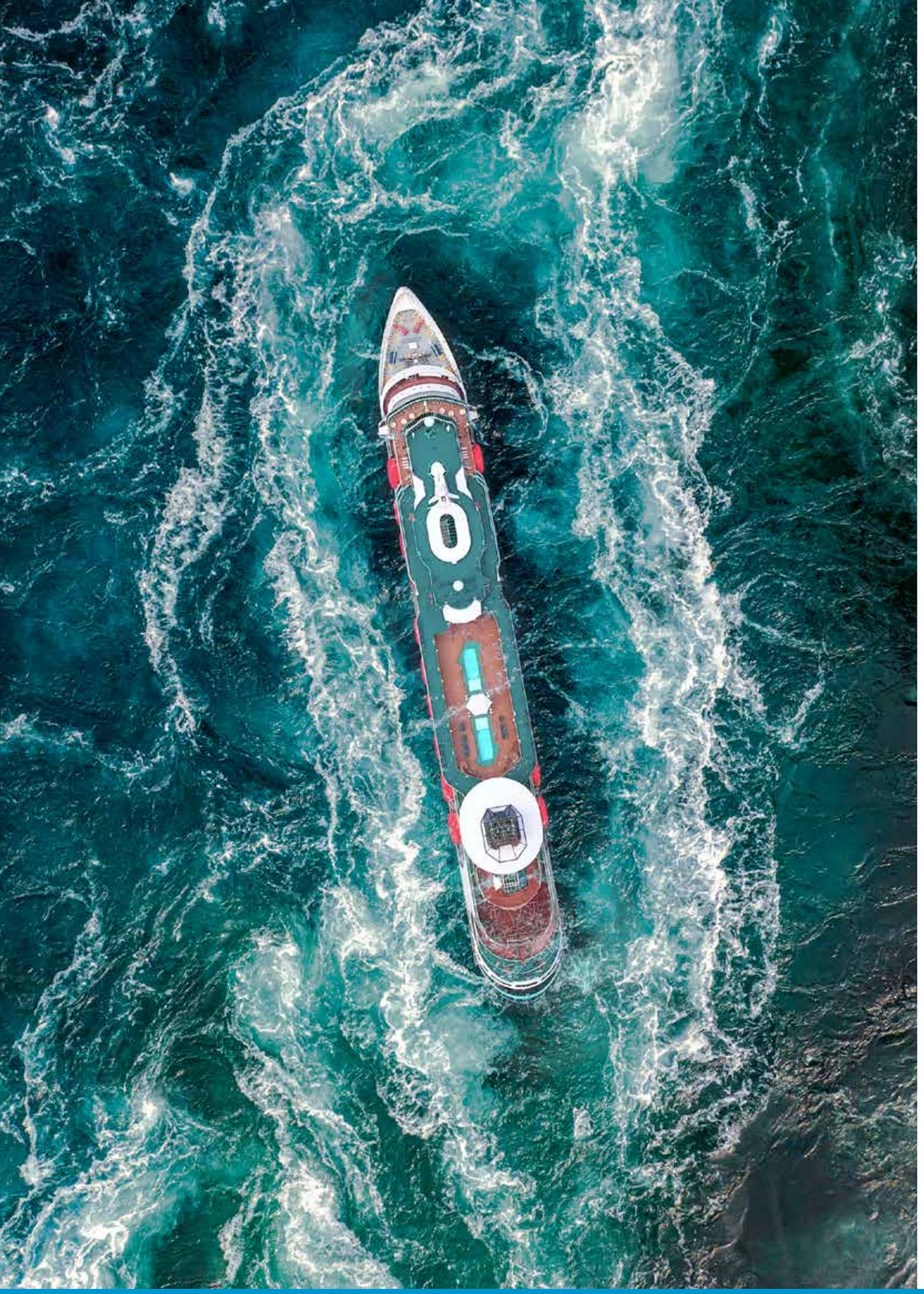
The European Union ought to work with the International Maritime Organisation in order to come up with their own set of guidelines for European flagged vessels to follow in the event of another pandemic. Such work should be centred on how to minimise disruption at ports, especially when it comes to the transition between two crew teams.



4 Centre for Disease Control (2020), *Interim Guidance for Ships on Managing Suspected or Confirmed Cases of Coronavirus Disease 2019 (COVID-19)* https://www.cdc.gov/quarantine/maritime/recommendations-for-ships.html

5 Maersk 'doing all it can' on crew change, one-third onboard over contract, *Seatrade: Maritime News,* 20 August 2020 https://www.seatrade-maritime.com/ship-operations/maersk-doing-all-it-can-crew-change-one-third-onboard-over-contract-1

6 The Kiribati sailors stranded 8,000 miles from home, *BBC News*, 8 March 2021: https://www.bbc.com/news/av/world-56308350



3

PIRACY – THE HORN OF AFRICA AND GULF OF GUINEA

For as long as goods have been travelling by sea, piracy has been an issue. The practice of commandeering ships and plundering their goods has been a source of income for those operating outside of the law throughout history. The word pirate itself, derives from the Latin *pirate*, translated as 'sea robber'.

Whilst the typical image of a pirate might be of the captain of a tall sailing ship, with a motley crew and a passion for collecting exotic birds – an image cultivated in part by the romanticisation of privateers in 19th century literature – the reality is that today's pirates pose a serious threat to trade.

Today's pirates have traded in sailing ships for speed boats, cutlases for sub machine guns, and buried treasure for bank transfers. Rather than looting the contents of container ships and oil tankers, which would require access to heavy cranes in major ports, modern pirates make their money through hostage taking – knowing that shipping companies will pay premiums to protect their valuable cargos and crews.

With fewer and larger ships running the worlds trade route, as trade companies look at increasing their profit margins by turning to so called Very Large Container Ships (VLCS) and Ultra Large Container Ships (ULCS), piracy has grown as a problem.

Yet contrary to what many may believe, the Horn of Africa is no longer the main target of piracy. Instead, since the mid-2010's the Gulf of Guinea on the West African coast has become a hot bed of piracy. The region, which has experience a period of strong economic growth and development, has seen a sharp rise in the number of piracy incidents over the last decade.

