

Current Dynamics and Possible Implications of the US–Israel Strikes and Regional Conflagration on Iran for Global Energy Security and the Energy Transition

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1. This is a chokepoint disruption that can evolve into a supply shock

Unlike the Russia–Ukraine crisis in 2022, the current crisis initially disrupts the transport of energy rather than production itself. Roughly 20% of global oil trade and around 20% of LNG shipments transit the Strait of Hormuz, concentrating multiple exporters behind a single maritime corridor. If the disruption persists, however, the logistics shock can quickly translate into a global supply shock.

2. Duration determines whether this becomes a market shock or a systemic crisis

A short disruption initially produces financial and insurance risk premia, pushing oil sharply higher and tightening LNG markets while most physical supply continues to reach markets. As disruption persists, markets begin to price in physical availability constraints, with oil moving above \$100/bbl, LNG markets becoming extremely tight, and macroeconomic spillovers comparable to the early phase of the 2022 energy crisis.

3. Oil and LNG price shocks will be global, but physical shortages may be regional

Oil trades in a highly integrated global market, meaning disruption in the Strait of Hormuz would quickly translate into higher prices worldwide. LNG prices would also rise globally as Asian and European importers compete for cargoes, but the most import-dependent countries, particularly lower-income LNG buyers, face the greatest risk of physical shortages or being priced out of the market.

4. The crisis reinforces the structural vulnerability of the fossil fuel system

Global hydrocarbon reserves are abundant, but production and transport remain concentrated in geopolitically contested regions and maritime chokepoints. Expanding fossil fuel supply alone does not eliminate this vulnerability, because additional production must still move through the same fragile logistics networks and political fault lines. As a result, disruptions in a few strategic corridors can rapidly translate into global price shocks, geopolitical leverage and macroeconomic instability.

5. Energy security and the energy transition are becoming increasingly intertwined

In the short term, energy price shocks can create political pressure to expand fossil production or subsidise energy consumption. Over the medium term, however, repeated geopolitical disruptions tend to strengthen the strategic case for efficiency, electrification, and domestic clean energy systems, thereby reducing exposure to volatile global fuel markets. In this sense, energy transition policies increasingly function as economic resilience and national security strategies.

6. Policy response should stabilise markets now while reducing structural vulnerability

Governments should prioritise stabilising markets through strategic stock signalling, liquidity support for utilities and demand management. At the same time, any crisis response should accelerate the reduction of structural vulnerabilities through efficiency, electrification, rapid grid connection of renewables, and system flexibility, thereby reducing long-term exposure to fossil fuel trade disruptions.

1. Introduction: Strait of Hormuz as a systemic chokepoint

The Strait of Hormuz (SoH) represents one of the most critical structural vulnerabilities in the global energy system. Roughly 20% of global oil trade (around 20 mb/d) and about 20% of LNG shipments pass through this narrow maritime corridor.

Unlike the Russia-Ukraine energy shock in 2022, the current crisis is not primarily a supplier disruption but a logistics chokepoint shock. While the Ukraine war removed Russia as an oil and gas supplier to Western markets, global oil flows were largely rerouted, and

Russian pipeline gas was partially replaced by LNG, partly through demand reduction. A disruption in the Strait of Hormuz concentrates multiple major exporters behind a single maritime passage with limited bypass capacity. Iran has now created the conditions for a de facto total closure of the SoH, with surging tanker rates and insurance grounding ships. At the same time, direct strikes on energy infrastructure, including Israeli attacks on Iranian oil depots and refinery facilities around Tehran and drone attacks on Gulf refineries, are forcing precautionary shutdowns and reducing refining capacity across the region. As a result, even if shipping through the strait resumes, production and trade flows are likely to take time to recover.

Though most analysts see a prolonged closure as unlikely given the air and naval power of the US and partners (with the US navy potentially offering escorts¹), even a short or partial closure and heightened risk will cause chaos. The mechanism of disruption may be financial rather than physical. Iran does not need to maintain a permanent blockade to halt flows. Limited actions (incl. drone attacks, tanker seizures, or missile threats) can rapidly increase war-risk insurance premiums and tanker rates, causing shipping companies to suspend transit. In such conditions, trade can halt even without a formal blockade, creating what can be described as a “paper chokepoint”.

