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News Analysis

The Israel-Iran Conflict and Its Impact on Energy and SE Europe



Introduction

On June 13, 2025, the Iran-Israel war began, when Israel launched a surprise attack targeting key military and nuclear facilities, cutting short negotiations between Iran and the US over Iran's nuclear ambitions and the easing of economic sanctions. The opening hours of the war saw a series of targeted assassinations of Iran's top military leadership and nuclear scientists, airstrikes on nuclear and military facilities, and destruction of Iran's air defenses. Iran retaliated by launching a salvo of missiles at military sites and cities in Israel. (1)

The conflict is the culmination of decades-long escalating animosity between the two countries, during which Iran challenged Israel's legitimacy and called for its destruction, while Israel considered the Iranian nuclear program an existential threat. During the crisis in the Middle East that followed the Hamas attacks of October 7, 2023, and the ensuing Gaza war, animosity escalated to direct confrontation (2). Israel weakened Iranian proxies, such as Hamas and Hezbollah and began planning action against Iran. A day before the Israeli strikes occurred, the International Atomic Energy Agency (IAEA) found Iran non-compliant with its nuclear obligations for the first time in 20 years. (3)

In the growing conflict between Israel and Iran, many questions now loom, including the extent of US involvement, following the bombing on June 22 of Iran's three main nuclear sites (Fordow, Natanz and Isfahan) with high calibre Massive Ordnance Penetrator (MOP) bunker buster bombs, with the aim to solely destroy its nuclear program, prevent a nuclear war and also a wider war (4), paving the way for regime change in Tehran.

Following a hastily mediated truce by the US on June 24, a fragile peace has taken hold between the warring nations. How long this peace will hold is highly depending on Iran's willingness to pursue its nuclear program, despite the present setback, and Israel's ability to exercise restraint from further military action. All this uncertainty and speculation is having some impact on energy markets and potentially much more in the weeks to come. (5)

While there have been some attacks on energy infrastructure, there has not been any serious disruption in oil or gas supply to the global market, following strategic decisions by both countries to avoid destruction of corresponding energy infrastructure. Some energy traders are seemingly anticipating that the conflict will remain contained in the months to come, but this is far from certain.

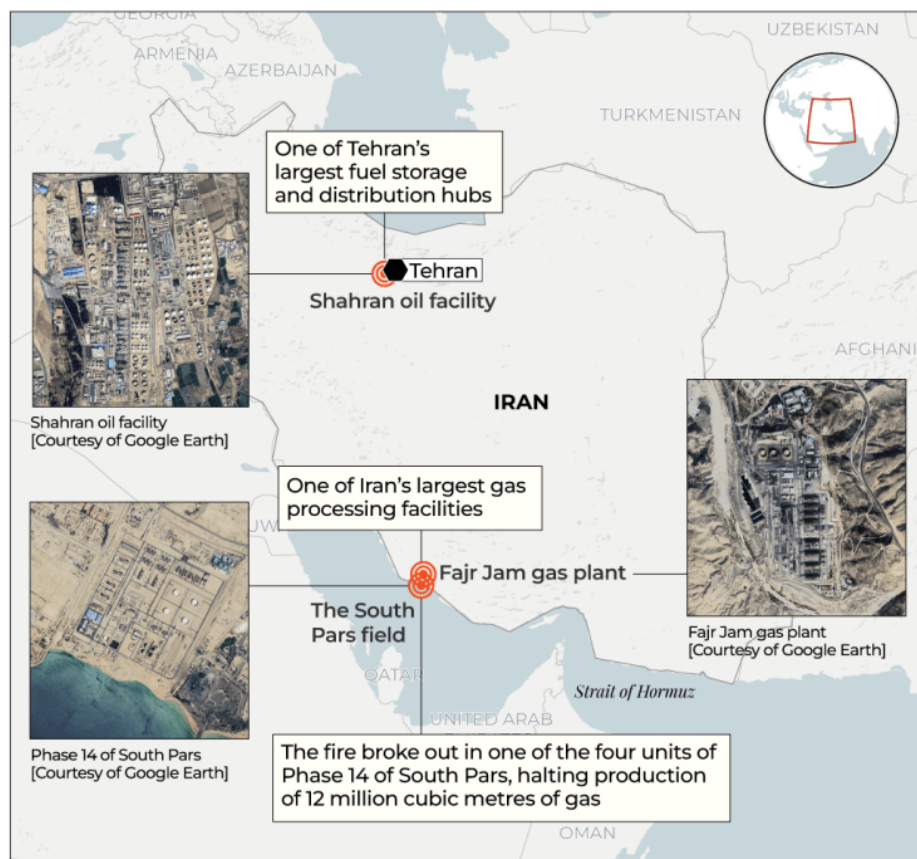
Impact on Energy Markets

The Israel-Iran conflict, long rooted in ideological, strategic, and geopolitical antagonism, has far-reaching consequences, particularly for the global energy sector. Although not always resulting a direct military confrontation, the rivalry has intensified over the years through

