THE GEOPOLITICS OF NATURAL GAS

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A guide to navigating the impact of geopolitical volatility on market dynamics and business models

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Understanding the issue: global gas markets in an unstable geopolitical order

Geopolitical developments have consistently become a more influential factor in dictating the evolution of global gas markets in recent years. This has come as a result of a less stable geopolitical order and a more explicit weaponisation of commodity trade.

The first weeks of 2026 have proven a crucial demonstration of this process, as they saw an extraordinary level of geopolitical volatility, primarily driven by the United States evolving foreign policy. The month started with the dramatic seizure of Venezuela's president Maduro by US forces, then saw the bloodiest repression of anti-regime protests by the Iranian government, a rapid souring of transatlantic relations over the issue of the proposed acquisition of Greenland by the US and, at the end of the month, a significant US military build-up by in the Persian Gulf followed by renewed threats against the Iranian regime.

What is clear, at the end of January 2026, is that the pace of changes in the geopolitical environment is increasing. Great powers, and particularly the US, are growing bolder in asserting their regional dominance, and have increased their appetite for limited confrontation with adversaries (and at times with allies) to achieve objectives perceived as strategic. Multilateral frameworks to resolve conflicts or achieve global policy objectives are failing, as shown by stalling international climate change mitigation efforts, or they are being replaced by alternative structures, as exemplified by the Board of Peace proposed by the Trump administration to resolve the Gaza conflict. Trade policy is also becoming a tool explicitly leveraged to assert political and strategic priorities. This has caused the flow of commodities to become more unstable and has made the centralisation of market power in single countries (such as in China for rare earth materials) a key source of volatility.

This is creating a more chaotic world, in which disruptions can emerge rapidly and in which the possibility of events previously dismissed as remote risks can no longer be ignored. These developments have already had a severe impact on global gas markets and will continue to do so. This is especially the case as global LNG trade flows are expected to become increasingly dependent over the next five years on a small number of chokepoints and on a few key supply and demand nodes. Many of these crucial nodes – the US, China, Russia and the Middle East – are precisely those regions expected to be at the forefront of renewed geopolitical instability.

Relying on a continuation of the status quo is increasingly risky

This transition to a more volatile geopolitical order will have significant implications for the short-term volatility of markets. Prices are set to remain more exposed to the consequences of military action or sudden changes in trade policies, as well as to the perceived threat of these events. This increases the risk of sudden market panics, andspikes or crashes of prices that cannot be explained rationally through actual changes in market balances.

The rapidly shifting sands of a more volatile geopolitical order also increase the uncertainty for long-term investments and strategic moves. A more fragmented and confrontational world creates the opportunity for realignments that could reshape prospects for economic growth, access to individual markets, and the development of energy and environmental policy.

Given this expected state of geopolitical volatility, it is increasingly difficult to justify the current status quo as the base case for long-term strategic decisions. This means that counting on stated policies to be the most likely outcome has become riskier. Long-term decision making now needs to seriously consider geopolitical scenarios that upend previously long-held expectations on global stability and the potential impact on gas markets.

This means that the development of a clear geopolitical “base case” now must lie at the heart of major strategic decisions by market participants. In addition, the risks represented by credible alternatives to this scenario need to be explicitly mitigated. Monitoring and managing the impact of changes in the geopolitical environment will then play a key role in the development and implementation of successful business strategies.

The key sources of risk and volatility to be understood and tracked

The United States

The US are in the process of cementing their role as world’s largest LNG exporter, at the same time as the second Trump administration pushes with growing boldness its vision for the global order and for its relationships with trade partners and allies. The US can now be expected to leverage all trade, including LNG, to achieve strategic objectives and pressure trade partners into compliance with the wishes of its administration. The renewed assertiveness of its foreign policy should be expected to remain a major source of volatility in all commodity markets.

What this means, in practice, is first and foremost the continuation of highly charged rhetoric, which will cause market volatility regardless of any impact on physical trade flows. The utilisation of LNG as part of wider government-to-government trade deals can also be expected to continue and may drive outcomes that LNG market forces alone would not be able to achieve. While stronger actions such as curtailments in supply to specific markets remain highly unlikely, they are a possibility that cannot be ignored as similar measures have been taken in other sectors. Nevertheless, if such extreme measures, which would be likely to cause severe damage to the US LNG industry itself, were to be taken, they are unlikely to be sustained for a prolonged period of time. This is demonstrated by the fact that, in all previous examples, reversals of the most disruptive policies by the Trump administration have quickly followed the inevitable strong market reactions.