This begs two questions; firstly, why has piracy decreased in the Horn of Africa? And secondly, why has it increased so dramatically on the other side of the continent?

In the first instance, the joint work of NATO and the European Union is partly to thank for the decline in piracy around the Horn of Africa. In 2008 the EU launched European Union Naval Force (EU NAVFOR) Somalia – a joint operation under terms set out by the European Council. A year later, in August 2019, NATO launched an operation of its own under the designation Operation Ocean Shield – although covering a larger area than EU NAVFOR.

The combined operations, which involved British, Spanish, French, Italian, Portuguese, Danish, Dutch, German, and Swedish Naval Forces, as well as Canadian and American allies in NATO, helped to see a major reduction in piracy in the Indian Ocean.

According to the European External Action Service the number of attacks on ships in the region went from a peak of 176 in 2011 to just 7 in 2013, with no incidences reported by ships involved in EU NAVFOR Somalia in 2020.

Engagements by EUNAVFOR in the Horn of Africa during Operation Atlanta[7]

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
SUSPICIOUS EVENTS	8	59	99	166	74	20	5	1	2	6	4	5	3
TOTAL ATTACKS	24	163	174	176	34	7	2	0	1	7	2	1	0
OF WHICH PIRATED	14	46	47	25	4	0	0	0	0	2	0	0	0
DISRUPTIONS	0	14	65	28	16	10	1	0	0	2	0	1	0

7 EUNAVFOR (2021), *Operation Atlanta: Key Facts and Figures*, https://eunavfor.eu/

With the success of the operation, NATO ended Ocean Shield in 2015. The European Union on the other hand continued EU NAVFOR – renaming it Operation Atlanta. In July 2018 the European Council, encouraged by a resolution in the European Parliament, extended operation Atlanta into 2020, and extended it further until the end of 2022.

Gulf of Guinea

By stark contrast – piracy in the Gulf of Guinea has been on the rise. In 2020, a record number of hostages were taken as a result of a sharp increase in the number of attacks on ships. 130 hostages were taken in 22 separate incidents, compared to the previous high of 121 which was set the year before in 2019[8].

The Gulf of Guinea is of particular importance to the European Union for two reasons. Firstly, it is a major source of crude oil. 7% of the European Union's crude oil imports come from Nigeria[9]. At the same time, more broadly, West Africa is the EU's biggest trading partner in sub-Saharan Africa. Since late 2016, the EU has operated through the frameworks of Economic Partnership Agreements in the region[10].

8 Gulf of Guinea pirate kidnappings hit record in 2020, Reuters, 13 January 2021: https://www.reuters.com/article/uk-nigeria-security-pirates-idUSKBN29I1TD

9 Eurostat (2020), *Shedding light on energy in the EU: A Guided Tour of Energy Statistics*

10 European Commission (2021), Foreign Policy: West Africa: https://ec.europa.eu/trade/policy/countries-and-regions/regions/west-africa/

With an increased flow of trade in the region, the Gulf of Guinea has become a prime target for piracy off the coast of West Africa. The primary targets for pirates are oil tankers heading towards the EU, and container ships arriving from Europe. The aim in both cases isn't to plunder the ships, as much as it is to simply demand ransom money from captured crew.

According to the International Chamber of Commerce (ICC), in the first three months of 2021, just under half of all piracy incidents reported to the International Maritime Bureau (IMB) globally took place in the Gulf of Guinea[11]. The other observation made by the ICC, on the basis of reports to the IMB, was that pirates in off the West African Gulf were much better equipped to launch attacks further out to sea than their counterparts in the Horn of Africa.

On the 11th of March 2021, a Maltese flagged petrochemicals tanker was attacked 212 nautical miles away from Benin. 15 crew members of the *Davide B* were taken hostage on the ship which was bound for Spain. The crew was released a month later[12] – but the incident demonstrated that pirates in the region were willing to travel much further from the coastline in order to attack their targets.

In January 2021, the European Union launched a new pilot joint naval operation in the region under the 'Coordinated Maritime Presences Gulf of Guinea'. As part of the European Councils conclusion on the 25th of January 2021, the decision was taken to designate the Gulf of Guinea as a Maritime Area of Interest[13].

The proposed mission will follow similar terms of reference to the ongoing Operation Atlanta on the other side of the continent. With the addition of a training and cooperation programme to support the work of coast guard and coastal defence organisations. The operation aims to expand the ability for African nations that share a coastline along the Gulf of Guinea to defend themselves, and their trade interests in the region.