Markets have already reacted accordingly. Traders initially priced the risk to maritime flows rather than a confirmed loss of production, though the recent move above \$100/bbl suggests markets may increasingly be factoring in potential supply constraints if disruption persists:

- ▶ Brent crude rose sharply following the escalation, jumping from around \$72/bbl before the strikes to a peak of \$119 (a rise of about 65%), before easing back down to \$90 as markets assessed the risk of disruption to shipping through the Strait of Hormuz.
- ▶ European gas hub (TTF) prices rose up to well above 80% compared to pre-crisis levels (late February 2026) as the disruption to Qatari LNG production and uncertainty around Gulf shipping tighten global LNG markets.

Brent is now around \$90/bbl and LNG about €50/MwH, indicating that markets may be beginning to price in not only geopolitical risk, but the possibility of physical supply constraints should disruption persist. The June 2025 conflict illustrated this dynamic, when tanker rates and insurance costs surged and oil reached \$80/bbl without any closure of the Strait. Current shipping delays and vessels waiting outside the passage suggest markets are anticipating precisely this scenario. The implications of the crisis, therefore, depend less on the immediate military escalation than on the duration of disruption to shipping through the Strait.

¹ Lloyd's List, 3 March 2026, [US signals U-turn on naval convoys to restart Hormuz transits](#)

2. Scenario framework: Duration determines impact

Scenario 1: Short disruption (days–weeks)

A short disruption primarily produces a financial risk premium rather than a structural supply crisis. Shipping costs and insurance premiums rise sharply as tankers hesitate to enter the conflict zone. Cargoes may be delayed or rerouted, but most physical supply continues to reach markets.

Several short-term buffers slow the emergence of an immediate supply crunch. Most major importing economies maintain strategic petroleum reserves covering roughly 90 days of net imports, designed precisely to cushion temporary disruptions. At the same time, energy trade operates with logistical lags: many LNG cargoes currently arriving at import terminals were loaded weeks before the escalation, meaning deliveries can continue for one to two weeks even if new shipments from the Gulf are disrupted.

In addition, a portion of Gulf exports can bypass the Strait through the existing pipelines. Saudi Arabia's East–West pipeline to the Red Sea (around 5 mb/d capacity) and the UAE's Habshan–Fujairah pipeline (around 1.5 mb/d) provide alternative export routes outside Hormuz. As these pipelines together can redirect only a fraction of the roughly 20 mb/d normally transiting the Strait, they provide limited relief during short disruptions. While Saudi and UAE pipelines provide limited bypass capacity around Hormuz, cargoes exported via the Red Sea must still transit the Bab el-Mandeb chokepoint, where Houthi forces have already demonstrated the ability to target commercial shipping. As a result, alternative routes reduce but do not eliminate geopolitical supply risk.

Market expectations are also shaped by signalling from producers. Announcements of modest OPEC+ production increases may calm markets by indicating spare capacity exists, even though most of that spare capacity is located in Gulf producers whose exports also depend on Hormuz. In practice, such announcements function largely as confidence signals rather than immediate additions of exportable supply.

These buffers explain why, during the early phase of disruption, markets tend to price transport risk and insurance premiums rather than immediate physical shortages.

Likely outcomes include:

- ▶ Oil prices rising toward \$100/bbl as markets price geopolitical and logistical risk.
- ▶ LNG markets tightening due to reduced flexibility.
- ▶ Increased volatility in commodity markets.
- ▶ Limited macroeconomic spillover.

Even if shipping through the Strait resumes quickly, supply chains may take weeks to normalise. LNG markets in particular operate with tight vessel scheduling and limited spare shipping capacity. Tanker backlogs, diverted cargoes and temporary production shutdowns mean that flows may take several weeks to return to pre-disruption levels, prolonging market tightness even after reopening.

Key implication

This scenario represents primarily a financial and logistics shock rather than a systemic supply crisis.

