

Accelerating Instability in the International Energy Landscape Amid Geographical Diffusion of Geopolitical Risks

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The international energy landscape has become increasingly fluid as a result of the Strait of Hormuz (SOH) Crisis, which has persisted since late February of this year. The unprecedented supply disruption associated with the crisis has generated severe concerns regarding energy security and has continued to unsettle global energy markets. The war involving Iran and the broader tensions surrounding the country, which constitute the fundamental cause of the SOH Crisis, have shown no meaningful prospect of resolution. Consequently, geopolitical tensions between the United States and Iran remain elevated.

In the immediate aftermath of the outbreak of hostilities, intensive military attacks and retaliatory actions produced conditions tantamount to full-scale warfare. In June, however, a temporary cessation of hostilities was agreed upon through a memorandum concluded between the United States and Iran. This arrangement proved short-lived. Following its collapse, military exchanges resumed in July and have continued ever since. The defining characteristic of the current situation may be described as neither war nor peace. Rather, the international community finds itself in a “gray-zone” environment marked by persistent military confrontation and severe geopolitical tension.

Against this backdrop, one of the most noteworthy developments in the contemporary international energy environment is the accelerating instability resulting from the geographical diffusion of geopolitical risks. By this diffusion, I refer to a situation in which the geopolitical risk associated with the confrontation involving Iran remains the principal driver of uncertainty, while two additional sources of concern have rapidly emerged as major issues commanding global attention: geopolitical tensions surrounding Saudi Arabia and those associated with the Russia–Ukraine war. The intensification of these two risks has become a significant factor behind rising energy prices and growing instability in international energy markets.

The escalation of geopolitical risk surrounding Saudi Arabia possesses the potential to shake the foundations of stability in the global oil market. Since the onset of the SOH Crisis, Saudi Arabia and the United Arab Emirates (UAE) have served as critical alternative suppliers through crude oil exports transported via pipelines bypassing the SOH.

Saudi Arabia's East-West pipeline system, with a capacity of approximately 7 million barrels per day, transports crude oil to Yanbu on the Red Sea coast, from which oil supplies are exported to Asia and other international markets. This infrastructure has become an essential alternative supply route. Similarly, the UAE has continued to provide crude oil to international markets through its pipeline system to Fujairah, which bypasses the Strait of Hormuz and possesses a capacity of approximately 1.8 million barrels per day. The availability of these alternative export routes, combined with increased U.S. oil exports, reduced Chinese oil imports, and the drawdown of global oil inventories, has played a critical role in mitigating market instability despite the largest supply disruption in modern history.

The significance of crude oil exports from Saudi Arabia and the UAE as alternative supply sources has also been readily apparent in Japan's crude oil procurement strategy. Following the effective closure of the Strait of Hormuz, Japan faced considerable difficulties in securing adequate crude oil imports during March and April, necessitating substantial withdrawals from both commercial and strategic petroleum reserves. These stockpile releases effectively bought time while intensive procurement efforts were undertaken. Beginning in May, imported crude oil once again became the principal source of supply for Japan. Data from June and July indicate that approximately half of Japan's crude oil imports originated from the United States, highlighting America's emergence as a critically important non-Middle Eastern supplier. However, the remaining half of imports during that period consisted largely of crude oil sourced from Saudi Arabia, the UAE, and other producers utilizing routes that bypassed the SOH. Since August, the share of Middle Eastern imports in Japan's crude oil procurement portfolio has increased further, with projections for October indicating that roughly 80 percent of crude oil imports will originate from the region. These developments underscore the crucial importance of securing alternative supplies from Saudi Arabia and the UAE.

Given Saudi Arabia's growing importance as an alternative supplier, the emergence of geopolitical risks affecting the Kingdom has become a major source of concern for international oil markets. Since September, military confrontation between Saudi Arabia and the Houthis in Yemen has intensified rapidly, with escalating attacks and counterattacks by both parties. In this context, Houthi activities have raised concerns regarding the security of maritime traffic through the Bab el-Mandeb Strait, a strategic chokepoint for exports shipped through the Red Sea. As a result, oil market watchers started to pay greater attention to the stability of Saudi Arabia's crude oil exports through this route.

Moreover, on September 11, the Saudi government announced that its East-West pipeline, a critical component of the country's alternative export infrastructure, had come under repeated attack the previous day and had been forced to suspend operations. According to media reports, the pipeline remained out of service between September 11 and September 22 before resuming operations. However, it was attacked once again on October 5, resulting in another shutdown. At the same time, direct military

attacks against Saudi Arabia have intensified. These have included strikes on Riyadh's international airport that resulted in numerous casualties, as well as attacks targeting the facilities of Saudi Aramco, the state-owned oil company.

As the holder of the world's largest surplus oil production capacity and operator of a massive SOH-bypass export network, Saudi Arabia has become a cornerstone of global energy security during the current crisis. Consequently, heightened geopolitical risks affecting the Kingdom have emerged as a significant source of additional supply concerns. Every attack directed at Saudi Arabia has generated immediate reactions in international oil markets and contributed to upward pressure on crude oil prices.

A second major manifestation of the diffusion of geopolitical risk is the evolving trajectory of the Russia–Ukraine war. More than four years and seven months after its outbreak, the conflict remains entrenched in a prolonged stalemate. One of the most notable recent developments has been the intensification of drone attacks and other attacks by both sides against critical energy infrastructure.

Particularly significant for international energy markets have been Ukrainian attacks against Russian oil facilities, including major refineries. These attacks have inflicted substantial damage on Russia's oil supply capabilities, resulting in a suspension of exports of petroleum products, including diesel fuel. Russia has also faced increasing difficulties in meeting domestic demand for petroleum products, further contributing to these export restrictions. Consequently, the reduction in Russian petroleum-product supply has become a major factor behind rising prices in international refined-product markets.

The sharp increase in diesel prices emerged as a particularly important global issue beginning in September. Spot prices for ultra-low-sulfur diesel delivered to New York Harbor surpassed \$220 per barrel in mid-September, reaching record highs and significantly outpacing the rise in crude oil prices. It is important to recognize that global petroleum-product markets had already been experiencing tight supply conditions as a result of the SOH Crisis even before Russia curtailed oil product exports.

The surge in diesel prices also became a major social, economic, and political issue in the United States as the country approached its midterm elections. Against this backdrop, on October 9, U.S. President Donald Trump made a surprise announcement, following a telephone conversation with Russian President Vladimir Putin, that Russia had agreed to expand the supply of Russian diesel fuel to international markets. The announcement generated substantial reactions both within the United States and internationally.

While considerable uncertainty remains regarding how this “agreement” will be implemented in practice and the magnitude of its eventual impact, market reactions have thus far been cautious. What is

already evident, however, is that developments in the Russia–Ukraine war have become a significant new factor affecting the stability of international energy markets. The consequences of this broader diffusion of geopolitical risks therefore warrant close and continued attention.

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