



Europe Wanted to Quit Russian Energy, Iran's War Just Complicated That



by Pietro Rinaldi

- The Iran war has tightened oil and LNG supply, pushing up prices and exposing Europe's dependence on global markets just as it seeks to phase out Russian energy imports.
- Russia, though uninvolved militarily, stands to benefit from higher prices, revived demand and widening divisions inside Europe, potentially regaining leverage that sanctions and diversification had weakened.
- Europe's main challenge is avoiding emergency measures that ease immediate shortages but reopen the door to Russian energy, turning a temporary shock into a lasting geopolitical setback.

The most sanctioned country by the Western world is emerging as the quiet winner of a war in which it was not directly involved. The war in Iran is causing prices to soar. As of March, **Brent** has reached the 100 dollars per barrel mark, **natural gas** prices in Europe have jumped from around 30 to 50 euros per MWh, and are still rising. This price increase is not comparable to the peak over 350 euros per MWh following the Russian invasion; nonetheless, the war is drastically impacting the European energy market, and no country is watching more closely than Russia.

Why prices are rising

A rise in costs related to oil and gas is always anticipated when there is political instability in the Middle East. Nonetheless, in this case,



we are not witnessing a simple rise in the cost of oil and gas, but rather a spike, due to two main factors: a complete blockade of the Strait of Hormuz (through which 25 per cent of the world's seaborne oil trade and around 20 per cent of global LNG trade transited in 2025) and direct attacks on energy infrastructure (with refineries and facilities in Qatar, Saudi Arabia and Israel being forced to halt production). That leads to oil and gas output falling below pre-conflict production levels, affecting future supplies given both the shortfall during this period and the repair downtime that will follow.

Europe has become partially globalised in its gas exposure

In essence, the war leaves the global market and Europe with a lower level of supply of both oil and LNG; at the same time, demand remains largely inelastic, with some **Asian countries** being a partial exception, as India, Pakistan, and Bangladesh have started to promote gas rationing across industries.

This disruption may restore Russia's leverage. Moscow finds itself in a comparably advantageous position: its sanctioned oil and gas volumes are now needed to balance prices on global markets. The temporary offline production across key producing countries creates upward pressure that Russian volumes, among the few available at scale, can contain. Europe, as a net importer bearing the full weight of the price increase, remains exposed.

Europe's exposure

For Europe, while the arrival of spring and milder temperatures will provide some temporary relief to gas demand, this reprieve is unlikely to last. If current supply disruptions persist into summer, when Europe restocks gas for winter, the continent's position could deteriorate significantly. Adding to the difficulty, the timing

of Qatar's shutdown could not be more poorly timed, coinciding precisely with the EU's push to finalise its phase-out of Russian supply and leaving the bloc with fewer alternatives at its most vulnerable moment.

Unlike oil, gas does not have a single global price; it is traded regionally, and Europe's benchmark is the Dutch TTF. Historically, Europe was partially insulated from global prices; however, as **LNG has grown** to represent around 40 per cent of EU gas imports in 2025, Europe has, in effect, become partially globalised in its gas exposure: when global LNG prices rise, as they are now, European TTF prices follow.

Moreover, while the majority of Gulf LNG flows to Asia, Europe is not entirely insulated from the direct supply loss. Qatar supplies around 7 per cent of European LNG imports, a modest share at the aggregate level, but one that masks significant national exposure. **Italy**, for example, sources roughly 30 per cent of its LNG from Qatar. Other European nations, such as Belgium and Poland, are also particularly exposed. This disproportionate effect will complicate internal discussions on how to address the imbalance, and any small fracture on the unified European front can provide Russia the opportunity for an opening.

European **storage levels** are already running low, around 30 per cent for the first week of March, while the average for the last five years has been around 45 per cent in this period – a direct consequence of a colder-than-average winter. European countries may therefore need to draw more heavily on existing stocks, and to restock aggressively over the summer. Energy analysts foresee that if the Hormuz disruption persists through the summer, storage could enter next winter at dangerously low levels, potentially pushing the **price of natural gas** in Europe up to 74 euros per MWh, the threshold that triggered widespread industrial demand disruptions during the 2022 energy crisis.