Scenario 2: Prolonged disruption (weeks–months)

If disruption persists, markets begin pricing an availability premium in addition to the risk premium.

Physical cargo shortages begin to appear as tankers avoid the Strait and refineries compete for alternative supply. Strategic petroleum reserves may be activated, while utilities and industries begin adjusting demand.

Likely outcomes include:

- ▶ Oil prices moving above \$100/bbl.
- ▶ LNG markets becoming extremely tight.
- ▶ Demand destruction in energy-intensive sectors.
- ▶ Power outage in particularly vulnerable LNG producers.
- ▶ Inflation shocks comparable to early 2022.
- ▶ Macro spillovers, including higher interest rates and fiscal stress.

Key implication

A prolonged disruption would transform the crisis into a systemic energy and macroeconomic shock.

3. Regional exposure

The price impact of a Hormuz disruption is global, but physical shortages are likely to be regionally concentrated.

Asia

Asia receives around 90% of the oil and LNG flows transiting Hormuz.

The most exposed economies include:

- ▶ Japan and South Korea, which rely heavily on Middle Eastern oil and LNG.
- ▶ China and India, which together receive roughly half of their oil flows through the Strait.
- ▶ China is somewhat cushioned by strategic petroleum reserves (but more exposed when it comes to gas), diversified supply sources and pipeline imports from Russia, but it would still face higher prices due to global market transmission.
- ▶ Lower-income LNG importers such as Pakistan and Bangladesh face the greatest risk of being priced out of LNG markets during supply shortages.

Europe

Europe's direct exposure is more limited given that the share of LNG imported into Europe via Hormuz is manageable: around 16–17 bcm or 5% of EU's total gas imports.² Indirect consequences could still be significant. The LNG markets are increasingly global and Europe will have to compete for cargoes with the Asian importers, leading to further price increase.

European gas storage levels are low: 29% on average on 4 March.³ France and Germany are close to 20%, Netherlands at 10%. Those low levels are well below seasonal averages and among the lowest levels since the 2022 crisis. With LNG prices likely to increase, the cost of refilling gas storage may be severe for Europe and the EU may struggle to reach the mandated 90% of storage refills ahead of the next winter.

The impact is already visible in power markets. Wholesale electricity prices across several European countries are now swinging sharply within the same day⁴ as solar generation pushes gas-fired power out of the system in the afternoon, only for expensive gas plants to return in the evening when solar output falls. Rising LNG prices linked to the Hormuz disruption are amplifying these intraday price spikes.

² European Union, 5 March 2026, [Where does the EU's gas come from?](#)

³ AGSI Storage Inventory, <https://agsi.gie.eu>, retrieved 4 March 2026

⁴ Financial Times, 6 March 2026, [Power prices in Europe swing wildly as Iran war stokes volatility](#)

North America

North America is largely insulated from physical shortages but not from global price shocks. Physical exposure to Hormuz disruption is limited. Oil moving through the Strait represents roughly 7% of US imports and about 2% of total US petroleum consumption,⁵ reflecting the growth of domestic production and Canadian supply.

However, the US is not insulated from global price transmission. Oil is priced on global markets, meaning that sustained disruptions pushing Brent higher would still translate into higher US gasoline and diesel prices. Rising global prices could also encourage US producers to increase exports, tightening domestic markets at the margin. While the US government retains the legal ability to restrict crude exports, such measures are politically controversial and have historically been used only as a last resort.

4. Producer impacts

Producer effects are likely to be asymmetric.

Short disruption

Higher prices generate windfall gains for non-Gulf producers, including United States shale producers, Brazil, Norway, West African exporters.

Shipping companies and insurers also benefit from higher freight rates and risk premiums.

Prolonged disruption

The fiscal risks of prolonged disruption are most acute for Gulf exporters whose production and export routes depend on the Strait of Hormuz. For these states, sustained shipping disruptions could reduce export revenues while security and stabilisation costs increase. Other producers outside the chokepoint are more likely to experience revenue windfalls from higher prices. However, prolonged volatility can still create fiscal pressures if governments expand spending during price spikes or face sharp price corrections once markets stabilise.