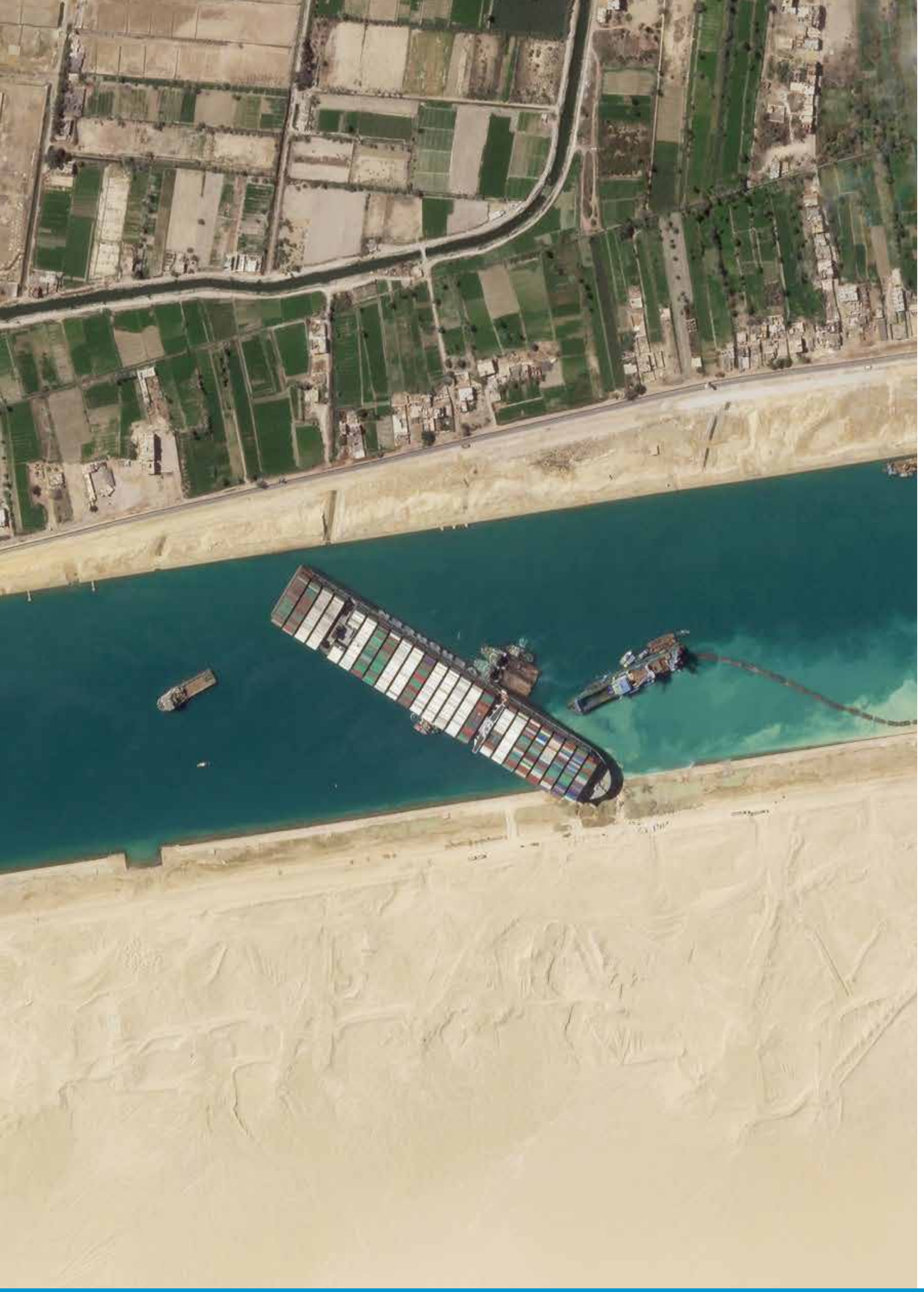
The need for international cooperation in tackling piracy is only half the battle when it comes to defending global trade routes. Many of the new incidents of piracy that are taking place in the Gulf of Guinea are the direct response to regional instability in West Africa.

In order to truly address the issue of piracy in the Gulf of Guinea, the EU and other Western partners must look at ways of facilitating strong and consistent growth across the region. A key aspect of the EU's Africa Strategy.

11 Gulf of Guinea remains world's piracy hotspot in 2021, according to IMB's latest figures, International Chamber of Commerce (ICC), 14th April 2021: https://iccwbo.org/media-wall/news-speeches/gulf-of-guinea-remains-worlds-piracy-hotspot-in-2021-according-to-imbs-latest-figures/#:~:text=IMB's%20latest%20figures-,Gulf%20of%20Guinea%20remains%20world's%20piracy%20hotspot%20in,according%20to%20IMB's%20latest%20figures&text=The%20Gulf%20of%20Guinea%20accounted,International%20Maritime%20Bureau%20(IMB)

12 Kidnapped Crew of Davide B Released, Lloyds List, 15 April 2021: https://lloydslist.maritimeintelligence.informa.com/LL1136478/Kidnapped-crew-of-Davide-B-released

13 European Council, Gulf of Guinea: Council conclusions launching the pilot case for the Coordinated Maritime Presences concept, 25 January 2021: https://www.consilium.europa.eu/en/press/press-releases/2021/01/25/gulf-of-guinea-council-conclusions-launching-the-pilot-case-for-the-coordinated-maritime-presences-concept/



4

BLOCKADES – SUEZ AND THE BAB-EL-MANDEB STRAIT

In early 2021, the Suez Canal – linking the Red Sea to the Mediterranean – was blocked after the 400-metre-long *Ever Given* container ship became wedged between the two banks of the waterway. For six days the Panama registered container ship remained trapped, cutting off the worlds busiest shipping route. Heavy winds thwarted attempts to remove the stricken vessel sooner.

On the 29th of March 2021 the ship was finally moved. The Egyptian authorities swiftly impounded the vessel and demanded that the company pay out compensation for the disruption caused. Something that the insurance company refuted.

And yet, significant damage was done. The Chairman of the Suez Canal Authority, Osama Rabie, claimed that blockage was costing the Egyptians around $15 million per day[14]. Overall, Egyptian authorities lost as much as $90 million in transit fees alone – before accounting for the cost of mounting the operation to remove the ship.

This $90 million figure is almost trivial compared to the disruption to the global economy that was done by the blockage. An estimation done by the insurance company Lloyds List – the intelligence subsidiary of Lloyds of London – found that the obstruction was preventing as much as $9.9 billion worth of goods a day[15]. This included 13 million barrels of crude oil in 24 tankers.

A total of 300 vessels were trapped at both ends of the canal these included 41 bulk carriers and 24 crude oil tankers. The affected vessels represented roughly 16.9 million tonnes in deadweight[16]. Additionally, two Russian naval vessels that had been on exercise in the region were also left waiting.

Whilst the *Ever Given* incident could be classified as a black swan – a rare one off event – the reality is that it opens up a discussion about something altogether more worrying. If one cargo ship, blown off course by strong cross wind can cause so much disruption – what could a state do?

From history we already know that control of the canal is vital to global trade. In June 1967 the Suez Canal was closed by Egyptian authorities at the outbreak of the Six Day War with Israel. The waterway effectively became the demarcation line between Israel and Egypt after the war and did not change until Egyptian forces retook the Sinai Peninsula in the Yom Kippur war. The Canal remained shut for the full eight years of the occupation until it was re-opened in June 1975 as part of negotiated settlement.

Research carried out in 2009 by the National Bureau of Economic Research in America found that the closing of the Canal coincided with a period of decline in long distance global trade – whilst having minimal impact on local trade[17].

We can draw from both the '*Ever Given'* incident and the historical data provided by the 1967-1975 closure that economic disruption caused by a hostile power would be both costly and damaging to the global economy – in particular in Europe.

