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Impacts of the Conflicts in the Middle East on the LNG Market

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As a result of the attack on Iran by the United States and Israel on 28 February 2026, followed by Iran's attack on the Gulf neighbouring countries, the global LNG market has experienced an unprecedented situation in history: the de facto blockade of the Strait of Hormuz and the suspension of LNG production in Ras Rafan, Qatar, the world's largest LNG production site. In the long term, there is no doubt that Qatar and Abu Dhabi are reliable LNG suppliers. Although it is unclear how long these impacts of the conflicts and the blockade will last, this paper describes and examines the issues in terms of "short-term (immediate to several months)" and "medium- to long-term (several years and structural shifts)", including the impact on Japan's LNG imports.

1 Short-Term Impacts (Immediate to Several Months)

1.1 Focuses are on physical supply disruptions, immediate price spikes, and logistical bottlenecks.

1.2 Energy Price Surges:

1.2.1 With approximately **20% of global LNG supply** effectively cut off, Asian spot LNG prices are likely to skyrocket (potentially exceeding USD 25/ million Btu).

1.2.2 Crude oil prices will likely test the **USD 100+ per barrel** mark. For Japan, this triggers a rise in average LNG import prices due to oil-linked contracts, though with a three-month time lag.

1.3 Logistics and Insurance Crisis:

1.3.1 LNG and oil tankers cannot operate without **war risk insurance**. Reports of insurers cancelling coverage or hiking premiums to prohibitive levels will paralyse shipping. Even after a de-escalation of the crisis, these high premiums may persist.

1.4 Seasonal Mitigation in Asia:

1.4.1 Japanese LNG buyers have largely concluded procurement for the winter peak. As temperatures rise across Asia, the immediate "dash for spot" from Chinese players may be somewhat dampened.

1.5 China's Diplomatic Pressure:

- 1.5.1 As a major consumer of Iranian oil and Middle Eastern gas, Beijing will likely intensify diplomatic efforts to promote ceasefires and to reopen the Strait to secure supply.

2 Medium-to-Long-Term Impacts (Several Years and Structural Shifts)

- 2.1 Focuses are on structural shifts in energy security and global trade routes.
 - 2.1.1 Diminishing illusive ideas of "LNG oversupply". The authors have repeatedly denied the notion of oversupply as a misleading illusion discouraging investment in LNG production development.
- 2.2 **The "Pivot Away from the Middle East":**
 - 2.2.1 Dependence on LNG from the Middle East may be re-evaluated. Buyers will likely become more cautious regarding over dependence on long-term Middle Eastern contracts, prioritising **geopolitical diversification**.
 - 2.2.2 Attention will shift towards **North American projects** (Alaska, Western Canada, and the Gulf Coast) and Mexico.
- 2.3 **Policy Revisions in Australia and Europe:**
 - 2.3.1 **Australia:** A tug-of-war may emerge between domestic gas reservation policies and the pressure to increase exports to stabilise global markets.
 - 2.3.2 **Europe:** The push for "De-Russianisation" and the timeline of the methane regulation may be extended as the continent prioritises energy survival over environmental stringency.
- 2.4 **Japan's Consideration of LNG Purchases from North America and Sakhalin-2:**
 - 2.4.1 There is a possibility that Japanese LNG buyers will consider increasing LNG procurement from North America.
 - 2.4.2 Japanese LNG buyers may also feel compelled to maintain Sakhalin-2 purchases.
- 2.5 **Supply Recovery Uncertainty:**
 - 2.5.1 The technical process of restarting LNG liquefaction plants after an emergency shutdown is complex. Even after the blockade ends, it may take longer to return to full capacity than people may forecast.

3 Additional Strategic Considerations

Beyond the immediate supply crunch, the following factors are increasingly critical:

3.1 The "Double Shock" to Global Inflation

- 3.1.1 **Fertilisers and Chemicals:** The Middle East is a global hub for urea and petrochemicals. A prolonged blockade could trigger a global food price crisis (**agflation**) six months to a year later due to fertiliser shortages.
- 3.1.2 **Stagflation Risk:** High energy costs combined with supply chain disruptions threaten to drag the global economy into a period of stagnant growth and high inflation.

3.2 Shifts in Contractual Norms

3.2.1 **Flexibility Over Reliability:** "Destination-free" contracts (allowing cargoes to be rerouted in emergencies) will become more advantageous than traditional, rigid long-term agreements.

3.2.2 **US LNG Competitiveness:** US LNG (with LNG sale prices linked to Henry Hub gas prices) will become even more attractive compared to oil-linked LNG as oil prices rise. This point is a "tailwind" for US LNG proponents.

3.3 Emergency Mutual Support by LNG Buyers and Demand Management

3.3.1 While IEA members can release strategic oil reserves, Japan and Europe may be forced to implement strict power-saving measures or industrial rationing if the blockade lasts more than a few months, in addition to mutual supports among LNG buyers to help those LNG users in acute needs.

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