Prolonged regional instability may also begin to affect upstream investment and operations. Offshore activity is particularly sensitive to security risks, crew availability and supply chain disruptions. Industry analysis suggests that sustained conflict conditions could reduce offshore drilling activity significantly, potentially lowering global offshore well

⁵ US Energy Information Administration, 16 June 2025, [Amid regional conflict, the Strait of Hormuz remains critical oil chokepoint](#)

counts by up to 20% over a year (Rystad). Such disruptions would not only affect current exports but could also slow future supply growth.

Russia may gain geopolitical leverage as Asian importers seek alternative supply. Even if Russia cannot significantly increase production, China and India could increase purchases of Russian crude, strengthening Moscow's pricing power and strategic position in Asian energy markets.

However, a sustained price spike historically accelerates efficiency, electrification and fuel substitution in importing economies. The result is a familiar pattern: revenue gains for producers in the short term paired with erosion of long-term demand.

5. Implications for the energy transition

The crisis is likely to produce mixed short-term effects but structurally pro-transition dynamics over the medium term. In the short term, energy shocks create policy tension between affordability and transition objectives. Over the longer term, repeated geopolitical disruptions tend to reinforce the strategic case for reducing structural dependence on traded fossil fuels. The challenge lies in identifying targeted policy and operational responses that address immediate energy security pressures while enabling the longer-term transition to increased resilience. Concrete government measures are discussed in the section below.

Short-term policy dynamics

Energy price shocks often trigger conflicting political responses. Higher oil and gas prices may put pressure on governments to expand domestic fossil fuel production, extend fuel subsidies, or delay climate policies to cushion consumers and industry. If the shock feeds broader inflation, tighter monetary conditions could also raise the cost of capital and slow investment in capital-intensive clean infrastructure such as offshore wind and grids.

At the same time, governments may respond by accelerating measures that reduce fuel import exposure. Short-term responses can include rapid energy-efficiency programmes, demand-reduction measures, accelerated grid connection of already-built renewable capacity, expanded electrification incentives, and deployment of demand-side flexibility in power systems. In this context, clean energy investments are often framed not only as climate policy but also as tools for energy security and economic resilience.

Medium-term structural effects

Over time, geopolitical disruptions to fossil fuel supply chains tend to strengthen the strategic case for energy transition. The crisis highlights that the vulnerability of the fossil fuel system lies not only in supply but in the geography of production and transport, particularly maritime chokepoints such as Hormuz.

The impact on the pace of transition will likely diverge across regions.

In advanced importing economies, fossil fuel volatility may accelerate structural transition policies as governments seek to reduce strategic dependence on imported fuels.

In energy-importing emerging economies, however, higher oil and LNG import costs and tighter financial conditions may constrain investment capacity and slow clean energy deployment unless concessional finance and multilateral support increase.

Oil-exporting emerging economies face a different choice: windfall revenues could be used to accelerate economic diversification and invest in clean energy infrastructure, or they could reinforce short-term dependence on hydrocarbon revenues and delay structural reform.

6. Financial transmission

Energy shocks transmit into the wider economy through two distinct channels: direct price effects from oil and gas markets, and broader geopolitical volatility affecting financial conditions and capital flows. While the first channel is immediate, the second can produce deeper and more persistent macroeconomic consequences.

Oil and gas price transmission

The most direct channel operates through higher fossil fuel prices. A short disruption is unlikely to significantly alter investment decisions, but sustained increases in oil and gas prices can feed into headline inflation through higher fuel, transport and industrial input costs.

In advanced economies this may influence monetary policy if energy prices raise inflation expectations or delay the decline of headline inflation. In such cases central banks may postpone interest-rate cuts or keep policy rates higher for longer. Higher borrowing costs increase the cost of capital across the economy and can particularly affect capital-intensive infrastructure investments such as offshore wind, electricity grids and storage.

In emerging economies, the financial transmission can be faster and more severe because energy imports directly affect external balances. Higher oil and LNG import bills widen current-account deficits, weaken currencies and increase the local-currency cost of

servicing external debt. Governments may therefore face difficult choices between supporting utilities to avoid power shortages, protecting consumers from tariff increases and maintaining fiscal stability.

