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The Ghost of the Barrel: The Iran-Israel
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Introduction

In June 2025, the brief but intense military confrontation between Israel and Iran triggered widespread concerns over global energy security, temporarily pushing oil prices upward and prompting fears of regional escalation. Although on 24 June the crisis was partially defused through a ceasefire and market volatility subsequently subsided, the episode offers valuable insights into the evolving behavior of the oil market under geopolitical stress. This study analyzes the strategic signaling, energy infrastructure vulnerabilities, and market reactions that characterized the confrontation. It argues that, while physical disruptions to supply remained limited, the market response reflected deeper structural shifts—most notably the growing influence of geopolitical risk perception, logistical resilience, and regional chokepoints such as the Strait of Hormuz. By examining this case, the study highlights how the global oil market is increasingly shaped not only by tangible supply shocks, but also by expectations, deterrence dynamics, and systemic fragilities in the current geopolitical environment.

Oil above \$100 per barrel?

To paraphrase a classic: a specter is haunting the world—the specter of oil priced above \$100 per barrel. The global hydrocarbons market has once again become a hostage to military-political intrigues, creating a near-apocalyptic public perception of an imminent price surge. The logic is simple: if a strike hits an oil-producing country, the world faces shortages and price hikes. However, reality is far more complex, and the scenarios are significantly more variable.

The Israeli attack on Iran's nuclear and military infrastructure on June 13, 2025, marked a major milestone in the Middle East conflict. Although the strikes were not aimed at energy facilities, they heightened the sense of instability in one of the key regions of global oil production. The subsequent June 22 U.S. strike on three Iranian nuclear sites and Tehran's retaliatory threats triggered fears of escalation into a regional war with the potential blockade of the Strait of Hormuz, destabilization of shipping in the Red Sea, and attacks on the energy infrastructure of the Arab monarchies. While strikes on Iran jeopardize less than 2% of global oil exports,

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regionalization of the conflict would raise that figure to at least 20%.

Paradoxically, the market response has been restrained: on June 13, [Brent crude](#) rose only \$5 (from \$69 to \$74 per barrel), and after Trump's decision, it added merely \$2. This appears disproportionate to the scale of geopolitical risks and the panic among analysts. Moreover, on 24 June, oil prices were quick to dive below \$70 per barrel once the news on seize fire between Iran and Israel appeared in the media. Part of this muted reaction can be explained by the fact that the recorded price increase reflects a response to short-term, politically driven changes. Despite their symbolic weight, these events have not yet posed a long-term threat to oil and gas markets and, at most, reflected its possibility.

Energy Vulnerability as a Deterrent

Contrary to popular belief, Israel and Iran were not targeting each other's energy infrastructure for destruction. Moreover, energy security for both countries remains extremely vulnerable. In other words, neither side could be sure that a strike on the other's energy infrastructure would go unanswered. As a result, Iran and Israel limited themselves to mutual strikes on key, but not critical, elements of their energy systems, thereby demonstrating mutual vulnerability.

For Tehran, the most alarming development was the [June 14 strike](#) on

infrastructure at the 14th Phase of the South Pars gas field and the Fajr Jam gas plant. While the damage was localized—one of four technological trains was temporarily shut down, reducing daily output by 420 million cubic meters of gas—Israel's message was clear: 'We can get you'. Moreover, Israel was deliberately targeting gas, not oil producing infrastructure. Natural gas plays a crucial role in the Iranian economy: it is vital for domestic consumption and exports to Iraq and Turkey. Given the growing internal demand and challenges in the energy balance, the strike served as an unmistakable signal from Tel Aviv. It indicated that Israel is aware of Iran's energy fragility and can, if necessary, inflict damage leading to blackouts, halted industrial production, export disruption, and, consequently, heightened social tension.

Iran's response was immediate. On June 15, an Iranian missile struck the [Bazan oil refinery](#) in Haifa (capacity: 197,000 bpd). Initially, the damage appeared limited, but the facility was completely shut down the next day. Simultaneously, Israel's second refinery in Ashdod (100,000 bpd) was undergoing scheduled maintenance and would not resume operations for another two weeks. Given domestic demand of around 220,000 bpd, Israel had to draw on strategic reserves. Moreover, as a precaution, Israel [halted operations](#) at two of its three main gas fields—Leviathan and Karish—leaving only

Tamar operational. Tamar rapidly ramped up output, covering up to 75% of domestic demand. [The remaining share was met](#) with coal and diesel. Although the Israeli government had planned to phase out coal entirely by the end of 2026, these plans now appear to be revised in favor of energy reliability.

