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Energy markets and geopolitics

BEYOND THE CHOKEPOINT: HOW THE MIDDLE EAST CONFLICT IS TRIGGERING A GLOBAL ENERGY RESET

As global energy markets face increased geopolitical uncertainty and volatility, the need for a secure, stable and resilient energy future has never been more important. ADIPEC has launched this **Energy markets and geopolitics** series to provide market insights into the impact of the ongoing conflict on global energy markets and the way forward for the industry.

The series provides decision-makers with informed analysis, helping the industry navigate disruption, assess risk, and identify pathways to resilience in an increasingly complex energy landscape.

Beyond the chokepoint: how the Middle East conflict is triggering a global energy reset

Executive summary

Four months after the Middle East conflict upended the world's most critical transit chokepoint — the Strait of Hormuz — the global energy system is undergoing a profound structural reset. While the US-Iran memorandum of understanding (MoU) has successfully defused immediate supply shock anxieties, the market's focus remains firmly on creating a new, post-war energy landscape that is resilient, secure and sustainable.

For global energy, this broader transformation represents a fundamental inflection point. The restoration of energy flows around the world now hinges on rewriting the risk calculus for shipping consortiums, underwriters, producers, and sovereign buyers alike, as well as on the creation of bold new energy infrastructure and supply chain routes across the Gulf and the Middle East.

Critically, the first four months of this disruption shattered historical assumptions about global energy market vulnerability. The swift deployment and scaling up of alternative supply routes, contingency measures and the market's unexpected resilience under maximum pressure has fundamentally altered how energy security is defined.

Consequently, the legacy of the Middle East conflict is not a temporary disruption, but the catalyst for a transformational market reset. The crisis has accelerated structural shifts that had been percolating for decades: such as the return of energy security as a strategic priority, greater emphasis on supply chain resilience, increased investment in diversified energy systems and a renewed recognition of geopolitical stability as central to economic security.

> "Perhaps the most profound consequence of the crisis has been the return of energy security to the centre of policymaking. Major economies have accelerated efforts to reduce exposure to supply disruption."

Hormuz: The critical chokepoint

At the centre of the crisis lies the Strait of Hormuz, through which around 20 mbpd, or nearly 20% of global oil consumption, normally transits, alongside roughly 20% of globally traded LNG, primarily from Qatar. With few alternative maritime routes at a comparable scale, Hormuz represents one of the most concentrated sources of systemic risk in the global economy. Asian markets remain particularly exposed, accounting for approximately 84% of crude oil and more than 80% of LNG flows through the Strait. This reinforces its importance not only for Gulf producers, but for global manufacturing, electricity generation, and industrial competitiveness.

Although Iran declared the Strait closed, some limited flows continued, but at levels insufficient to stabilise markets or prevent disruption. The situation therefore evolved into constrained operations, elevated security risks, and weakened commercial confidence rather than a fully enforced physical blockade. Alternative export routes partially mitigated the scale of the shock. Saudi Arabia's East–West pipeline, connecting the Eastern Province to Yanbu on the Red Sea, possesses a capacity of 5-7 million barrels per day (mbpd), while the UAE's Habshan–Fujairah pipeline added a further capacity of approximately 1.5–1.8 mbpd. Together, these routes enabled the redirection of roughly 8–9 mbpd of crude exports away from Hormuz, cushioning the physical supply impact even as market disruption continued.

Risk pricing replaces physical shortages

Initial market reactions reflected Hormuz's strategic importance. Oil prices rose sharply, LNG markets tightened, freight rates increased, and insurance premiums surged. Yet the anticipated system breakdown did not occur.

Instead, the crisis demonstrated how global energy markets have evolved since earlier shocks. Strategic oil reserves,

84%

Share of Asia's crude oil imports transiting the Strait of Hormuz

> "With few alternative maritime routes at a comparable scale, Hormuz represents one of the most concentrated sources of systemic risk in the global economy."

diversified production, flexible LNG trade, demand adjustments, and increased supplies from the United States, Brazil, Guyana and Norway helped prevent widespread physical shortages. The result was not a scarcity-driven crisis, but one defined by elevated risk premiums. Markets continued to function, albeit at higher prices, with greater volatility and higher operating costs.

This distinction is important. Previous oil shocks were driven by physical supply losses, whereas the Hormuz disruption increasingly reflected the pricing of geopolitical risk. Markets responded not only to lost barrels, but to the probability of future disruption.