If disruption persists for more than one or two months, LNG-dependent economies could face:

- ▶ liquidity stress in utilities unable to secure fuel at affordable prices
- ▶ widening current-account deficits and falling foreign exchange reserves
- ▶ rising sovereign borrowing costs
- ▶ potential requests for multilateral financial support.

Financial effects of geopolitical volatility

Beyond commodity prices, prolonged geopolitical instability can itself tighten financial conditions. Heightened conflict risk typically increases global risk premia and can trigger capital outflows from emerging markets as investors shift toward perceived safe-haven assets.

For countries already exposed to energy import shocks, these financial dynamics can amplify the economic impact of the crisis. Currency depreciation, rising sovereign spreads and declining foreign exchange reserves can quickly constrain fiscal space and increase borrowing costs across the economy.

As a result, financial volatility driven by geopolitical risk may ultimately have more persistent macroeconomic consequences than the initial commodity price spike itself, particularly for emerging and developing economies.

7. What can governments do?

Immediate priority: Stabilise markets and prevent financial spillovers

Governments should act quickly to prevent shipping disruption and energy price volatility from cascading into a broader economic crisis. The objective is not to suppress price signals but to stabilise expectations and maintain market functioning.

Key immediate tools include:

- ▶ Coordinated signalling and potential release of strategic oil reserves to reassure markets.

- ▶ Temporary liquidity backstops for utilities and energy traders facing margin calls and collateral requirements.
- ▶ Demand-side activation measures such as emergency electricity demand-response, temporary fuel-switching in power generation, industrial demand-reduction agreements and public-sector energy-saving programmes. In transport, immediate measures include speed limits, remote work policies and incentives for public transport and shared mobility.
- ▶ Coordination among importing countries to avoid competitive bidding wars for LNG cargoes.

These measures can buy time while markets adjust and help prevent financial stress in energy companies and utilities from spreading into the wider economy.

Short-term vulnerability reduction (months)

Beyond immediate market stabilisation, governments can rapidly implement measures that reduce fuel demand and exposure to import disruptions.

Priority actions include:

- ▶ Accelerated energy efficiency measures, including public-sector demand reduction programmes and targeted efficiency incentives for industry and buildings.
- ▶ Fast-tracking grid connection of already-built renewable capacity waiting for permitting or interconnection.
- ▶ Rapid deployment of demand response and electricity system flexibility to reduce gas use in power generation.
- ▶ Accelerated deployment of heat pumps and electrified heating solutions where installation pipelines already exist.
- ▶ Temporary regulatory flexibility to accelerate battery storage and grid reinforcement projects.
- ▶ Rapid methane and flaring abatement in oil and gas production to bring additional gas supply to market in the medium term.

Many of these measures can deliver meaningful reductions in fossil fuel demand within months rather than years.

Structural resilience: Reducing exposure to fossil checkpoints

Ultimately, the crisis highlights that the core vulnerability of the global energy system lies not in a lack of oil and gas resources, but in the geography and geopolitics of how those resources are transported and traded. Large volumes of global supply remain concentrated behind a small number of maritime chokepoints and politically fragile regions.

This means that simply expanding fossil fuel production does not necessarily improve energy security. While increased output from major producers may ease short-term market pressures, the underlying vulnerabilities remain: the additional supply must still pass through the same shipping routes, pipelines and geopolitical fault lines that expose importing economies to disruption and price shocks.

In other words, greater fossil fuel supply does not eliminate systemic vulnerability if the underlying logistics and geopolitical risks remain unchanged.

Reducing structural dependence on traded fossil fuels therefore becomes a more durable strategy for energy security. Governments should accelerate measures that lower exposure to these chokepoints, including:

- ▶ large-scale electrification of transport, heating and industry
- ▶ expansion of domestic renewable generation and storage
- ▶ grid modernisation and system flexibility
- ▶ sustained energy efficiency improvements.

In this sense, energy transition policies increasingly function as economic resilience and national security strategies, reducing exposure to global fuel market volatility and geopolitical disruptions.

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