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Monthly Analysis

East Med's Energy Markets Highly Exposed to Middle East Conflict

Introduction

The Eastern Mediterranean's energy markets are highly exposed to the widening war in the Middle East, as the region sits at the intersection of key gas production zones, maritime trade corridors, and competing geopolitical interests. Escalating tensions around the Gulf and the continued disruption of flows through the Strait of Hormuz have amplified concerns over LNG availability, shipping costs, and supply security, with ripple effects extending directly into East Med gas pricing and infrastructure planning. For countries such as Greece, Cyprus, Egypt, and Israel, the conflict is not only raising immediate market volatility but also exposing the fragility of regional export strategies that depend on stable sea routes and investor confidence.

At the same time, the war is reshaping the strategic role of the East Med as both a vulnerable frontier and a potential alternative supply corridor for Europe. As global buyers seek diversification away from disrupted Gulf volumes, East Mediterranean gas resources gain renewed importance; however, this opportunity is constrained by unresolved maritime disputes, limited infrastructure, and heightened security risks. The result is a market environment in which energy prices, project timelines, and investment decisions are increasingly driven by geopolitical developments rather than purely economic fundamentals, leaving the East Med grossly exposed to every escalation in the wider Middle East conflict.

The Fragility of East Med Gas Security

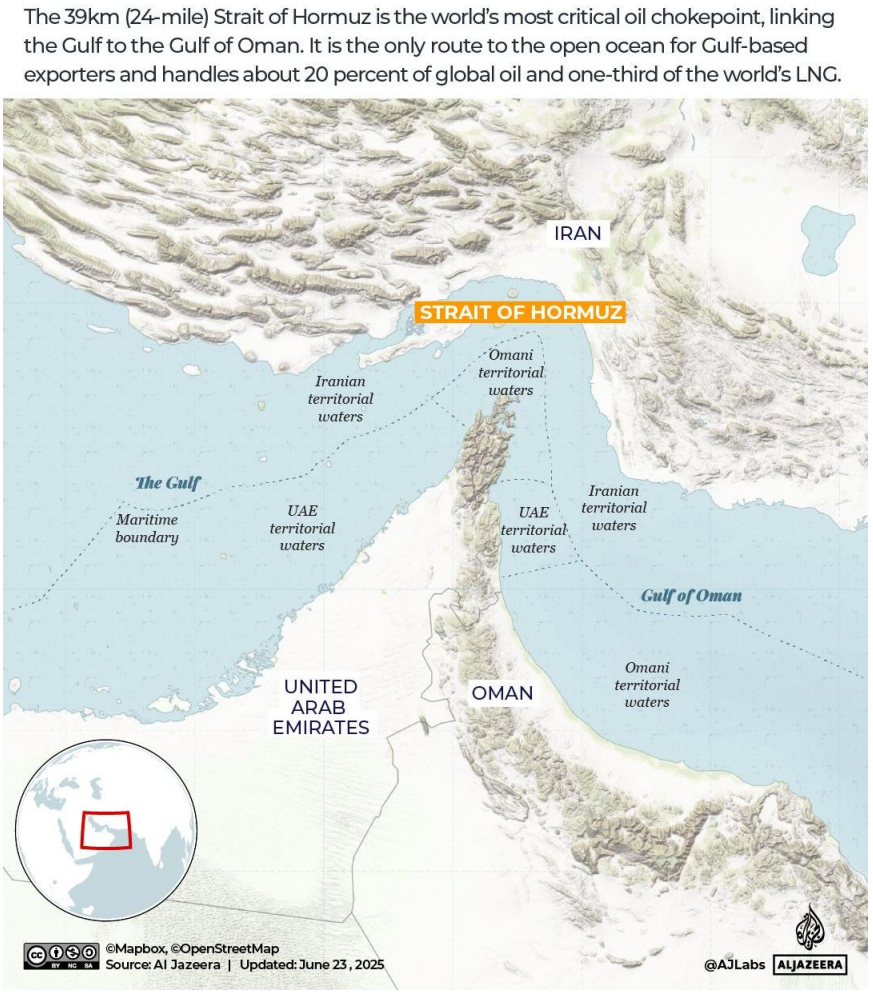
The Eastern Mediterranean's energy markets are exceptionally exposed to the wider Middle East conflict because the region's gas system is deeply embedded in global LNG trade flows, maritime transit routes, and European benchmark pricing. While East Med producers such as Israel, Egypt, Cyprus, and potentially Greece are not located inside the Gulf, their commercial environment is immediately affected by disruptions in the Strait of Hormuz, which remains one of the world's most critical LNG chokepoints. The recent suspension of LNG tanker traffic through Hormuz has temporarily disrupted nearly one-fifth of global LNG supply, sharply tightening balances and intensifying competition for flexible cargoes **(1)**. For the East Med, this translates into higher spot LNG prices, stronger TTF volatility, and rising procurement costs for utilities and industrial buyers.

