THE GEOPOLITICS OF NATURAL GAS

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An initial analysis of the US and Israel military action against Iran

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Understanding the geopolitical implications of the war in the Middle East

In the morning of 28th February US and Israeli forces commenced a large-scale military action against Iran. This followed weeks of escalating tension and the largest US military buildup in the Middle East since 2003. The situation on the ground continues to evolve rapidly, and the full impact of these attacks remains uncertain. The most significant development so far, however, has been the successful killing of the Iranian regime's Supreme Leader, Ayatollah Ali Khamenei.

These attacks have prompted a strong military response from Iran, which has conducted retaliatory missile and drone attacks across the Middle East, reaching as far as a UK military base in Cyprus. While these attacks have resulted in civilian casualties and caused damage across the region, their military success appears limited so far. Between 1st and 2nd March, then the conflict also extended to Iran's proxies, as Hezbollah launched missiles into Israeli territories, causing a forceful response by Israeli forces.

As expected, the conflict remains mostly one-sided, with US and Israeli forces succeeding in striking Iranian territory broadly unchallenged and with limited losses. The most important development of the last three days is, however, the articulation of the US and Israeli objectives for this conflict, and especially the fact that, on Saturday 28th February, President Trump stated an explicit desire for the end of the Islamic Republic's regime. The US administration has however fallen short of defining this as a direct objective of the military campaign, and instead encouraged the Iranian people to rise up and take matters into their own hands.

The last three days have also demonstrated that this conflict has been the result of months of planning by the US and Israel, with this moment having been chosen as the most opportune to leverage a perceived weakness of the Iranian regime in order to bring about its end. This is an important departure from the approach of the Trump administration in last year's 12-days war and in its action in Venezuela in January 2026, which had seen the US perform military actions clearly delimited in time and objectives. This plays a key role in increasing the likelihood of a prolonged conflict in the Persian Gulf.

In his latest statements, President Trump has indicated that this conflict may continue for four weeks, as this appears to be the time the administration expects will be required to achieve the desired strategic objectives, remaining vaguely defined. The events of the last three days, however, mean that the ability to contain the conflict to such a timeline may not be entirely in the hands of the US administration. It is therefore possible that the US and Israel will eventually be faced with two choices:

1. Ensure the full achievement of the stated objectives at the cost of entering a protracted conflict without a clear end in sight; or
2. Withdraw to limit the conflict in time but risk leaving in place the same regime they sought to end, significantly diluting the originally stated objectives. However, this would project weaknesses rather than power in the region, with negative consequences for both the US and Israel.

At present, both these possibilities remain open, with the evolution of the conflict remaining highly uncertain at such an early stage. It is possible, however, to draw out the key developments that will provide early signs that the relative likelihood of the potential outcomes is changing. These are:

- Any signs of an intensification of anti-regime protests or the formation of a credible alternative with broad support across Iranian society
- The success of repressive activity by the regime and the compliance of Iranian security forces with efforts by the regime to quell any potential unrest
- The activity of Iranian proxies, which may expand the conflict to other countries and transform this conflict into a full regional war – this appears to have already, as least partially, occurred (i.e. Lebanon)
- The ability of Iran to sustain its military response to US and Israeli attacks despite suffering significant losses and damage to its military capabilities

The stated aim for this conflict to lead to the end of the Iranian regime also significantly increases the risk of a prolonged period of regional instability after the end of US and Israeli military activity. In such a case, the result may be ongoing disruptions and periodic waves of violence across the region, if no stable center of power emerges in Iran. In the worst case, a completely destablised Iran could lead to a permanent change in the outlook for regional politics and for the reliability of oil and gas exports from the Middle East.

The impacts on natural gas markets so far

The rapid escalation of military activity over the weekend has resulted in a complete halt in trade flows via the Strait of Hormuz. While smaller in magnitude and impact on global market balances, Israeli offshore gas production and exports to Egypt have also been halted. These developments are rapidly tightening the LNG spot market and will result in a rapid surge in global prices in the coming days. At least in the short-term, prices are likely be driven by the perception of risk, uncertainty, and geopolitical developments rather than fundamentals. This will make markets highly volatile and will cause prices to respond strongly to any perceived change in the outlook for the conflict.

At the time of writing, reports of Iranian drones having struck Qatar's Ras Laffan facilities and Saudi oil export infrastructure have also emerged. While the severity of the damage done remains unclear at this stage, the risk of material damage to LNG production infrastructure continues to increase.

Following these disruptions to global LNG supply, Europe is expected to remain at least in the short-term the premium market for spot LNG cargoes. Relatively low European gas storage levels will exacerbate the market tightness created by disruption in trade via the Strait of Hormuz and European LNG sendout is unlikely to change materially at least until the end of

March, regardless of the evolution of prices. Looking beyond the short-term, the market impact of these disruptions will eventually tied to the duration of the conflict and the severity of any material damage to LNG production infrastructure, which remains highly uncertain. In any case, the markets set to feel the most sever impacts are the more price-sensitive Asian markets with a high reliance on imports via long-term contracts with QatarEnergy. Pakistan and Bangladesh could potentially enter into deeper energy security crises, was supply via the Strait of Hormuz to be curtailed for a prolonged period.

If these disruptions were to continue into April, European governments are also likely to have to force storage injections through direct regulatory intervention, as market forces alone are unlikely to deliver the desired level of storage fill to ensure security of supply ahead of the next winter. The strength and effectiveness of these European security of supply measures will play a role in shaping global market balances and the ability of more sensitive markets to ensure their own energy security in a global supply crisis.

In a scenario which sees the conflict, and consequently disruptions to trade via the Strait of Hormuz, extending beyond the four weeks mentioned by the US administration, a deepening global oil and gas supply crisis is likely to create a strong incentive for the US to act more decisively to ensure the resumption of these trade flows. The Trump administration has in the past demonstrated that it is sensitive to the reaction of markets and, especially ahead of the November midterm elections, it will have strong incentives to limit the inflationary effects of a prolonged period of high oil and natural gas prices, at least within the US. Other Western energy importers may also join military or diplomatic actions aimed at restoring trade flows to limit the economic impact of higher hydrocarbon prices.

However, the events of the last three days make the success of such efforts more uncertain. The explicit threat that this war now represents to the Iranian regime's survival may drive actions that are less predictable and Tehran to use all available strategic assets, such as a continued campaign of direct attacks to regional energy infrastructure and the use of hybrid war tactics. The first option has already become apparent from the targets chosen by Iran in retaliation to US and Israeli attacks. A power vacuum in Tehran may also lead to more chaotic behaviour by proxies and regional militias, which would further complicate the resumption of oil and gas exports through the Strait of Hormuz. Although a scenario that sees oil and gas trade disruptions extending into multiple months is still not the most likely at present, this risk has materially increased. Ultimately, the events of the last three days increased the risk that the ability to manage a deepening global oil and gas supply crisis could slip out of the hands of the US administration and, consequently, become largely unmanageable by other governments.