Iranian Oil: Important but Not Critical

Iranian oil and gas are not critical to global energy markets in a way that would justify oil prices breaking the psychological \$100 threshold. Most of Iran's gas is consumed domestically, and exports are limited to Turkey and Iraq. Iran's share in global oil consumption is under 2%, and other producers can compensate for any shortfall. In fact, China is currently the only major importer of Iranian oil.

Indeed, Iran's position as one of the top three suppliers to [China in spring 2025 suggests Beijing](#) could react negatively to attacks on Iran's oil infrastructure, thereby deterring Tehran's adversaries. However, several important caveats apply:

- China avoids dependence on a single supplier. If difficulties arise with one source, it easily switches to another. For Beijing, the origin of oil is less important than the terms of purchase, making China's energy import strategy flexible and pragmatic;
- Iranian oil is not officially imported into China. It enters

under the guise of Malaysian crude, circumventing sanctions, but making the supplies politically vulnerable. In case of conflict, Chinese traders have easily switched to Russian oil, which is viewed as less risky in Beijing;

- The attractiveness of Iranian oil is situational. Sanctions force Tehran to sell oil at a discount, which Chinese buyers exploit. At the same time, due to worsening U.S. relations, China seeks to reduce its reliance on American-aligned energy sources, partly offset by increased imports from Iran.

Thus, as long as the armed confrontation was to remain confined to Israel and Iran, serious consequences for the global economy were unlikely. Oil prices would remain volatile but within the \$70–85 range.

The Real Risk: The Strait of Hormuz

Long-term pricing could be more significantly affected by systemic geopolitical shifts similar to those caused by the Russia-Ukraine war. So far, such factors remain either latent or hypothetical and have not directly impacted prices. All of them relate to the risk of major disruptions to oil exports from the Gulf and Arabian Peninsula.

Possible scenarios included a direct Iranian blockade of the narrow Strait of Hormuz or attacks by Tehran or its proxy groups on the oil and gas

infrastructure of Arab monarchies. At stake was the security of approximately 20% of global oil exports, not counting refined products and petrochemicals bound for Asian and European markets. And this risk remains.

Alternative secure export routes do exist but are limited. Mainly, only Saudi Arabia and the UAE have bypass options—and those come with constraints. Saudi Arabia's key alternative infrastructure is the East-West pipeline (Abqaiq–Yanbu), with a capacity of up to 5 million bpd (expandable to 7 million). However, a significant portion of this oil feeds domestic Red Sea refineries (Yanbu, Rabigh, Jazan), and the export potential from Red Sea terminals is limited: fewer tank farms, fewer crude varieties, and thus reduced flexibility. Furthermore, exports to Asia via the Red Sea face rising risks in the Bab el-Mandeb Strait, where Yemeni Houthis are active.

The UAE operates the Adcop pipeline (Habshan–Fujairah), with a capacity of 1.8 million bpd, which allows oil exports to bypass Hormuz. However, it only handles Murban crude from onshore fields. Most of the UAE's offshore production still depends on passage through Hormuz. The construction of the new Jebel Dhanna–Fujairah pipeline (1.5 million bpd), intended to diversify routes, continues, but it is not expected online before 2027.

Iraq could theoretically use the pipeline to the Turkish port of Ceyhan, but it has been shut since 2023 due to

political and legal disputes with the Kurdistan Region. Moreover, the pipeline is not connected to Iraq's main southern fields, making it impractical in a Hormuz crisis.

The Problems Are Already Here

The heightened geopolitical premium has already been influencing the market. In the days of conflict, crudes exported outside Hormuz, such as Murban (UAE) and Oman, were [trading at premiums](#) to Dubai of \$3.50 and \$3.31 per barrel, respectively. This reflected buyers' efforts to minimize transit risks. Diesel prices also spiked. Thus, even without an actual blockade, the threat of Hormuz disruption was already shaping market behavior.

High uncertainty and escalating geopolitical risks triggered a surge in tanker freight rates and increased concern among insurers, driving up war risk premiums. One of the most striking indicators was the spike in supertanker (VLCC) charter rates on the Middle East–China route. Following the Israeli strike on Iran on June 13, [rates jumped](#) from around \$23,000 per day to \$52,000. Notably, this increase was driven not by actual supply disruptions, but by fear and expectations: shipowners and operators priced in potential conflict-related risks.

