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IENE Comment

Security Concerns Upend European Energy Markets

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*By Costis Stambolis **

As Europe and the Middle East once again find themselves engulfed in overlapping waves of geopolitical turmoil, energy markets are reacting with a renewed sense of nervousness. The spectre of military escalation across two critical theatres of conflict—Eastern Europe and the Middle East—has reawakened fears over the security of energy supplies. While volatility has not yet fully materialised across all commodities, the pressure points are visible, and investors, governments, and consumers alike are bracing for potential disruptions.

Over the past week, European gas prices have edged higher, reflecting market unease over supply security. Oil prices, which until last week had remained stable, largely due to OPEC+'s latest decision to modestly increase production, are now showing signs of an uptick. This apparent divergence underscores the complexity of today's energy environment: geopolitical risk is pushing prices up, while producer group dynamics are simultaneously applying downward pressure. Yet the uneasy calm could prove fleeting if political and military developments escalate further.

At the heart of Europe's current anxieties are the mounting tensions on NATO's eastern flank. The reported Russian drone incursions into Polish territory represent more than a mere military provocation; they strike directly at the credibility of NATO's collective security framework. Poland, deeply concerned by repeated violations of its airspace, has formally requested an emergency meeting of the United Nations to address the situation. Markets fear that these actions are not isolated incidents but part of a broader Russian strategy designed to test the resolve of NATO members.

The prospect of NATO involvement in direct military operations against Russia—an eventuality that cannot be ruled out—would fundamentally change the geopolitical landscape. Energy traders, in particular, are alarmed by the potential consequences of a wider European conflict. Were Poland and its allies to enter direct hostilities, the risk of further sanctions, supply disruptions, and retaliatory measures by Moscow would escalate sharply. Europe has already struggled through successive winters of energy insecurity since the outbreak of the Ukraine war; another round of conflict would heighten the risks of price surges and supply instability.

Meanwhile, events in the Middle East have added an equally troubling layer of uncertainty. Israel's decision to target Hamas's senior leadership in Qatar marks a significant expansion of its military campaign beyond traditional theatres. Regardless of diplomatic backlash, Israeli leadership has vowed to continue striking its adversaries wherever they are found. This escalation raises the likelihood of retaliatory actions and further bloodshed across the region.

The cycle of violence is already widening. Last Wednesday (10/9), Israeli airstrikes hit military targets in Yemen, striking Houthi rebel positions backed by Iran. These developments link the Gaza conflict directly with other flashpoints in the Middle East, creating a web of instability that could spill over into maritime and energy supply chains. The Houthis, with Iranian support, have demonstrated their capacity to target shipping lanes in the Red Sea and the Gulf of Aden. Any sustained campaign in these waters would place a chokehold on a vital artery for global oil and gas shipments.

For Europe—and particularly for South East Europe—the convergence of these crises is deeply unsettling. Energy security, already fragile in the wake of Russia's war in Ukraine, is once again under strain. If gas prices continue their upward climb, electricity markets across the continent will face renewed pressures. Higher electricity prices are more than a market inconvenience; they ripple through national economies, eroding competitiveness, stifling growth, and adding to the cost-of-living pressures on households. South East Europe, where incomes remain lower than the EU average and energy poverty is a recurring challenge, would be especially vulnerable.

Change of Tack

Yet amid these risks, there are also buffers that provide a measure of reassurance. Europe's growing reliance on liquefied natural gas (LNG) imports from the United States is altering the strategic equation. Following last July's agreement between Washington and Brussels, transatlantic energy ties have deepened considerably. The steady flow of LNG cargoes from US terminals to European ports not only diversifies supply away from Russia but also embeds Europe within America's broader security umbrella. For policy-makers in South East Europe, this linkage offers some comfort, even if it cannot fully offset the volatility of international markets.

EU countries have until recently resisted multi-decade fossil fuel deals in order to protect climate goals, even after Moscow's full-scale invasion of Ukraine cut off the flow of Russian pipeline gas. They preferred to compete with Asia for LNG cargoes on the spot market, often paying steep prices. But they are now starting to shift. In July, Italian major

Eni signed a 20-year deal with US company Venture Global for 2mn tonnes a year of LNG. Germany's Sefe has signed a 10-year agreement with ConocoPhillips and a 20-year deal with Venture Global. The rethink also comes after heavy pressure from the US, with energy secretary Chris Wright last week, on a visit to "Gastech", saying Europe should end all purchases of Russian gas if it wanted tougher American sanctions on Moscow. "You want to have secure energy suppliers that are your allies, not your foes," he told the Financial Times.

Under such a scenario, the US could account for almost three-quarters of Europe's LNG imports, according to Anne-Sophie Corbeau, a gas specialist at Columbia University. This year, Europe has hugely increased its LNG imports, while Asia's have fallen. "We have seen in the data quite a big increase in LNG imports to Europe, year on year, it's up about 20 per cent," says Peter Clarke, senior vice president of Exxon's LNG business, adding that 55 per cent of the imports were from the US.

The EU agreed in July to buy $750bn of US energy by 2028 as part of a deal with America to ward off punishing tariffs, while also reducing its reliance on Russian supplies.

The push from Donald Trump's administration coincides with a huge US-led expansion of LNG capacity, with global supplies expected to grow by 7 per cent next year, the most since 2019, according to the International Energy Agency (IEA). In this respect Europe has emerged as the most important market for US LNG exports.

Still, dependence on imported LNG is not without its drawbacks. Prices remain sensitive to global demand shifts, especially competition from Asian buyers. Moreover, Europe's infrastructure for LNG regasification and internal gas distribution, while expanding, is unevenly developed across the continent. South East Europe lags behind north-western Europe in terms of LNG handling capacity, making it more exposed to supply bottlenecks. This imbalance could translate into sharper price spikes in SEE markets if tensions escalate further.

Looking ahead, the outlook for European energy markets is uncertain at best. Much depends on whether the flashpoints in Eastern Europe and the Middle East intensify or stabilise. A de-escalation in either theatre could calm markets and restore confidence. But if conflicts deepen simultaneously, Europe faces the prospect of another turbulent period, with higher prices, heightened volatility, and growing public discontent.

For South East Europe, the imperative is clear: strengthen energy resilience. That means accelerating investment in regional interconnections, LNG infrastructure, diversified supply sources and an increase of indigenous oil and gas production. This clearly contradicts EU's hotly pursued decarbonation agenda which sooner or later will have to be abandoned in a view of market expediencies. This means that policy-makers in Brussels and elsewhere need to engage with the realities of geopolitics—energy security cannot be divorced from increased local supply, military security, and regional stability is as critical to affordable energy as pipelines and terminals.

EU's misguided energy policies which prioritise green transition against all other forms of energy, including a push for indigenous gas production, were pointed out at the highest level to European Commission functionaries, by both US Energy Secretary Chris Wright and Interior Secretary and Chairman of "White House's Energy Dominance Council", Doug Burgum during visits to Europe last week.

The lesson of recent years is that Europe cannot afford complacency. Energy markets are shaped as much by politics and conflict as by supply and demand fundamentals. With Russian drones in Poland and Israeli strikes reverberating across the Middle East, the fragility of Europe's energy security is once again on full display. For now, the anxiety is reflected in edging gas prices rather than runaway costs. But the situation remains precarious, and unless tensions ease, markets may soon find themselves rattled far more severely.

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