This vulnerability is particularly significant for countries, such as Greece and Egypt, which increasingly function as balancing hubs between the East Med and Southeast Europe. Greece's and Türkiye's LNG terminals and floating regasification units are central to regional diversification strategies, while Egypt's Idku and Damietta LNG regasification plants remain vital export outlets for both domestic and Israeli gas. Any prolonged disruption in Gulf LNG supply raises the strategic value of East Med molecules, but it also increases pressure on local infrastructure, storage optimization, and shipping availability. Freight rates, war-

risk insurance premiums, and tanker rerouting costs all rise during conflict periods, affecting delivered gas prices even when physical East Med production remains stable.

A second layer of risk concerns the East Med's own maritime geography. The region depends on uninterrupted offshore production, subsea gathering systems, LNG loadings, and the Suez–Red Sea shipping corridor. The conflict's spillover into the Red Sea, including the threat of attacks by Iran-backed groups on commercial shipping, increases the probability that East Med cargoes may face longer transit times, security delays, or temporary route closures. This is especially critical for Egyptian LNG exports heading toward Europe and Asia. In effect, East Med gas security is no longer a local question of reserves and pipelines alone; it is a function of a wider maritime security architecture stretching from the Gulf to the Levant and the Eastern Mediterranean basin. **(2)**

