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IENE Comment

Europe on the Brink of Second Energy Crisis in 5 Years



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*By Irina Slav**

“Soaring” is not a word any politician wants to hear with regard to energy prices. Yet “soaring” has once again become the word to describe the prices of crude oil and natural gas following the U.S. and Israeli strikes on Iran last week that prompted a response few had expected. A worst-case scenario for energy security is unfolding at speed, and Europe looks like the biggest loser in that scenario.

With the suspension of LNG production in Qatar—the world’s second-largest exporter of the commodity—and with tanker traffic in the Strait of Hormuz effectively paralysed, import-dependent EU is scrambling to secure suddenly scarce oil and gas, yet again. The problem is that this time, the EU is in a much weaker position than it was five years ago.

In 2022, when Russian pipeline flows were decimated, it was easy enough to replace lost supply with higher Norwegian purchases and U.S. LNG imports, even if it was not exactly cheap. Since then, the EU has become exceedingly reliant on those U.S. LNG imports and they have added billions to its energy import bill. Said bill was already on course to get even higher this year before the war in the Middle East began. With that war, we may well be in uncharted territory—even if benchmark prices are still far from the 2022 peaks—because U.S. LNG is not as readily available to European buyers as it was back then.

Reuters reported last week that cargoes of the superchilled fuel that set off from the U.S. Gulf Coast were diverting from their original destinations in Europe to Asia. The reason: Asian LNG importers are feeling the pinch of Strait of Hormuz disruption more acutely and are ready to pay more for American LNG. That was one factor that European political leaders did not account for when they hastily declared energy independence five years ago. LNG producers active on the spot market would sell to the highest bidder and if that bidder is not in Europe, too bad for Europe.

The situation is similar in oil. Middle Eastern crude has already topped \$100 and Brent crude ended last week above \$92. This week, it topped \$100. Analysts, who just a month ago predicted lower-for-longer oil prices, are now predicting triple-digit levels

for longer as the outcome of the war becomes increasingly uncertain. Iraq began cutting production last week, and now the UAE and Kuwait have also signaled they are starting to curb, for lack of storage capacity.

What analysts used to refer to as surplus supply in floating storage (mostly sanctioned Russian and Iranian crude) has suddenly become “a decent cushion”, which will, however, “evaporate in a week”, according to HFI Research. This, in short, is not the time to be a major oil and gas importer. And yet the EU is exactly that—despite years and billions in investments in alternative sources of energy.

If anyone needed any definitive proof that wind and solar, and the electrification of everything as replacement for oil and gas is not a feasible way forward, we now have it. If they were feasible, Europe would not have batted an eye at the Middle Eastern crisis. As things stand, eye-batting is just the start. Now, decision-makers need to find a way to cushion the blow, and fast. To that end, the Commission is convening a meeting next week, where it would propose cutting energy bills for industrial users. The cuts, if approved, would be in network costs and carbon costs. The period over which these measures would need to be enforced: between two and five years. After that, there appears to be a belief that the long-promised cheaper energy from wind and solar would materialise.

Cutting carbon costs is a good start, seeing as enforcing expensive emission penalties has done nothing to make European industries more competitive, although it has made them greener, grudgingly. Yet the pressing question of securing the oil and gas that European countries need at prices that would not bankrupt half the bloc remains a question without a clear answer. Net-zero advocates have seized the opportunity to argue in favour of even faster wind and solar buildout to reduce dependence on oil and gas – even though the last five years have provided plenty of evidence that the only way to reduce this dependence is to reduce overall energy demand by cutting industrial activity, with all the dire implications of that move that we already see.

Businesses are fleeing Europe or shutting down, hundreds of thousands of jobs have been lost but at least we’ve cut our emissions—although the rate of these cuts has slowed down significantly in the past couple of years. The transition to wind and solar was hailed as the ultimate solution to the energy security problem that dominated European discourse in 2022. The last five years have demonstrably shown it is not a viable solution. Now may be a good time to reconsider the European aversion to local

oil and gas production.

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