14 The Cost of the Suez Canal Blockage, BBC News, 29 March 2021: https://www.bbc.com/news/business-56559073 (Accessed 20th May 2021)

15 Experts Estimate Ship Stuck In Suez Is Blocking $9.6 Billion In Maritime Traffic Each Day–Here's Why Actual Losses Are Harder To Quantify, Forbes, 25 March 2021: https://www.forbes.com/sites/palashghosh/2021/03/25/experts-estimate-ship-stuck-in-suez-is-blocking-96-billion-in-maritime-traffic-each-dayheres-why-actual-losses-are-harder-to-quantify/?sh=1ed69ae7c944 (Accessed 20th May 2021)

16 Deadweight Tonnage is the measurement of how much weight a ship can carry.

17 J Feyrer, *Distance, Trade, and Income – The 1967 to 1975 Closing of the Suez Canal as a Natural Experiment*, National Bureau of Economic Research, Massachusetts, United States

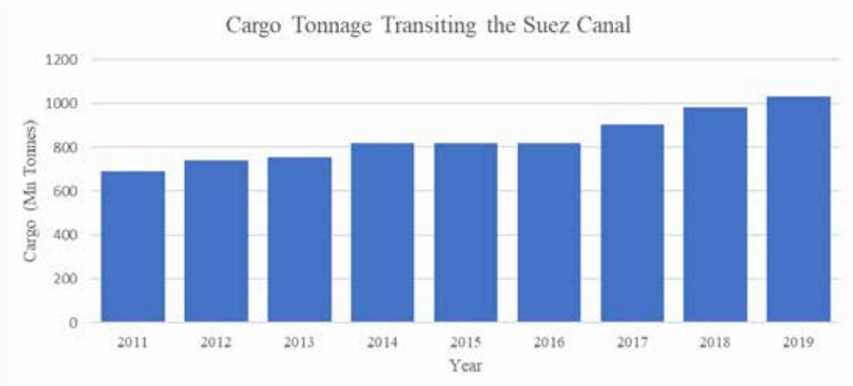
The biggest impact would of course be on the energy sector – according to data collected by the European Commission, 8.7% of the EU's crude oil imports come from Iraq, with a further 7.4% coming from Saudi Arabia. All of this fuel travels through the Suez Canal to reach Europe.

Further to that – the so-called Asia to Mediterranean and Asia to North Europe routes account for the second and third busiest trade routes in the world, accounting for the majority of goods transited through the Canal. Of that, more than half are imports coming from Asia to Europe.

The new free trade agreements in place between the European Union and South Korea, Japan, and Vietnam are likely to see this route become busier – with more goods transiting the canal from East to West. These agreements have already coincided with an increase in cargo tonnage between 2017-19 travelling along the route.

Yearly Navigation Statistics: Suez Canal[18]

YEAR	NUMBER OF VESSELS	NET TONNAGE	CARGO TONNAGE
2011	17,800	929mn	691mn
2012	17,224	928mn	739mn
2013	16,596	915mn	754mn
2014	17,148	962mn	822mn
2015	17,483	998mn	822mn
2016	16,833	974mn	819mn
2017	17,550	1,041mn	906mn
2018	18,174	1,139mn	983mn
2019	18,880	1,207mn	1,031mn



It is undeniable that the Suez Canal is a vital route for European trade, and key artery in the global network. For that reason, it is in the European Union, and the Wests, joint interests to keep the route navigable. This is true of both accidental disruption, such as that of the *Ever Given*, and of more deliberate attempts to block access.

The question then is of course – which hostile powers are in the position to cause such disruption in the Suez region?

Indeed, that is a fair question to ask. Afterall, Egypt is today much more stable and western oriented than it was in the under Gamal Abdel Nasser or Anwar Sadat. As such the risk of Egypt shutting access to the canal is by all accounts minimal. The normalisation of relations between Egypt and other neighbouring countries only further strengthens this view. In effect, the Northern entrance to the canal is secure.

The reality, however, is that the threat to safe passage through the Suez Canal comes from the other end. Whilst the Northern entrance from the Mediterranean is secure, the Southern entrance from the Indian Ocean into the Red Sea is not. The neighbourhood around the southern access to the Canal is a turbulent place – with piracy previously rampant around the Horn of Africa, Civil War playing out in Yemen, and conflicts in Eritrea and Ethiopia further along the coast.

The most immediate threat to access comes from two countries that do not border the Red Sea or have direct access to the Canal. China and Iran have both been working over the last two decades to secure their position in the region. The former by establishing a large naval facility in Djibouti, and the latter in working to establish a proxy government in Yemen.

China

Looking at the influence of China first – in March 2016 the Peoples Liberation Army Navy started construction on **The Chinese People's Liberation Army Support Base in Djibouti**, which came into operation in 2017. This new naval facility sits in the southern region of the country and marks the first time that China has opened a military facility overseas. It sits strategically close to the **Bab-el-Mandeb Strait**, which is the narrow strip of water that allows access to the Red Sea.

The Chinese base was opened under the auspicious of running Peacekeeping Missions, counter terrorism work, and anti-piracy operations. However, reports from Western Intelligence Agencies have pointed to the rapid expansion of the base as a sign that it has more to do with establishing a permanent military presence in the region.

It was reported in 2019 that an additional pier had been built at the base, capable of docking the Chinese Navy's two new aircraft carrier[19]. As well as the new pier, satellite imagery showed that a new airstrip with traffic control tower had been built at the base.

China's interest in being strategically based near the Canal can be best explained by looking at the flow of trade that travels through Suez. It is a vital artery for Chinese goods reaching Europe – keeping it secure is of course a priority. However, having a commanding control of the entrance to the Red Sea offers another benefit. As the infrastructure required for the Belt and Road initiative develops, the incentive to move trade from the water to rail increase. Making it difficult for other countries flagged ships to pass through Suez would allow China to monopolise trade via the Belt and Road system.

Iran

Of course, for China to be able to take control of the Canal in such a way, it would need to have allies in the region to back it up. In early 2021 China signed a Trade and Security Agreement with the Islamic Republic of Iran. The agreement added Iran to the Belt and Road Initiative – making them a key transit country for the proposed Central Asia/West Asia Corridor.