Map 1: Strait of Hormuz

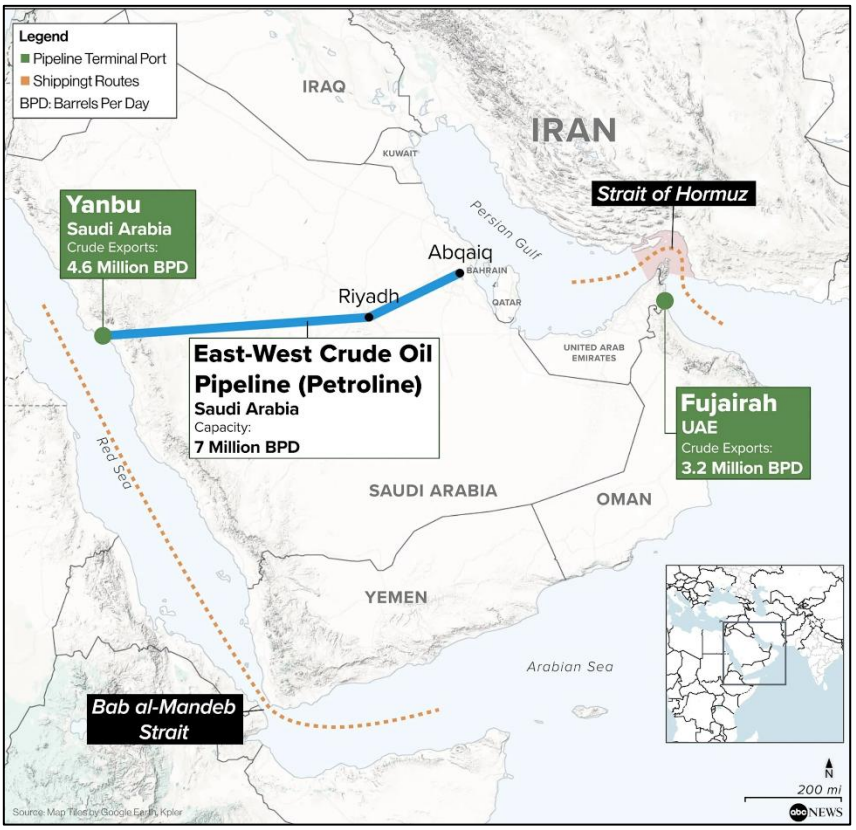


Source: Al Jazeera

With the Strait of Hormuz effectively closed, Saudi Arabia's rapid pivot to reroute crude exports through the East-West pipeline to Yanbu on the Red Sea marks a major strategic turning point in global oil logistics, partially preserving supply flows to Asia and Europe; however, this workaround shifts the vulnerability from

one chokepoint to another, as tankers departing Yanbu must still navigate the Bab el-Mandeb and broader Red Sea corridor, where the threat of Houthi attacks on shipping remains acute, exposing rerouted barrels to delays, higher insurance costs, and potential fresh disruptions that could tighten global markets further.

Map 2: Two of the Most Important Alternatives to the Strait of Hormuz



Source: ABC News

The broader implication is that East Med markets are structurally "imported-risk" systems. Even when local upstream assets are physically safe, price discovery is global and highly sensitive to disruptions elsewhere. This creates a paradox: geopolitical instability in the Gulf can raise the strategic relevance of East Med gas while simultaneously undermining the cost stability and logistical predictability needed to monetize it efficiently. As a result, the East Med remains highly exposed not because it lacks resources, but because its commercial ecosystem is deeply dependent on secure regional sea lanes and confidence in uninterrupted LNG mobility.

Price Formation, Investment Risk, and Infrastructure Delays

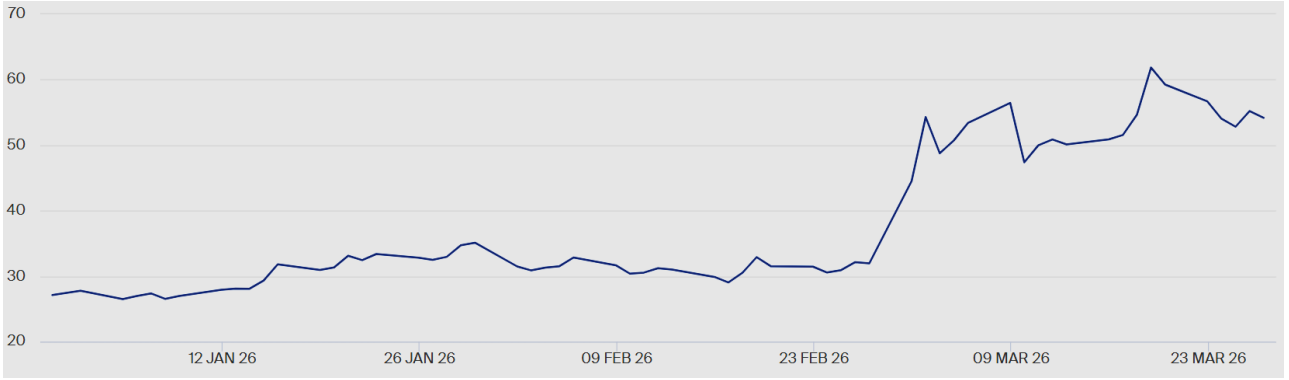
The second major channel of exposure lies in the rapid transmission of geopolitical risk into East Med price formation and project economics. Most natural gas transactions in the wider region are linked either directly or indirectly to European benchmarks, especially the Dutch TTF. As European gas prices have surged in

response to Middle East war risks and the disruption of Gulf LNG exports, East Med power markets, LNG import tenders, and gas-indexed industrial contracts have immediately reflected this volatility **(3)**. This means that the conflict affects East Med consumers even before any direct physical disruption reaches the region.