proxy engagements, cyber warfare, and mutual threats, creating a persistent undercurrent of instability in the Middle East. This region, being central to global oil and gas production and transport, as it covers some 25% of global energy needs, means that even limited military engagements between these two countries can have ripple effects across international energy markets.

Iran holds the world's second-largest proven natural gas reserves and the world's third-largest crude oil reserves (6). As a member of OPEC, its ability to influence oil prices is significant, though constrained by sanctions and geopolitical isolation. Israel, on the other hand, is an energy importer turned exporter due to the discovery of large offshore natural gas fields like Tamar and Leviathan. While Israel is not a significant oil producer, its growing gas exports (especially to Egypt) contribute to regional energy dynamics, particularly through cooperation with neighboring countries like Egypt and Jordan.

Figure 1: Israel Attacks Iran's Oil and Gas Facilities



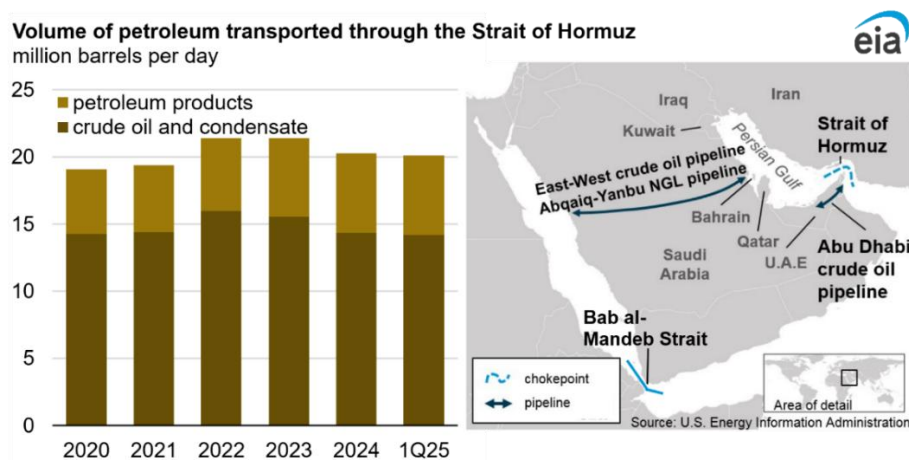
Sources: Reuters, Al Jazeera

Tensions arise from the fact that Iran supports anti-Israel groups, such as Hezbollah and Hamas, which not only destabilize Israel's security environment but also threaten energy infrastructure. In times of conflict, such groups may target Israeli energy installations, which could disrupt production and export capabilities. Likewise, any retaliation or preemptive

strikes by Israel against Iran's oil, gas and nuclear facilities risk escalating into broader regional conflict, thereby threatening oil transit routes like the Strait of Hormuz.

The Strait of Hormuz is a critical chokepoint for global oil shipments, with approximately 20% of the world's petroleum liquids passing through it (7). In the present conflict, although Iran could have blocked the Strait of Hormuz, avoided doing so as it would have negative effect to oil and gas exports to China, a main ally of Iran. If renewed hostilities between Israel and Iran trigger Iranian actions to block or disrupt traffic through the Strait, oil prices would likely spike dramatically. Even threats to the Strait can cause speculative price increases as markets react to potential supply disruptions.