Once again, this highlights the shift in Chinese policy towards building a broader trade network away from the seas. However, the deal with Iran also offers a strategic ally on the other side of the Canal form the base in Djibouti.

For several years now, Iran has been involved in the ongoing Yemeni Civil War – in particular backing the Houthi revels that are seeking to overthrow the UN Recognised Hadi-led Government. The main target for the Houthi rebels from the start has been the Port City of Aden – which holds a particular importance strategically for its natural deep-water harbour that would allow them to receive aid and support from overseas.

In May 2021 the United States Navy in the region captured a small sailing ship carrying thousands of weapons that were destined for Yemen[20]. It

18 Suez Canal Authority (2021), *Navigation Statistics*: https://www.suezcanal.gov.eg/English/Navigation/Pages/NavigationStatistics.aspx

19 Satellite Images Show That Chinese Navy Is Expanding Overseas Base, Forbes Online, 10th May 2020: https://www.forbes.com/sites/hisutton/2020/05/10/satellite-images-show-chinese-navy-is-expanding-overseas-base/?sh=3402b7f36869

20 US Navy seizes weapons in Arabian Sea likely bound for Yemen, AP News, 9 May 2021 https://apnews.com/article/yemen-middle-east-e4bde7250333a85445fe9a9f0f1c64a8

was believed that the weapons had originated in Iran. As early as 2018, Iran was accused of sending military provisions disguised as aid to the Houthi rebels[21].

Iran's long term aim in Yemen is to establish itself on the Red Sea, giving them the ability to control both the Straits of Hormuz – the access route to the Gulf – and giving them a stake in the Bab-el-Mandeb Strait. Like China, the straits are important for access to trade vessels entering Suez – in particular oil tankers. Having control of the strait would offer Iran another channel to block Saudi and Iraqi oil exports to the West.

With both Iran and China trying to position themselves on opposite sides the entrance to the Red Sea, there is a significant danger of disruption. It is possible to envisage a scenario in which amidst heightened tensions, either Iran or China (or both) chooses to close off access to the Canal.

The ability for Western Allies to respond to such an act are limited as we have already seen from past experiences in the Straits of Hormuz. Whilst the British Royal Navy, US Navy, and French Navy all maintain bases in the region – the political will to engage in such a standoff is minimal.

At a time when Western powers are drawing down their presence in the Middle East – it is clear that there is still an important role for them to play in securing vital routes such as Suez. The transatlantic allies should consider expanding their naval presence in the area beyond the counter piracy operations already run-in conjunction with NATO and the EU.

One possibility could be the extension of the EU's Operation Atlanta to cover the Red Sea as well as the Horn of Africa – expanding the scope of the mission beyond piracy to include monitoring. A strong European naval presence in the region, alongside the United States, would act as a deterrence to both Iran and Russia.

21 Report: Bombs disguised as rocks in Yemen show Iranian aid, AP News, 26 March 2018 https://apnews.com/article/united-nations-yemen-ap-top-news-houthis-international-news-042e443ff9094c87a8a8778f9931a596

5

ROGUE STATES – THE STRAITS OF HORMUZ

In July 2019, a Swedish owned, British flagged oil tanker was navigating through the notoriously difficult Straits of Hormuz. A narrow maritime passage that links the Gulf to the Indian Ocean. It's harsh reputation comes from the fact that it's busy, tight, and covered with islands and sandbars. The tanker, *Stena Impero*, was on its way through the strait heading north, when suddenly it was surrounded by four other vessels and a helicopter and boarded.

The tanker was led into Iranian waters by elements of the Iranian Islamic Revolutionary Guard Corp who had captured the ship. The initial claim was that the *Stena Impero* had accidentally rammed several fishing vessels and refused to stop when called on – this was quickly rejected by both the crew and the shipping company.

Indeed, the Iranian Regime themselves rejected the claim days later during a meeting with Iraqi Prime Minister Adil Abdul-Mahdi, who had been sent to Iran to negotiate the release of the ship on behalf of the British[22]. They instead claimed that the ship had been taken in a tit-for-tat response to the British seizure of Iranian Tanker *Grace 1* in Gibraltar as part of EU sanctions.

The Iranians claimed they would be willing to release the ship and its crew in exchange for the return of the *Grace 1*. In August the British complied, coming to an arrangement in which they'd let the *Grace 1* leave Gibraltar, so long as the oil wasn't sold to an EU sanctioned nation, in return for the release of the *Stena Impero*[23]. Despite this, the ship was renamed and sold the oil to Syria – defying sanctions.

At the same time, the Iranian regime captured another British flagged tanker, but quickly released it, and an Iraqi flagged tanker. By September the *Stena Impero* was finally released, along with its crew, however tensions in the Middle East continued rise until the US airstrike which killed Al Quds Leader Qasem Soleimani.

The attempts by the Iranian Regime to blockade the Straits of Hormuz have become a recurring trend in the Middle East over the last two decades, with the regime using increasingly sophisticated methods. In the case of the *Stena Impero*, it has been suggested the Islamic Revolutionary Guard deployed a technique known as 'spoofing' to lure the ship into Iranian waters[24].

In short 'spoofing' is the act of tricking satellite navigations systems into thinking that they are in a different position so that they look as though they are off course[25]. As previously stated, the Straits of Hormuz are notoriously difficult to navigate due to the maze of islands and sandbars that push the territorial water lines closer together. It is therefore easy for Iran to lure ships into their waters unwittingly and claim that they have violated the international demarcation lines.

On top of this Iran has increasingly tried to use more conventional blockades as a means of applying pressure to both Arab Gulf States, and to the Western World that depends on oil flowing from the region.

