

## **The Strategic Importance of Oil Reaffirmed by the “Hormuz Strait Crisis”**

**Ken Koyama, PhD**

Chief Economist, Senior Managing Director  
The Institute of Energy Economics, Japan

Persistently elevated crude oil prices and growing concerns over future supply have sent shockwaves through international energy markets. The latest war in the Middle East, which began with U.S. and Israeli military strikes against Iran on February 28, has continued for more than a month with intense exchanges of attacks, making it exceedingly difficult to foresee an end to the conflict.

Against this backdrop, U.S. President Donald Trump delivered an address at the White House beginning at 9:00 p.m. local time on April 1. While emphasizing that discussions with the Iranian side were ongoing, he stated that intense military strikes were expected to continue for the next two to three weeks. President Trump asserted that Iran’s military capabilities had been destroyed, its nuclear development thwarted, and the country rendered effectively incapacitated, arguing that the strategic objectives of the war were close to being achieved. Given that gasoline prices in the United States had exceeded the psychologically significant threshold of four dollars per gallon and that public criticism of the war against Iran was mounting, many observers interpreted the speech as an attempt to underscore the achievements and significance of the military campaign while signaling a pathway toward its conclusion.

Nevertheless, there is no room for optimism regarding the future course of the conflict. On March 31, Iranian President Masoud Pezeshkian stated that the immediate priority was the cessation of U.S.–Israeli attacks and that Iran would be willing to consider ending the war provided that credible guarantees against “no renewed attacks” were offered. On April 1, he further released an open letter addressed to the American public via social media, emphasizing that the costs of continued confrontation were enormous and ultimately futile. Despite these statements, mutual attacks have continued unabated, and the Iranian side has not acknowledged the existence of any talks with the United States. Moreover, Iran’s Revolutionary Guard Corps and other hardline factions have maintained a posture of uncompromising resistance. As such, the trajectory of the war remains highly uncertain, and if, as President Trump indicated, intense military operations continue for the next two to three weeks, the situation is likely to remain extraordinarily tense.

Under these circumstances, a de facto blockade of the Strait of Hormuz has been sustained. Although some of the supply losses have been offset through the use of alternative crude oil export

pipelines, limited transit of selected countries' tankers through the strait, and coordinated releases from strategic petroleum reserves by member states of the International Energy Agency (IEA), these measures are insufficient to compensate for the normal transit volume of approximately 20 million barrels per day through the Strait of Hormuz. As a result, an exceptionally large-scale supply disruption has persisted for over a month. This explains why crude oil prices have remained elevated, with the settlement price of WTI crude futures exceeding 100 U.S. dollars since March 31. Following President Trump's remarks regarding continued military operations, WTI prices even rose to the 104-dollar range in after-hours trading.

Depending on the outcome of the war, not only could crude oil prices surge further, but the prolonged loss of oil supply via the Strait of Hormuz could significantly heighten concerns over the very foundation of a stable oil supply. These concerns are particularly acute for countries heavily dependent on Hormuz-route imports. In this severe and unprecedented situation, the massive supply disruption has inadvertently laid bare the fundamental importance of oil in modern society. While the concurrent major disruptions in liquefied natural gas (LNG) supply are also of great importance, the sheer scale of the problem affecting oil—the world's largest energy source—is unparalleled, forcing a renewed recognition of oil's critical role.

The importance of oil manifests in multiple dimensions. First and foremost is the magnitude of the negative macroeconomic impact worldwide resulting from price surges and supply insecurity in what is the largest internationally traded commodity. Rising crude oil prices slow global economic growth, serve as a powerful inflationary force, and significantly destabilize international financial markets, including equity prices and exchange rates. Moreover, because oil is the world's largest traded commodity, price increases lead to massive income transfers from consuming and importing countries to producing and exporting nations. Import-dependent economies suffer substantial outflows of wealth. Notably, Middle Eastern Gulf producers have been unable to fully benefit from high prices, as their export volumes have declined sharply. Instead, countries such as Russia, which continue to export significant volumes, have been the primary beneficiaries of expanded oil revenues and income transfers.

The second dimension of oil's importance lies in the extent to which its use permeates virtually every corner of contemporary society and the economy. A symbolic example is the impact of rising gasoline prices. For President Trump, facing upcoming midterm elections, gasoline prices exceeding four dollars per gallon represent a critical political issue, capable of amplifying public dissatisfaction and influencing electoral outcomes. In Japan, the rapid introduction of so-called "sharp fluctuation mitigation measures" to stabilize retail gasoline prices at around 170 yen per liter similarly reflects the strong awareness of the importance of petroleum products.

Gasoline and diesel fuel are indispensable commodities that underpin mobility and transportation in both daily life and economic activity. Jet fuel for aviation and heavy fuel oil for shipping likewise sustain essential modern mobility. Beyond household necessity, these fuels form the backbone of logistics systems. Consequently, price surges in petroleum products significantly raise overall logistics costs, making a secure fuel supply indispensable for sustaining economic activity. Although oil-fired power generation has seen its role diminished since the oil crisis in the 1970s due to the introduction of alternative energy sources, oil remains widely used as an industrial and commercial fuel, including by numerous small and medium-sized consumers. Rising fuel prices also pose severe challenges for agriculture and fisheries, inevitably pushing up the prices of food and other essential goods. For these reasons, ensuring a stable fuel supply remains a paramount socio-economic requirement for Japan and for countries worldwide.

Another highly notable impact of the current large-scale supply disruption is the sharp rise in prices and growing supply insecurity of petrochemical products. In Japan, naphtha is the principal feedstock for petrochemicals. The drastic reduction in naphtha imports from the Middle East has therefore brought naphtha-related issues sharply into focus. In modern society, petrochemical products—including those used in medical applications—are deeply embedded across virtually all social and economic sectors. It is difficult to even conceive of modern life or economic activity without them.

Japan's naphtha supply structure consists of slightly more than 40 percent imported product naphtha from the Middle East, roughly 40 percent domestically produced naphtha refined from crude oil, and the remainder imported from non-Middle Eastern sources. This optimized supply structure, heavily reliant on product imports and shaped by the fact that petroleum products are joint products from crude oil processing, has rendered the impact particularly severe. The suspension of Middle Eastern naphtha supplies due to the Hormuz blockade has thus created an extraordinarily serious situation. Oil's importance has once again been starkly recognized—not only as a fuel, but as an indispensable raw material sustaining everyday life and the economy.

As the effective closure of the Strait of Hormuz continues, the issue of a stable oil supply has become an urgent and overriding priority for Japan and for the global community. IEA member countries, including Japan, are utilizing strategic stockpiles to secure substitute supplies and are considering, and where necessary implementing, further measures to improve efficiency and reduce consumption. At the same time, intensive efforts are underway to explore all possible alternative sources of supply. Although oil dependence has declined significantly since the first oil crisis through the promotion of alternative energies, oil remains the single largest energy source in widespread use. Through this crisis, the world has once again been compelled to reaffirm the indispensable importance of oil.