Figure 2: Volume of Petroleum Transported Through the Strait of Hormuz



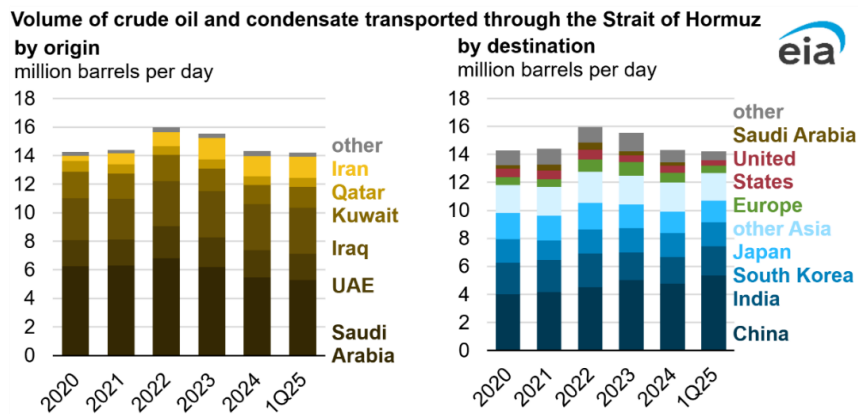
Source: EIA

Historically, tensions involving Iran have led to energy market volatility. For instance, during periods when US-Iran relations deteriorate—especially after incidents involving Israeli intelligence or military actions, as it occurs right now —energy prices often react sharply. Oil prices typically surge amid fears of supply disruptions, driving up costs for consumers and creating economic uncertainty worldwide. The risk of attacks on Gulf oil facilities or tanker routes also rises, as seen in previous conflicts where proxy strikes targeted energy infrastructure. In the present conflict, oil and gas prices did not rise substantially, as market players anticipated correctly Iran's limited retaliatory capacity. This became a certainty following direct involvement by the US, and this led to a collapse of oil prices after June 23, now trading below \$70 per barrel.

This latest Israel-Iran conflict may prompt countries to increase their strategic petroleum reserves, boost domestic energy production, or accelerate the transition to renewable energy to reduce dependency on Middle Eastern oil. In the long term, repeated energy shocks caused by Middle Eastern tensions reinforce global efforts to diversify energy sources and secure more stable supply chains.

Israel's growing energy partnerships in the Eastern Mediterranean also face risks from the conflict. The East Med pipeline project, intended to transport Israeli and Cypriot gas to Europe, has geopolitical implications, especially as it aims to reduce Europe's reliance on Russian gas. Iran, in opposition to Israel's regional integration, may view such projects as strategic threats and support actions that hinder their development or operation.

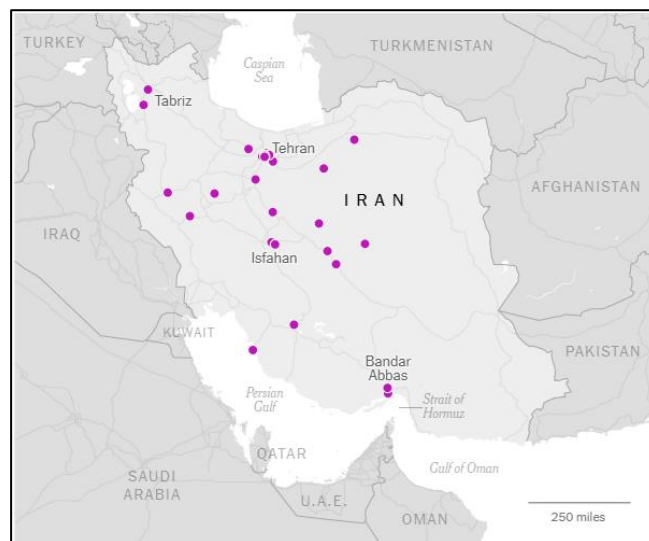
Figure 3: Volume of Crude Oil and Condensate Transported Through the Strait of Hormuz by Origin and Destination



Source: EIA

Sanctions on Iran, particularly from the United States and its allies, have significantly curtailed its oil exports. However, when enforcement of these sanctions loosens—often due to diplomatic negotiations over Iran's nuclear program—Tehran ramps up oil exports, influencing global supply and prices. These dynamics are tightly linked to Israeli lobbying efforts, especially in the US, where Israel seeks to prevent any agreement that would empower Iran economically or strategically.

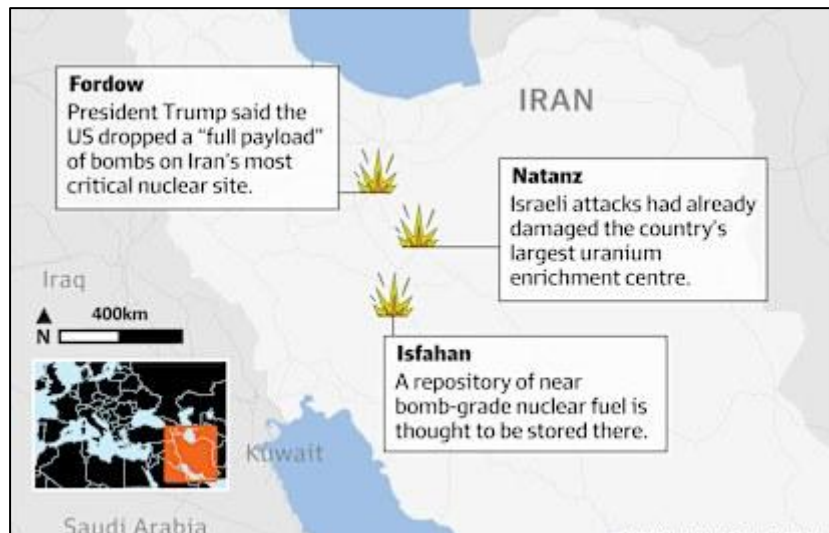
Figure 4: Nuclear and Missile Facilities in Iran