Why oil never reached US$200

One defining feature of the crisis is that oil prices remained far below extreme forecasts. At the height of the crisis, some analysts warned that a prolonged closure could push prices above US$150–200 per barrel, given that around 20% of global supply normally transits the Strait. Those scenarios did not materialise.

Five structural factors explain why:

- More diversified global supply, supported by US shale and increased output from Brazil, Guyana, Norway and other producers
- The availability of strategic reserves
- More flexible LNG and crude markets enabling rapid rerouting
- Continued demand management and stabilisation in key consuming markets, particularly China; where strong import relationships with key suppliers, including Iran, alongside proactive measures to redirect domestic supply and manage exports, helped absorb volatility and reinforce market confidence
- Markets pricing probability rather than certainty

In addition, alternative export routes, including pipeline infrastructure from the UAE and Saudi Arabia that bypasses

INDUSTRY IN FOCUS

1.5 billion

Emergency oil barrel stocks held by IEA member countries

US$1.2 trillion

Expected global investment on oil, natural gas and coal this year

US$2.2 trillion

Expected global investment on grids, storage, nuclear, wind and solar energy

Hormuz, helped sustain partial flows and reduce the scale of physical disruption.

However, resilience is not unlimited. The US strategic oil reserve currently holds around 400 million barrels, down roughly 45% from 2009, reducing the buffer available to absorb future shocks. While these mechanisms helped prevent a more severe price spike, they also highlight a structural constraint: the system absorbed part of the shock by drawing down its own safeguards.

This broader lesson is that stability did not reflect reduced geopolitical risk, but the simultaneous availability of multiple emergency buffers, including strategic reserves, spare production capacity, diversified supply and demand flexibility. If not replenished, future disruptions may be absorbed less smoothly.

From energy shock to economic shock

The economic consequences have extended well beyond energy markets. Higher fuel prices have affected transportation, aviation, petrochemicals, fertilisers, and manufacturing, while freight and insurance costs have lengthened delivery times and added inflationary pressures. Maritime chokepoints affect far more than oil and gas flows. They shape food prices through fertilisers, industrial competitiveness through manufacturing costs, and consumer inflation through transport and logistics.

If elevated prices persist over a prolonged period, they could add between US$1 trillion and US$2 trillion annually to global energy expenditure. This underscores a broader lesson: geopolitical instability now carries systemic economic costs.

This reinforces the strategic case for diversification. Investments in domestic energy systems, electricity grids, renewables, storage, and alternative fuels are no longer driven solely by climate objectives; they have

80%

Share of Asia's LNG imports transiting the Strait of Hormuz

"This broader lesson is that stability did not reflect reduced geopolitical risk, but the simultaneous availability of multiple emergency buffers, including strategic reserves, spare production capacity, diversified supply and demand flexibility."

become instruments of economic resilience that reduce exposure to future geopolitical shocks.

The return of energy security

Perhaps the most profound consequence of the crisis has been the return of energy security to the centre of policymaking. Major economies have accelerated efforts to reduce exposure to supply disruption. Europe has intensified diversification strategies, China continues expanding strategic reserves and import corridors, while India, Japan and South Korea are broadening supplier portfolios.
Maritime infrastructure and shipping lanes have re-emerged as instruments of geopolitical influence. Energy security now stands alongside affordability and decarbonisation as a core pillar of energy policy.

The rise of energy addition

One of the key structural shifts accelerated by the crisis is the emergence of an energy addition paradigm. Global demand continues to rise, driven by population growth, urbanisation, industrialisation, AI, data centres, and electrification. Meeting this demand while maintaining affordability and reliability requires more energy from all sources, rather than substitution between them.
Higher prices and security concerns have reinforced the case for continued investment in oil and gas, while also increasing the strategic value of renewables, storage, grids, hydrogen, and carbon management technologies. Rather than competing in a zero-sum manner, oil, gas, and clean energy are expanding in parallel. For Gulf producers, this aligns with existing national strategies. The UAE, Saudi Arabia and others are investing across the entire energy spectrum, reflecting a broader shift toward energy addition rather than energy substitution amidst a broader strategy to enhance

KEY GCC OBJECTIVES

3.6 mbpd

Expected capacity of the expanded Habshan-Fujairah oil pipeline in 2027

7 mbpd

Capacity of Saudi Arabia's East-West oil pipeline

50%

Pre-war capacity production levels at Ras Laffan expected to be restored in the first month of operations

5 mbpd

UAE's targeted crude oil production by 2027

energy security and ensure uninterrupted exports to international markets.