For Greece and Cyprus, where gas-fired generation remains essential for power system balancing, higher TTF-linked prices translate into immediate electricity cost pressures. In Egypt, the issue is even more acute: the country is simultaneously a producer, importer, and exporter of gas, meaning volatility can distort domestic allocation choices between power generation, industrial use, and LNG exports. Under conflict conditions, governments are often forced to prioritize domestic energy security over export optimization, reducing the reliability of long-term regional supply expectations.

Investment exposure is even more strategically important. Offshore gas developments, floating LNG terminals, subsea electricity interconnectors, and hydrogen export infrastructure all depend on long time horizons and stable risk assumptions. The Middle East conflict significantly raises the geopolitical risk premium attached to these projects. Investors now need to account for higher construction insurance costs, security expenditures, war-risk shipping clauses, and uncertainty around future maritime access. This directly affects the weighted average cost of capital for East Med projects and may delay final investment decisions on commercially marginal assets. **(4) (5)**

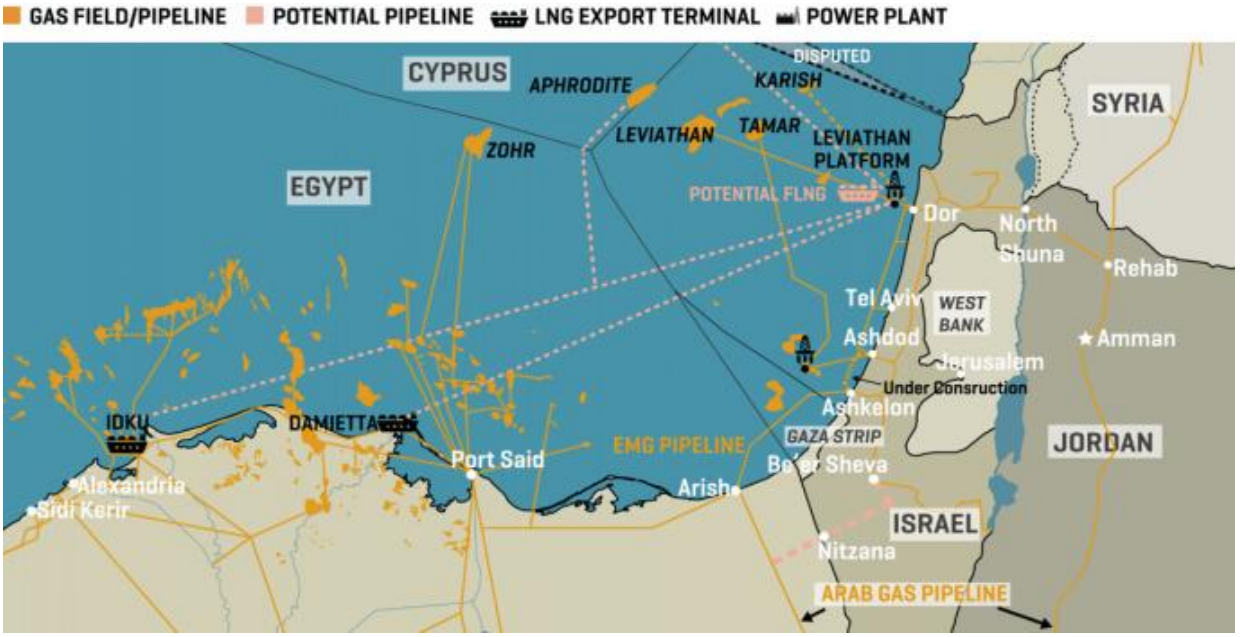
Figure: Dutch TTF Natural Gas Futures Over the Last Three Months



Source: ICE

The East Med pipeline concept illustrates this problem clearly. Although renewed European interest in diversified gas supply could theoretically improve the strategic case for East Med pipeline exports, the conflict also strengthens the argument for flexible LNG and power interconnection routes rather than fixed offshore pipeline commitments. Political fragmentation involving Greece, Cyprus, Türkiye, Israel, Egypt, and Libya further complicates the investment landscape. Under such conditions, geopolitical volatility can slow infrastructure decisions precisely when Europe needs diversification most urgently.