Source: New York Times

Cyber warfare is another dimension of the conflict with implications for energy infrastructure. Both nations possess advanced cyber capabilities and have targeted each other's critical systems in the past. Iranian cyberattacks on Israeli water and energy systems, and Israeli operations such as the Stuxnet virus targeting Iranian nuclear facilities (8), illustrate the vulnerability of energy networks to cyber threats arising from this rivalry.

Figure 5: Iranian Nuclear Sites Trump Says the US Bombed



Source: Financial Review

In broader terms, the latest Israel-Iran conflict contributes to a climate of uncertainty in the Middle East, deterring long-term energy investment in the region. Multinational energy companies may delay or scale down projects due to concerns over security, regulatory unpredictability, or the risk of sanctions. This uncertainty undermines efforts to develop new energy infrastructure and hampers regional economic development.

Energy-importing nations are especially concerned about the implications of this latest conflict. Asian economies like China, India, and Japan, which heavily depend on Middle Eastern oil, monitor the Israel-Iran tensions closely. Disruptions in the Gulf region can jeopardize their energy security, prompting them to diversify sources or increase strategic petroleum reserves as precautionary measures.

Europe, amid its own energy transition and effort to move away from Russian energy dependence, sees the Israel-Iran rivalry as a complicating factor. Israeli gas could be an important alternative supply, but only if regional stability allows for secure and continuous development and transportation. Thus, Europe has a vested interest in de-escalating tensions between Israel and Iran and promoting diplomatic solutions.

Another indirect consequence of the conflict is its effect on global energy transition strategies. High oil prices, caused by geopolitical disruptions, can either accelerate the shift to renewable energy (by making clean alternatives more cost-competitive) or delay it (by

inflating costs and redirecting capital towards short-term oil and gas developments). The net effect often depends on the duration and intensity of the disruption.

Iran's energy ambitions are also shaped by its conflict with Israel. Tehran seeks to increase its influence through strategic energy partnerships with countries like China and Russia. These alignments help Iran bypass Western sanctions and gain leverage in regional politics. Israel, meanwhile, counters by strengthening its own alliances with Western and regional partners, particularly around energy cooperation.

The Abraham Accords (9), through which Israel normalized relations with several Arab countries, which were concluded during the first Trump presidency in 2017-2021, have potential to reshape regional energy cooperation. Iran views this normalization—and related energy deals—as a threat to its regional influence. Therefore, the Israel-Iran rivalry now also plays out through energy diplomacy, with each side seeking to build alliances that can advance their strategic interests and economic resilience.

To sum up, the Israel-Iran conflict profoundly affects the global energy landscape, not necessarily through direct attacks on oil fields or pipelines, but via broader strategic, economic, and geopolitical mechanisms. Its impact is felt in energy prices, infrastructure vulnerability, investment decisions, and the pace of energy transition. The situation remains fluid, and the energy sector will continue to be a key arena in this complex and enduring rivalry.