According to Eurostat – as much as 20% of the European Union's crude oil comes from Gulf states,

22 Iran hints at ship swap with UK amid de-escalation efforts, The Guardian, 24 July 2019: https://www.theguardian.com/world/2019/jul/24/iran-hints-at-ship-swap-with-uk-amid-de-escalation-efforts

23 Difficult to see' if Iran breached Syria oil sale agreement, Gibraltar chief minister says, Telegraph, 19 September 2019: https://www.telegraph.co.uk/news/2019/09/13/difficult-see-iran-breached-syria-oil-sale-agreement-gibraltar/

24 Seized UK tanker likely 'spoofed' by Iran, Lloyds List, 16th August 2019: https://lloydslist.maritimeintelligence.informa.com/LL1128820/Seized-UK-tanker-likely-spoofed-by-Iran

25 Why vessels passing near Iran may have trouble staying on course, The Economist, 22nd May 2020: https://www.economist.com/middle-east-and-africa/2021/05/22/why-vessels-passing-near-iran-may-have-trouble-staying-on-course

with around 5% of its liquified natural gas (LNG) demand flowing through the Straits of Hormuz to Europe[26].

With heightened tensions with Russia – the main provider of European Energy – the need to keep oil and gas flowing through the Straits of Hormuz is undeniable. For the EU, the main challenge is how to do this given internal divisions on the best approach to dealing with Iran.

In January 2020, during a time when both Iran and the West were facing down against each other in the region, eight EU Member States put forward a proposal to establish a joint naval mission in the Gulf, following a similar structure to Operation Atlanta.

On the 20th of January 2020 the French Foreign Ministry set out proposals for a European Maritime Surveillance Mission in the Strait of Hormuz (EMASOH)[27]. The call for a new operation was answered with support from Germany, Belgium, Denmark, Greece, Italy, the Netherlands, and Portugal[28]. The operation will build on the existing French presence in the region.

The proposal mirrors the work of the International Maritime Security Construct (IMSC) – a US led alliance working in the region to patrol and monitor the Gulf, Straits of Hormuz, and Gulf of Aden.

As it stands the coalition is made up of the United States, United Kingdom, Kingdom of Saudi Arabia[29], United Arab Emirates[30], Bahrain, Albania, and Lithuania and Estonia form the EU.

The challenge, however, is not just in maintaining such observer missions in the Gulf – but in how best to tackle the more general threat from rogue states such as Iran. Blockades from rogue states are simply a tool – a means to an end. In the case of the Islamic Republic, blockading the Straits of Hormuz is another way of applying pressure to the west in order to relive sanctions.

This tactic has so far worked for the Iranian regime – in part due to the relative reluctance of European states to directly confront them over other issues. The EUs general approach during the 2019 escalation in the Gulf was one of passive disapproval. Whilst the Trump Administration imposed new sanctions, having already withdrawn from the Joint Comprehensive Plan of Action (JCPOA), the European Union called for a return to the international agreement.

The hesitancy of the European Union to follow the United States lead on sanctioning and containing Iran, has in effect offered a blank cheque for the regime to continue asserting its own control of the Straits of Hormuz. A single, unified approach to dealing with Iran is required, not just to ensure that maritime trade is undisrupted by the regime, but also as a mean of containing the regimes efforts to destabilise the wider region.

26 Eurostat (2020), *Shedding light on energy in the EU: A Guided Tour of Energy Statistics*

27 Ministre de l'Europe et des Affaires étrangères (2020), *Mission européenne de surveillance maritime dans le détroit d'ormuz (EMASOH) : déclaration politique de l'Allemagne, de la Belgique, du Danemark, de la France, de la Grèce, de l'Italie, des Pays-Bas, et du Portugal*: https://www.diplomatie.gouv.fr/fr/politique-etrangere-de-la-france/europe/evenements-et-actualites-lies-a-la-politique-europeenne-de-la-france/actualites-europeennes/article/mission-europeenne-de-surveillance-maritime-dans-le-detroit-d-ormuz-declaration

28 Eight member states back European-led naval mission in Strait of Hormuz, Euractiv, 20 January 2020: https://www.euractiv.com/section/global-europe/news/eight-member-states-back-european-led-naval-mission-in-strait-of-hormuz/

29 Saudi Arabia joins international maritime security alliance, Al Arabiya, 18 September 2019: https://english.alarabiya.net/News/gulf/2019/09/18/Saudi-Arabia-joins-International-Maritime-Security-Construct

30 UAE Agrees To Join U.S.-Led Maritime Coalition To Protect Gulf Shipping, NPR Online, 19 September 2019: https://www.npr.org/2019/09/19/762225417/uae-agrees-to-join-u-s-led-maritime-coalition-to-protect-gulf-shipping?t=1622539646638

6

CLIMATE CHANGE - NORTH-EAST PASSAGE

One of the most daring missions carried out during the Second World War was the so-called 'Arctic Convoy'. Run from August 1941 until the end of the conflict in May 1945, the Arctic Convoys saw Canadian, American, British, and Soviet ships travelling along the Arctic Circle in a bid to avoid Nazi German U-Boats, as the Baltic Sea was impassable.

Over the course of the mission, around 1,400 ships delivered vital military equipment and supplies to the Soviet Union as part of America's 'Lend Lease' programme. These ships were escorted by warships from the Royal Navy, Royal Canadian Navy, and the US Navy in order to protect them from Nazi attack. 78 convoys ran during the course of the war.

Even though the route travelled by the 'Arctic Convoy' mariners was only the 'home stretch' of the Northeast Passage, the success of the operation opened up discussions in the post war era about the possibility of running commercial shipping lines through the Arctic Circle. However, the Cold War intervened before any arrangements could be settled. Following mounting tensions with the West, the Soviet Union effectively sealed off the so called 'North-East Passage' which runs from the North Sea to the Bearing Straits.

Throughout the Cold War period, the Soviet Union continued to operate the shipping route for its own purposes. Western attempts to navigate the route were routinely shot down – with even research vessels facing sanctions.

For the Soviets the main route in use during this period operated during the summer months and ran between cities of Murmansk, near the Finnish border in Kola, and Dubinka in Siberia. This route was largely used for the transport of energy products from Siberian oil fields. Nonetheless, the route became an important means of connecting the vast Soviet Empire in Siberia. To this day the route continues to be operated by the Russian Federation who have inherited the coastline once under Communism.

However, for the most part, the route has been difficult to navigate due to year-round ice and unforgiving winters that freeze over much of the passage.