The policy backdrop makes Europe's position even more precarious. In January 2026, the EU passed a regulation to fully phase out Russian gas: LNG imports will be banned by early 2027, and pipeline gas by autumn 2027, with a transition period for existing contracts. EU member states will also be required to verify the origin of gas before it enters the bloc, closing off workarounds via third-party re-export. In practice, this means phasing out the third-largest provider of natural gas to the EU.

Russia's unexpected reprieve

For Russia, this is an unusually favourable situation. While politically the US has attacked a Russian partner, the energy economics are telling a very different story. Russian oil and gas, which was heavily sanctioned and finding buyers only at a steep discount, may now see demand revitalised across different markets. Already on day 7 of the conflict, the **US lifted some sanctions** and penalties for India to purchase Russian crude, and New Delhi has bought 30 million barrels since the start of the conflict. And before that, on day 6 of the conflict, the US waived sanctions on a key German refinery owned by Russian oil company Rosneft, sparing Berlin the risk of major supply disruptions. While Russian Ural crude still trades at a considerable discount, its price has increased by nearly 70 per cent in just two weeks, going from 45 to 76 dollars, and it is **now above the benchmark** of 59 dollars per barrel that was assumed in the Russian Finance Ministry's budget plan for 2026. Moreover, the LNG situation may sharply increase global competition for available cargoes, including those from Russia.

The economic incentive for European countries to resume Russian gas imports is significant. Moscow is not addressing the EU as a bloc; it is cultivating fractures within it, targeting member states facing acute supply shortfalls, energy-intensive industries under cost pressure, and voters and political groups open to Russian influence, of which Slovakia and Hungary are

the most visible examples. In fact, Russia has **pledged to fully cut** its remaining gas supplies to Europe unless the EU reverses its import ban, a threat that now looks credible given that Asian markets have opened as a high-value alternative.

Russia has pledged to fully cut its remaining gas supplies to Europe

Constrained winners: The US and Norway

Russia is not the only beneficiary, but the others are constrained in ways that ultimately reinforce Moscow's position.

The **United States** is the largest producer and exporter of LNG in the world. While ranking second behind Norway in total (pipeline+LNG) gas supplied to the EU, it has become by far the largest supplier of LNG specifically, accounting for as much as **two-thirds of EU LNG imports** as of early 2026. US producers are not locked into single buyers and can direct cargoes toward the most competitive bids. This has allowed US producers to capitalise on surging global demand, fielding **competitive bids** from both Asia and the EU, and directing their supply toward the most lucrative markets. Several LNG tankers have recently been rerouted to Asia after the conflict started. As new investments in US LNG production will come online later in 2026 and 2027, they can only sell at higher prices, not produce greater volumes.

The largest provider of natural gas to Europe via pipeline is **Norway**. Since its recent contracts are indexed to market prices, as TTF rises, Norwegian export revenues rise with it. Nonetheless, Norway's capacity is also constrained, and it cannot alone compensate for the global supply shortfall. Essentially, neither the US nor Norway can fill the gap, which is precisely where Russia sees its opening.



A short-lived windfall?

The critical factor for Europe in the short term is the duration of the Strait's blockade and the resumption of the operations of energy infrastructure. This will determine the duration and volatility of high prices, the pressure the EU will endure, and the bargaining power Russia will hold. Russia is undoubtedly benefiting from the conflict; this surge in energy prices may hand Moscow a financial lifeline, injecting resources into a war machine that Western sanctions had been slowly starving.

Two timelines now run in parallel for European policymakers. The short-term priority is managing storage, securing alternative supply and preventing the national fragmentation that Russia is actively trying to provoke. The longer-term challenge is ensuring that the current disruption does not permanently rehabilitate

Russian energy as a politically acceptable option within the EU.

For Moscow, the scale of the windfall depends on what comes next. In the short term, higher prices and revived demand provide genuine fiscal relief, but structural constraints remain. **Russia's gas leverage is narrow:** TurkStream is fully utilised, Nord Stream is damaged, Yamal-Europe remains politically closed, and additional LNG capacity is marginal. The larger prize, however, lies further down the road. If the war in Iran leads the EU to ease sanctions, reopen investment flows, or revive closed pipeline routes and LNG import agreements, Moscow's windfall would be transformed from a short-term revenue boost into a durable recovery.

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