Another real threat was the overall insecurity of navigation in the region. Tankers, including those from the so-called "shadow fleet" transporting

sanctioned Iranian and Russian oil with poor safety compliance, started crowding the waters around the Arabian Peninsula. Thus, following the Iran-Israel flare-up, QatarEnergy instructed its LNG tankers to avoid the Strait of Hormuz until the situation stabilizes and enter [the Gulf only a day before loading](#). All of these was increasing chances for accidental collisions that inevitably happened. On June 17, two tankers—[Front Eagle and Adalynn](#)—collided off the UAE's eastern coast. Though attributed to navigational error, not direct military action, the accident exposed systemic vulnerabilities: crowded waters, a high share of shadow fleet vessels, poor oversight in alternative bunkering zones, and dangerous disruptions in navigation systems due to military activity.

In the long term, all this could lead to a major structural shift—a gradual move away from Gulf oil in favor of more stable sources. In general, geography is becoming less important than logistical resilience and political reliability. Increasingly, the priority is not the price per barrel but guaranteed access and secure routes.

Why Iran Will Not Block the Strait of Hormuz

Nevertheless, the probability that Iran would/will move to fully block the Strait of Hormuz remains low. Though such threats have long been a rhetorical staple of Iranian officials, especially

under military or sanctions pressure, Tehran has never acted on them. This is no accident but a result of real constraints and strategic calculations.

First and foremost, Hormuz is not only a critical artery for global energy, but also vital to Iran itself. Despite the recent launch of the Jask export terminal, more than 90% of Iran's crude and condensate exports still pass through Hormuz.

Second, any attempt to block the strait would almost certainly trigger a harsh military response. The international community would view it as aggression and a violation of freedom of navigation. The U.S. and its regional allies stand ready to respond. Even if Iran succeeded temporarily, it would quickly lose control, with devastating consequences ranging from economic paralysis to internal destabilization.

Third, key Iranian trade partners—primarily China, and to a lesser extent Russia—would oppose such escalation. China, through its Belt and Road Initiative, views Hormuz as a strategic chokepoint. Beijing has no interest in destabilizing such a vital trade route and would not support actions that threaten global supply chain stability. Even without direct diplomatic pressure, China's stance acts as a significant external constraint on Tehran.

Therefore, the most rational strategy for Iran is to use Hormuz as a political tool—through rhetoric, military drills, limited provocations, and missile tests. This helps project strength and

keeps adversaries uncertain. But if the threat becomes reality, Iran forfeits its last geopolitical trump card and gains only isolation, harsher sanctions, and a military confrontation it cannot win.

Everything Is Possible...

Still, until the very last minute all scenarios were on the table. The actions of the parties were often unpredictable, and paranoia and distrust run deep. Four basic scenarios could be outlined:

1. **Limited Escalation:** Israel ends its operation, Iran responds symbolically, and both sides return to negotiations. Oil prices gradually decline. Although the initial probability was assessed as medium, it appeared to be the most realistic for now.
2. **Protracted Proxy War:** Iran activates allies in Iraq and Yemen. Tensions remain high, prices stay volatile. This was considered as the most likely scenario.
3. **Hormuz Blockade:** Even a temporary disruption would send prices to \$120 per barrel and require urgent international intervention. Probability: low.
4. **Civil War or Regime Change in Iran:** This would spark mass migration, infrastructure collapse, and the risk of a global energy crisis. Probability: low.

The Age of Geopolitical Fragility

The Iran-Israel conflict of summer 2025 not only revived old fears in the oil market but also revealed a key trend of the new era—the growing influence of geopolitical expectations on energy supply economics. Despite the muted price reaction, the risk structure has changed: now, even the *potential* threat of escalation or Hormuz closure can alter balances and logistics across entire regions.

At the same time, the old logic—"if a producer is hit, prices surge"—no longer functions linearly. The world has learned to adapt to local shocks but remains vulnerable to systemic shifts. A full-blown regional war remains unlikely but not impossible. In this era of escalating turbulence, even low-probability risks gain weight, as the cost of miscalculation is global.

Thus, the world has entered a period of constant politicized uncertainty—an age in which oil is not just a commodity, but a tool, a hostage, and a barometer of geopolitical reality. In this world, \$100 oil remains a specter—but one that continues to haunt many.

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