As ocean temperatures have increased gradually over time, seasonal polar ice is receding at a much greater rate, opening up the North-eastern Passage for more of the year. As a result, the prospect of ships traversing the route for trade is increasingly enticing for companies that seek to cut travel times.

The key incentive for shipping companies to optimise the use of the North-eastern Passage is that it cuts the length of many key journeys in half. This is especially true of trade from Japan, South Korea, and China.

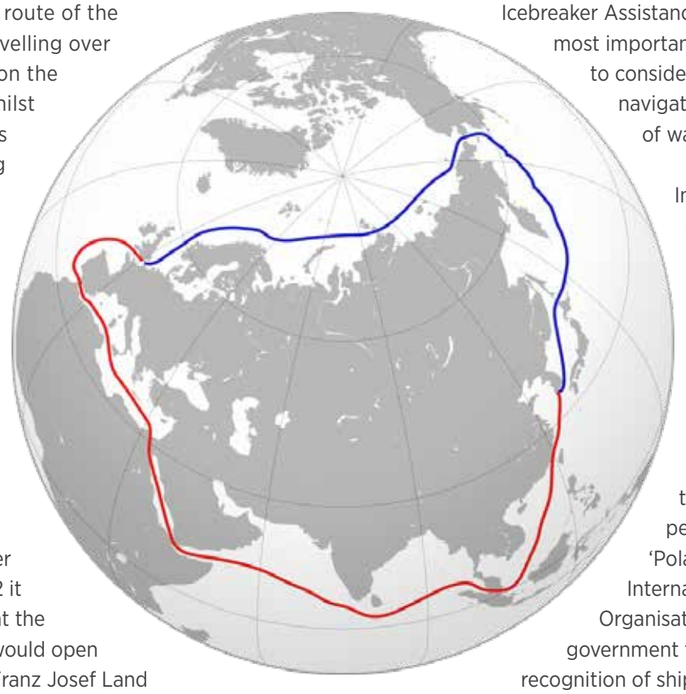
Sailing Distances between Asia and Europe. To Rotterdam, via (in nautical miles) [31]

FROM	CAPE OF GOOD HOPE	SUEZ CANAL	NORTH-EASTERN PASSAGE	DIFFERENCE BETWEEN SUEZ AND NORTH-EASTERN PASSAGE (%)
Yokohama, Japan	14,448	11,133	7010	37
Busan, South Korea	14,084	10,744	7667	29
Shanghai, China	13,796	10,557	8046	24
Hong Kong	13,014	9701	8594	11
Ho Chi Minh City, Vietnam	12,258	8887	9428	-6

31 A Buixadé Farré, S Stephenson, et al (2014), Commercial Arctic Shipping through the Northeast Passage: routes, resources, governance, technology and infrastructure, *Journal of Polar Geography*, *Vol 37(4)* https://www.tandfonline.com/doi/full/10.1080/1088937X.2014.965769?scroll=top&needAccess=true

It's fair to say that the opening of the North-eastern Passage to commercial shipping would represent the most important development in trade since the opening of the Suez Canal.

The main concerns regarding the route are of course geopolitical. The North-eastern passage of course runs through Russian territorial waters, along the coast of Northern Siberia. Both the entrance and the exit of the Passage also fall within Russian waters – on the Western side, it follows the route of the Arctic Convoys travelling over Murmansk Oblast on the Kola Peninsula. Whilst the exit takes ships through the Bering Straits.



In effect, the Russian Federation controls the majority of the length of the passage. Over the course of the last decade, Russia has increasingly staked its claim over the region – in 2012 it was announced that the Russian Air Force would open a new base in the Franz Josef Land Archipelago.

Russia's militarisation of the Arctic along the route of the North-eastern Passage has coincided with the increased centralisation of support services. In March 2013, the Russian government established the 'Northern Sea Route Administration' based in Moscow, unlike its Soviet predecessor which was based in Arkhangelsk.

The department, which sits under the Russian Ministry of Transport, has sweeping control over the region. It's responsible for Weather Forecasting, Icebreaker Assistance, Ice Piloting, and most importantly – the power to consider applications for navigation of the stretch of water.

In effect, the NSR Administration has the ability to reject any application it sees fit. This is of particular importance to European vessels, as in 2017 during the implementation period of the 'Polar Code' by the International Maritime Organisation, the Russian government tried to push for recognition of ships by port state, rather than flagged state.

This would allow the Russian Government to see on applications for navigation which state the vessel is based in, as opposed to registered – an important detail in shipping as most vessels aren't flagged to the same state they operate out of for tax and regulatory reasons. With this information, the Russian Government could in effect disrupt or delay ships from European Union member states as part of retaliatory sanctions in the event of a diplomatic mounting diplomatic tensions.

This marked the first time since the end of the Cold War that Russia has expanded the number of troops stationed in the Arctic Circle – and more importantly along the line of the potential shipping route. The Nagurskoye airbase, built on an old Soviet base, can house 150 soldiers. In August 2020 satellite images found that the airstrip attached to the base had been expanded in order to facilitate heavy bombers and fighters – marking a further militarisation of the Arctic region[32 33 34].

32 Russian military presence expanding in the Arctic region, satellite images show, Euronews, 7 April 2021: https://www.euronews.com/2021/04/07/russian-military-presence-expanding-in-the-arctic-region-satellite-images-show

33Russia flexes muscles in challenge for Arctic control, BBC News, 20 May 2021 https://www.bbc.com/news/world-europe-57156839

34 Russia's northernmost base projects its power across Arctic, AP News, 18 May 2021: https://apnews.com/article/arctic-europe-russia-business-technology-b67c5b28d917f03f9340d4a7b4642790

In 2018 the Russian government introduced a first round of new measures to limit foreign use of the route. In the first instance, they imposed restrictions on where foreign flagged ships could stop and unload along the route – including stating that only Russian registered ships could make stops between two domestic ports. Secondly, they put limits in place on the access of icebreaker escorts, exploration, and salvage vessels in order to protect the domestic market. Finally they banned outright the transport of oil, LNG, and coal from Russia's Exclusive Economic Zone unless the vessel was registered and flagged as Russian.

