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Significant Volatility in Global Energy Landscape Amid Large-Scale Military Strikes on Iran

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On February 28, the United States and Israel launched a large-scale military offensive against Iran. The attacks targeted critical installations in the capital city of Tehran as well as sites across the country, including military facilities, security organizations/facilities, and senior officials. In a video address posted on social media, U.S. President Donald Trump stated that the objective of the operation was to "eliminate imminent threats posed by Iran" and emphasized that Tehran "must never be allowed to possess nuclear weapons." He further declared the commencement of what he described as a "major combat operation" and called upon the Iranian people to "take control of the government once the operation ends," signaling an intention to pursue regime change.

This military action unfolded during ongoing negotiations between Washington and Tehran over Iran's nuclear program. The two sides held three rounds of talks in February, with the latest session convened on the 26th. While the mediating state of Oman and Iranian representatives reported progress, U.S. officials expressed dissatisfaction, indicating that substantial gaps remained unresolved. The next session had been scheduled for March 2; however, the United States and Israel opted to initiate military operations prior to that date. Although negotiations were underway, Washington had simultaneously deployed two aircraft carriers to the region, steadily increasing military pressure.

During my visit to Washington, D.C., from February 24 to 27, I encountered numerous experts who offered bleak assessments of the situation. The central question, in their view, was not *whether* a military strike would occur but *when*, *at what scale*, and *under what conditions* it would be executed, with the understanding that the probability of a military strike is reasonably high. In this sense, one may conclude that the United States augmented its military posture, monitored the status of the negotiations, and determined the timing of the strike accordingly.

The extensive operation has already inflicted significant damage and numerous casualties on the Iranian side. While the destruction of critical facilities is considerable, the most consequential and symbolically devastating development is the reported death of Supreme Leader Ayatollah Ali Khamenei. Nearly half a century has passed since the Iranian Revolution, and for more than three decades Khamenei had held ultimate authority over the state. According to Iranian reports, he was killed in his office during the strikes.

Given the death of the Supreme Leader, Iran's future political trajectory is highly uncertain. As President Trump urged, widespread anti-regime movements may emerge, potentially destabilizing the nation. Conversely, the post-Khamenei leadership may succeed in preserving internal order and intensifying its resistance against the United States and Israel. Multiple scenarios are conceivable, and the outlook for Iran's political landscape is exceedingly opaque.

Iran has announced a 40-day mourning period following the death of Khamenei, yet has simultaneously vowed and initiated retaliation. As of the timing of this report being written (at 9:00 p.m. on March 1), Iranian forces had reportedly launched over 200 ballistic missiles at Israel and attacked 14 sites in Qatar, UAE and Bahrain, including U.S. military bases in these countries. At present, the trajectory of escalation remains unpredictable. Statements from Washington and Jerusalem suggest that military operations are unlikely to conclude quickly, and Iran is expected to continue its retaliatory measures. Compared to the "12-Day War" triggered in June of last year following Israeli and U.S. strikes on Iranian nuclear-related facilities, the present confrontation appears poised to become broader, longer, and more escalatory.

A prolonged and intensified conflict would significantly destabilize Middle Eastern geopolitics and could profoundly shake the global energy landscape. Should the hostilities disrupt energy production or exports from the region, the consequences could be severe. Of particular concern is the security of passage through the Strait of Hormuz, a vital artery for global energy trade.

Following the outbreak of hostilities, Iran's Islamic Revolutionary Guard Corps reportedly issued warnings to vessels transiting near the Strait of Hormuz, stating that passage would not be permitted. If such threats materialize, ensuring maritime safety may become extremely difficult, leading to disruptions in transit. There are already indications that, as a precautionary safety measure, some operators have temporarily suspended vessel transit through the area.

The scale of energy flows through the Strait of Hormuz is immense: approximately 20 million barrels per day of crude oil and nearly 80 million tons of LNG, corresponding to roughly 20 percent of global supply in each case. While Saudi Arabia possesses pipeline routes enabling some westbound crude shipments via the Red Sea, their capacity is limited in comparison to the total volume transiting the Strait. With respect to LNG, viable alternative transport routes are essentially nonexistent should passage through the Strait of Hormuz become unavailable.

No region in the world possesses sufficient spare production capacity to offset a disruption of this magnitude. The countries with the largest spare capacity—primarily Gulf producers such as Saudi

Arabia—would themselves be unable to provide additional supplies if maritime passage were blocked. As for LNG, there is virtually no significant surplus capacity globally. Thus, any prolonged disruption of transit through the Strait of Hormuz could precipitate a substantial supply shortfall. Additional risks include strikes on production or export infrastructure, which could exacerbate supply losses and create long-lasting effects. However, in terms of sheer quantitative impact, nothing would be more consequential than a significant disruption to the secure passage of the Strait of Hormuz. (It should be noted, though, that in cases involving damage to critical infrastructure, the effects may prove more prolonged.)

It remains uncertain at this stage whether the secure passage of the Strait of Hormuz will, in fact, be severely interrupted. Such an outcome would represent, in effect, a "worst-case scenario," as any substantive obstruction of maritime transit through the Strait would almost certainly invite a far more forceful U.S. military intervention. For Iran, adopting such a course of action would require a willingness to accept extremely high risks. Nevertheless, given both the gravity of the current crisis and the potential for further escalation, global attention to the security of the Strait of Hormuz is inevitably intensifying.

Depending on how the conflict evolves, the international energy market could enter a period of profound turmoil. Concerns regarding the Strait's navigability are likely to exert strong upward pressure on crude oil prices. A rapid price surge of $10 per barrel or more, perhaps substantially more, is a realistic possibility. Such an increase would strain the global economy, accelerate inflation, and burden households worldwide. Should transit through the Strait be disrupted for a sustained period, price spikes would be unavoidable, and a global "scramble" for oil and LNG could ensue, potentially resulting in physical shortages in some countries. Given the enormous implications for the stability of international energy markets, close attention to developments in Iran is essential.

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