While the Trump administration’s trade tariffs have so far had a lower-than-expected impact on global economic activity, the explicit objective to undo some of the effects of globalisation is likely to continue and could be maintained by future administrations. This could make more uncertain the same economic growth in emerging Asian markets that is expected to sustain long-term LNG demand growth.

The Trump administration has also subverted expectations by playing an increasingly active role in its economy. This was demonstrated in the energy sector by the pressure placed on US oil majors to make large investments in Venezuelan oil production following the capture of President Maduro, as well as in the role the administration has placed in supporting the Alaska LNG project despite limited market interest. It is therefore not difficult to imagine that the Trump administration may act more proactively than previous governments should domestic market forces fail to support the achievement of political objectives, such as keeping energy prices low. This would most likely take the shape of strong political pressure on the energy industry should its actions be perceived as counterproductive.

Finally, the actions taken by the Trump administration in stopping the progress of renewable projects highlight a growing unreliability of US policy and show the dramatic shifts that are to be expected at every change of administration. This, coupled with uncertainty on EPC costs caused by a volatile sanctions regime, has made long-term investments in large capital projects in some sectors difficult. While this has not had a clear effect on natural gas infrastructure yet, the risk of future disruption, including the sudden tightening of environmental regulations, remains.

Russia

The future evolution of Russia's position in the geopolitical chessboard also represents a key source of uncertainty for global gas markets. The kind of agreement that will be struck for the resolution of the war in Ukraine and the role played by the US administration in this process will be crucial in setting the outlook for Russian gas exports in 2026 and beyond. A complete sidelining of European strategic objectives would increase the chances of a return of currently sanctioned LNG volumes to the global market and unlock the development of additional Russian LNG export capacity. Such a resolution to the war would also risk fracturing the already far from secure European unity around the phasing out of Russian pipeline supply. This would increase the risk of a long-term return of some of the volumes already removed from the European market.

China

Key to the long-term evolution of the LNG market is also Russia's relationship with China, with Power of Siberia 2 representing the most concrete example of this relationship in gas terms. The pricing and flexibility terms agreed for supply through this pipeline, and whether it is developed at all, will shape the level of Chinese LNG demand and the timing of its potential peak in imports. These terms will also impact China's ability to switch between LNG and pipeline imports in response to pricing signals, which would determine its potential to emerge as an alternative market of last resort once European demand flexibility decreases. These outcomes will depend heavily on the leverage held by the two parties during ongoing negotiations for supply via Power of Siberia 2.

Besides its relationship with Russia, the role of China as the world's largest importer and its adversarial relationship to the largest exporter, the US, will also be a key driver of uncertainty. The increased boldness of US foreign policy is likely to limit China's willingness to increase its dependency on energy imports, including LNG. The question of Taiwan also remains unresolved and will prove a continued threat of escalation between these two great powers, with significant consequences for trade flows across East Asia, including LNG.

Middle East

While the protests seen in Iran in the first weeks of 2026 appear to have been brutally suppressed, at least so far, the future of the Islamic Republic's regime remains uncertain amid domestic turmoil and soaring inflation. The risk of escalation has also returned to rise following a US military build-up in the final days of January 2026, amid renewed requests by the Trump administration for negotiations regarding country's nuclear programme. Regime change in Iran or a military confrontation with the US will prove highly destabilising for the region. Any disruption to trade flows through the Strait of Hormuz would have an outsized effect on LNG market balances and the impact of any such disruption is likely to increase with Qatari market share growing in the next five years.

The conflict in Gaza is also yet to see a long-term solution and could prove further source of instability. While the 12-day war of 2025 is likely to have at least temporarily compromised Iran's willingness to engage in proxy conflicts in the region or threaten Israeli interests, the risk of future escalations remains concrete. The growing role of Israel as a regional gas exporter and Egypt's dependence on imports for energy security also increase the impact that any regional conflict, even if contained, would have on global market balances.

Europe

Almost four years after the invasion of Ukraine, European energy security remains far from secured. A high degree of exposure to LNG imports makes European energy policy vulnerable to pressure by LNG trade partners, as seen by retreats on EU methane regulation and the CSDDD. A high degree of exposure to spot gas prices fluctuations also makes the European market especially exposed to the increased market volatility described earlier. European markets will therefore continue to be highly sensitive to security of supply risks (real or perceived) for the foreseeable future, and European prices are likely to overreact to changes in market fundamentals and geopolitical developments. This continued fragility may push policymakers and regulators to take direct actions on market mechanisms, particularly if they are not perceived to deliver sufficient levels of security of supply.