Map 3: Offshore Gas Discoveries in the East Med



Source: Springer

A further challenge is that high short-term prices may create misleading signals. Elevated war-driven prices can temporarily improve project economics on paper, encouraging optimism about monetization. Yet if these prices reflect risk premia rather than structural undersupply, long-term demand assumptions may prove unstable. Investors therefore face a dual uncertainty: whether today's price spikes are sustainable, and whether the political environment will permit uninterrupted operation over multi-decade asset lifespans.

Strategic Realignment and Europe's Diversification Agenda

The third dimension of analysis concerns the East Med's changing geopolitical role within Europe's broader diversification strategy. The Middle East conflict has elevated the East Mediterranean from a promising regional gas province into a strategically significant alternative corridor for European energy security. As Gulf LNG volumes face repeated disruptions and risk premia, European policymakers increasingly view the East Med as part of a resilience architecture that includes LNG, pipeline gas, and cross-border electricity interconnections.

This shift creates opportunities for East Med producers. Israeli offshore fields, Egyptian LNG export capacity, Cypriot discoveries, and Greek regasification and transmission infrastructure can all play a stronger role in serving Southern and Central Europe. In addition, electricity interconnection projects linking Egypt, Cyprus, Greece, and continental Europe gain greater strategic value because they diversify not only fuel sources but also the mode of energy delivery itself. This reduces dependence on single-route LNG supply chains and strengthens system resilience.

However, strategic opportunity is inseparable from geopolitical fragility. The East Med remains one of the most politically contested maritime spaces in the world, with unresolved EEZ disputes, Turkey–Greece tensions, Cyprus-related divisions, and the persistent security overhang of the Levant. The Middle East war amplifies all these tensions by increasing the geopolitical value of every offshore field, pipeline corridor, and LNG export route. Assets that were once commercial projects now acquire strategic and military significance, making them more exposed to state rivalry and non-state threats.

This has major policy implications. East Med governments can no longer evaluate gas infrastructure purely through economic metrics such as cost curves, demand forecasts, or LNG netbacks. Strategic resilience, naval security, cyber protection, and alliance credibility are now central determinants of market value. Europe's support for East Med infrastructure is therefore likely to become more explicitly geopolitical, tied to energy diplomacy, maritime security cooperation, and broader regional stabilization initiatives.

Ultimately, the East Med's energy markets are highly exposed because they sit at the convergence of three volatile systems: global LNG pricing, regional maritime insecurity, and European strategic demand for diversification. The Middle East conflict magnifies all three simultaneously. In the short term, this drives volatility and raises risk premia; in the long term, it may accelerate the East Med's transformation into a critical—yet persistently fragile—pillar of Europe's post-crisis energy architecture.

Conclusion

The Eastern Mediterranean's energy markets have become one of the most geopolitically sensitive segments of Europe's wider energy security architecture. The ongoing Middle East conflict has demonstrated how rapidly disruptions in the Gulf, the Strait of Hormuz, and the Red Sea can transmit volatility into East Med gas prices, LNG logistics, electricity costs, and infrastructure planning. Although the region possesses significant natural gas reserves and growing strategic relevance as an alternative supply corridor for Europe, its exposure remains exceptionally high because pricing, shipping, and investment decisions are deeply interconnected with broader regional stability. As global LNG flows tighten and risk premiums rise, East Med markets face the dual challenge of managing immediate supply insecurity while preserving long-term competitiveness.

At the same time, the crisis may accelerate the East Med's transformation from a regional production zone into a critical pillar of Europe's diversification strategy. This opportunity, however, will only materialize if regional actors strengthen maritime security cooperation, reduce political fragmentation, and fast-track resilient infrastructure such as LNG terminals, interconnectors, and flexible export routes. The core lesson is that East Med energy security can no longer be assessed solely through reserves and economics; it must be understood through the lens of geopolitical resilience, supply-chain redundancy, and strategic diplomacy. In

this sense, the conflict has not only exposed the region's vulnerabilities but has also clarified the urgent policy choices required to turn exposure into long-term strategic advantage.

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