The UAE, for instance, has announced it will accelerate the construction of a new oil pipeline to double its export capacity via the port of Fujairah by 2027, reinforcing the country's status as a reliable global energy supplier, while strengthening Fujairah's position as a major international oil hub. The existing Abu Dhabi Crude Oil Pipeline (ADCOP), also known as the Habshan-Fujairah pipeline, can carry up to 1.8 mbpd and has proved crucial as the UAE seeks to maximise exports from the Gulf of Oman coast, just outside the Strait of Hormuz.

The path towards reopening

The US-Iran MoU and subsequent negotiations in Switzerland have increased expectations that Hormuz will gradually reopen and energy flows will normalise. However, the process remains uncertain, with implementation dependent on continued diplomatic progress over the coming weeks.

Even under optimistic scenarios, recovery will be gradual. Shipping companies are expected to re-enter the Strait cautiously. Risk premiums must decline, maritime security confidence must return, and backlogged vessels will take time to clear. Unlike the Suez Canal, the Strait of Hormuz lacks a formal convoy or priority transit system, making recovery more dependent on insurer confidence and commercial decisions than structured traffic management.

Historical experience suggests tanker traffic could recover to 70-80% of pre-war levels within several months, while a full return to pre-conflict conditions may take considerably longer.

1.5 mbpd

Capacity of the UAE's Habshan-Fujairah oil pipeline

35 vessels

Highest level of Hormuz traffic recorded since late February 2026

"Historical experience suggests tanker traffic could recover to 70-80% of pre-war levels within several months, while a full return to pre-conflict conditions may take considerably longer."

How quickly can Gulf production recover?

Recovery will depend on three factors: the reopening of maritime traffic, the restart of shut-in production and the extent of infrastructure damage. Where facilities remain intact, production could resume within weeks once shipping conditions stabilise. More severely damaged facilities may require months to return to full capacity.

Qatar, one of the world's largest LNG exporters, is expected to restore output at Ras Laffan gradually, with around half of capacity returning within the first month of improved conditions and up to 80% in the following month.

However, commercial confidence, shipping availability and insurance conditions are likely to be as important as technical capacity in determining the pace of recovery.

A new energy geography

The crisis has reshaped global energy flows rather than creating clear winners and losers. Non-Gulf producers, including the United States, Norway, Brazil and Guyana, have benefited from higher prices and increased demand for diversified supplies. Several African exporters have also gained commercial interest. For Southeast Asia, the crisis has underscored a structural challenge: how to meet rising energy demand while reducing exposure to concentrated imported risk.

The Gulf's role in global energy security remains central. However, competitiveness is increasingly defined not only by production volumes, but by reliability, resilience and redundancy. Alongside strategic investments in new energy infrastructure and hydrocarbon capacity expansion, Gulf states such as the UAE are also increasingly focusing on the full spectrum of energy portfolios and managing an integrated mix of fossil fuels, transition fuels such as LNG, and renewables. The UAE is aggressively expanding into clean energy, AI-driven energy solutions and sustainable technologies, alongside

26.3%

Kuwait's targeted increase in crude oil production in 2027

46%

Share of OPEC+ in global crude oil production in 2025

> "The Gulf's role in global energy security remains central. However, competitiveness is increasingly defined not only by production volumes, but by reliability, resilience and redundancy."

global partnerships that further strengthen its capabilities of delivering energy solutions to countries and customers around the world.

A more fragmented but resilient system

Four months into the crisis, the world has avoided the worst-case scenario. The US-Iran negotiations have reduced the immediate risk of escalation, but uncertainty remains. Over the coming weeks, markets will focus less on geopolitical tension and more on diplomatic implementation, maritime security and the gradual restoration of commercial confidence.

Reopening the Strait of Hormuz will not restore pre-crisis energy order. The disruption has accelerated structural shifts in global energy markets, reinforcing the importance of resilience, diversification and strategic redundancy alongside efficiency.

The emerging energy system is becoming more diversified, more complex and, in many cases, more expensive. Yet it is also becoming more resilient.

The defining legacy of the Hormuz crisis may therefore not be disruption itself, but acceleration of a transition already underway towards an energy system shaped equally by security, resilience, diversification, and energy addition. ■

7.5%

Increase in Oman's total oil production in Q1 2026 compared to Q1 2025

> "The disruption has accelerated structural shifts in global energy markets, reinforcing the importance of resilience, diversification and strategic redundancy alongside efficiency."

Sources and acknowledgments:

BMI; EIA; Energy Transition Commission; IEA; Kpler; Reuters;

TradingNews

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