Managing risks and capturing opportunities

Market participants can therefore expect to face a geopolitical environment that can shift rapidly, and that presents a structurally higher level of risk. As mentioned above, taking a view on the evolution of geopolitical dynamics and assessing the risks of alternative scenarios is a strategic imperative. Once understood, the risks created by this new geopolitical reality will then need to be mitigated. At the same time, understanding the implications of this environment could create new opportunities for some players.

Diversification and redundancy as primary mitigation strategies

In a more uncertain and fragile geopolitical order, diversification is the obvious approach to limit exposure to single points of failure in a procurement or marketing strategy. This is well exemplified by the approach taken by many Japanese buyers in their continued portfolio expansion and entrance into other regional markets, which is also designed to manage uncertainty on the long-term evolution of domestic demand.

If incentives for diversification are increasing, they can also be leveraged to attract interest in export or import projects that would have struggled based on economics alone. It could then be possible for such projects to attract a “diversification premium” if developers succeed in making this a key element of the project’s market engagement strategy.

Redundancy in access to infrastructure capacity is also likely to become increasingly attractive. Assets that see very limited average utilisation but that provide security of supply or reliable access to markets can represent key risk mitigants for some players. This is because, in a more volatile market, such assets could be used to provide access to market opportunities that could pay back in a very short time the cost of an extended period of low utilisation.

Scale enables absorbing the impact of market shifts

A more fractured geopolitical environment could affect the value of LNG portfolios, as the ability to freely allocate cargoes and pair long and short positions may be restricted. Portfolio scale is likely to be the only true mitigant to such sudden changes in the freedom of molecules to move and access markets.

Smaller market positions such as those held by some European utilities may therefore become less viable. Market consolidation could push ever more market power in the hands of large portfolio players, which can leverage scale to absorb market shocks and achieve a sufficient level of diversification. Supply and trading models that rely on low but stable margins over a long period of time have also already been becoming obsolete, and higher geopolitical instability is likely to accelerate this process. The political relationships between these players, governments, and other institutions will also play a role in managing market fluctuations and shocks.

The ability of new entrants to manage these risks will be challenged as well. Those that do not have the capital or the ambition to pursue ambitious portfolio growth strategies, then, are likely to be better off seeking to farm out the management of a higher risk environment to those with the scale to do so.

Infrastructure investment as a higher risk proposition

The above-mentioned volatility and the need to provide diversification and flexibility will reward infrastructure that can be deployed rapidly in response to changing market conditions. Floating assets are likely to remain a crucial risk management tool and, as seen in 2022, could attract significant premiums when leveraged to provide relief to supply security crises. Small, modular liquefaction projects that can move rapidly to FID are also better placed to take advantage of sudden market swings.

A more volatile world, however, also means that infrastructure investments are inherently higher risk, with rapid swings in utilisation more likely. The risk that assets may become stranded at a moment’s notice in response to a geopolitical crisis is especially relevant in this context.

These conditions could result in projects requiring a higher return on capital and a shorter time frame for such returns to be achieved. Higher volatility and risk could also change the type of investor attracted to natural gas infrastructure, with lower risk appetites driven out of the market. In some contexts, only government entities may have the strategic imperative to develop and own infrastructure and the ability to absorb the risks associated.

Contractual mechanisms will need to account for the risk of sudden market shifts

Contractual mechanisms also represent a crucial tool for risk management in this environment. The events of 2022 and the following years demonstrated the enormous value associated with the ability to get out of contractual commitments in the event of a geopolitical crisis. Venture Global's actions in delaying the fulfilment of Calcasieu Pass's long-term offtake contracts are the most notorious example but were far from the only occurrence. Liability cap clauses and the definition of concepts such as "reasonable and prudent operator" are likely to increasingly come under the spotlight. Under the right circumstances, these mechanisms can turn binding contracts into options, decreasing their reliability.

Changes in policy and regulation are also becoming less predictable, and political swings have the potential to rapidly change the priorities of policymakers. The contractual allocation of exposure to such swings in policy, such as new import tariffs or shifting environmental regulations, is therefore likely to acquire a higher value.