In many cases, Western companies have already chosen to avoid the use of the route for fear of arbitrary sanctions by the Russian government. Since the 2014 illegal Russian occupation of Crimea, most Western companies have chosen to continue using the longer Suez route – whilst at the same time exploring ways of navigating it without Russia.

One proposal has been for other Arctic nations to establish a separate icebreaker ship escort service in the region, to end the monopoly in place by the NSR Administration. The European Union in their Arctic Strategy, published in 2016 (due to be updated in 2021/22), focused more on environmental issues than it did on the opportunities presented by having access to the Arctic route. The same was true of the resolution passed by the European Parliament in March 2017 as a response to the strategy.

The Parliaments also represented the only reference to the challenge faced by Russia in access to the passage. The response from the European Parliament was to call on the European Union to become a permanent observer to the Arctic Council. Something that has not yet been taken forwards.

Where the EU did express an opinion on greater cooperation, was on the issue of safety in the region. The Arctic Strategy recommended that the European Coast Guard Functions Forum – a multilateral forum for the sharing of best practice and procedural cooperation – work with the Arctic Coast Guard Forum on common issues, including support for *'fostering safe, secure and environmentally responsible maritime activity in the region'*[35]. This is in line with the agenda outlined in the Polar Codes set by the IMO – especially when it comes to reporting on polluting by ships traversing the area.

Working to prevent Russia from dominating the trade route, by working other Arctic Council members such as Canada, Norway and the United States, would be in the best interest of the European Union as it opens up a new avenue for trade with the Far East.

This is particularly important as more and more European free trade agreements are done with nations in the Indo-Pacific Region. In the last few years the EU has finalised deals with Japan, South Korea, and Vietnam – the former two of which would benefit from the shorter shipping routes provided by the North-Eastern Passage.

35 European Commission (2016), *Joint Communication to the European Parliament and the Council: An integrated European Union policy for the Arctic*

7

RECOMMENDATIONS

- **Expansion of Regional Cooperation:** The European Union should consider expanding its regional cooperation in organisations related to trade, or that border the major trade artery's that feed the continent with goods from abroad. In particular the EU should look at applying for observer status on the **Arctic Council, Intergovernmental Authority on Development** (in the Horn of Africa)**, Council of Arab Economic Unity** (in the Middle East and Sahel), and the **Gulf Cooperation Community** (in the Persian Gulf). Establishing a stronger presences and dialogues in periphery regions such as the Arctic is important.

- **Revise Regional Strategies:** Revisions made to the EU's key strategy documents such as the **Arctic Strategy,** and economic agreements such as the **Western Africa Economic Partnership Agreement**, should put a higher emphasis on security. In particular more should be done to support the physical security – such as providing CSDP Missions to ensure that vital trade routes are patrolled, or in order to monitor against piracy/ state actions.

- **Greater EU Involvement in Counter Piracy Operations**: The European Council should look to extend **Operation Atlanta** in the Horn of Africa beyond December 2022 (its current expiration date). The European Council should also consider extending **Coordinated Maritime Presences Gulf of Guinea** beyond the initial pilot period, upgrading it to a similar status as that of Operation Atlanta.

- **EU Led Joint Maritime Operations:** The European Union should better utilise its powers under the **Common Security and Defence Policy** to enable cooperative missions between Member States in areas of concern. Working better with Western Allies to secure against the threat from state actors, in particular in the Gulf and around the Red Sea. Similar operations in conjunction with the United States could be extended to **South China Sea**.

- **Further Support for European Sailors and Seafarers:** The European Union should consider introducing new support mechanisms to help bring sailors, in particular crews on container ships, back to their home countries in the event that they are left stranded at the end of a contract due to circumstances outside of the companies control (pandemic/civil unrest etc).

8

CONCLUSIONS

Global free trade remains the cornerstone of European economic growth. The intricate network of trade deals that have been negotiated by the European Union continue to be the main lifeblood of economic growth on the continent.

This will certainly continue to be the case going forwards – the European Union accounts for around 15% of the global trade in goods. The value of goods traded by the EU is vastly higher than the value of services to Europe's economies. And more than half of EU trade is now carried by sea. It is for that reason that the protection of trade routes, and supply chains, must remain a top priority for the European Union, its member states, and its trade partners.

The threats to trade have continued to grow – where in the past they were primarily political, with trade disputes resulting in the introduction of punitive tariffs or sanctions, today the threats are a more severe.

Rogue states, hostile powers, and non-state actors all pose threats to trade in equal measure without the need to introduce tariffs. The cost to governments and shipping companies can now be felt in the cost of late deliveries to supply chains, or fines imposed from missed contract deadlines. All because the key causeways in which cargo are travelled are vulnerable to the threat of attack.

The last few decades have seen a resurgence in the importance of maritime security. Now, more than any time in history, a single naval ship can cause billions of euros worth of damage to the economy. Either by imposing a blockade along a key route such as that through the Suez Canal at the Bab-el-Mandeb strait between Yemen and Eritrea, or by denying ships a shorter route round the Arctic Circle to the Far-East.

The European Union must be prepared to counter these growing threats. In order to ensure that trade can continue undisrupted, Europe must start looking at new ways of protecting these vital supply routes. From joint counter-piracy operations off the coast of Africa and in the Indian Ocean, to advanced naval cooperation with NATO allies in the Persian Gulf, Red Sea, and Pacific theatre.

Equally, the EU must engage constructively with regional partners to promote stability and cooperation, and ensure that international maritime law is not undermined, as has recently been the case in the Arctic Ocean.

Only by engaging constructively and openly with regional partners, can the EU ensure that its routes are secure, and the customers across Europe and beyond can benefit from trade. Afterall, it is trade that is the greatest equalizer of wealth and nations, it creates stability and fosters good will.

Nations that trade with one another have a greater incentive to maintain good relations and have a vested interest in securing their own trade routes. As such it creates a trickle-down stability effect. By engaging in further trade deals, the European Union can help to ensure the creation of new stable trading partners and expand into new markets with new goods.

The protection of Europe's trade routes ultimately become about much more than just protecting their own growth, but also about ensuring that others benefit as well. As with all things, the European Union has an important role to play, but it must be prepared to do so in support of the rest of the democratic world.