Impact on SE Europe

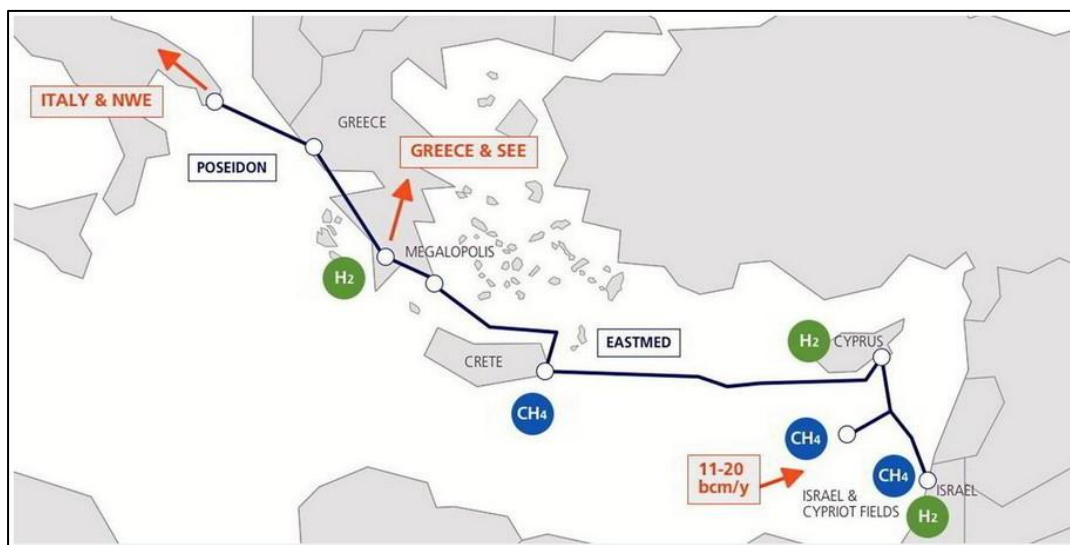
The Israel-Iran conflict, while geographically distant from SE Europe, has significant indirect effects on the region's energy security and infrastructure planning. SE Europe, which includes countries like Greece, Türkiye, Bulgaria, Romania, and the Western Balkans, is heavily dependent on energy imports and is actively seeking to diversify sources and routes to ensure stable and affordable supplies. As such, developments in the Middle East—particularly tensions between Israel and Iran—are of strategic importance due to their potential to disrupt supply chains, increase prices, or delay critical energy infrastructure projects.

One of the most prominent energy projects linking Israel to SE Europe is the East Med gas pipeline. The East Med project, which proposes to transport natural gas from Israeli and Cypriot offshore fields to Greece and then onwards to Europe, is seen as a strategic counterweight for reducing reliance on Russian gas. However, the feasibility of this pipeline is challenged not just by technical and financial constraints, but also by regional instability—especially the risk of conflict involving Iran and its proxies, which could threaten offshore infrastructure or political support for the project. However, with Iran's proxies much weakened, such dangers have at present been sidelined. The key question underpinning the

East Med pipeline is financial sustainability, which in turn depends on available gas quantities for export, price dynamics and investor interest.

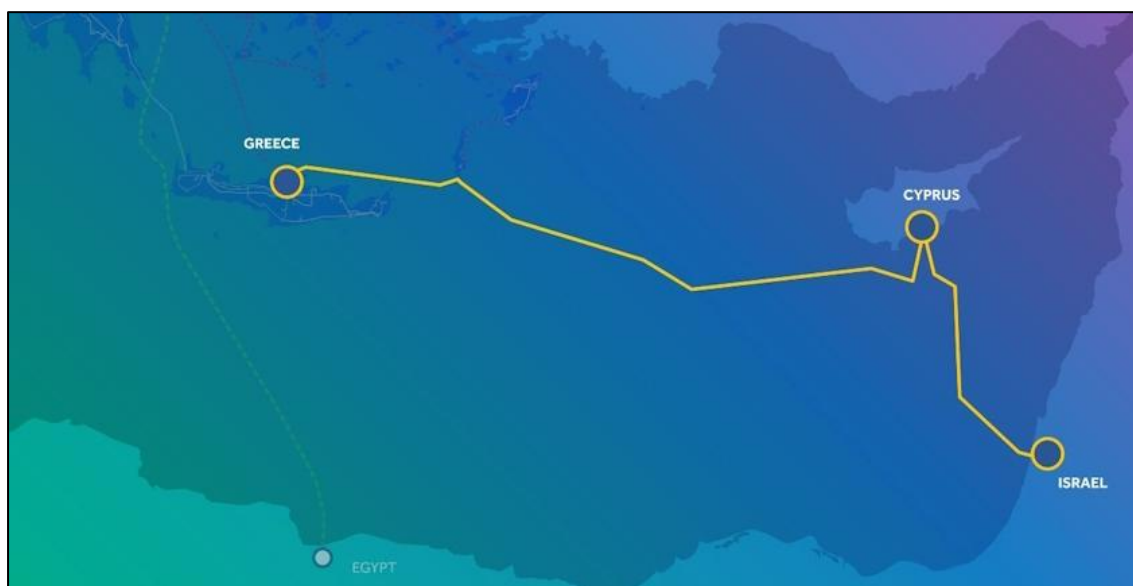
Another key project is the Great Sea Interconnector, an ambitious EU-backed electricity cable project designed to connect the Israeli power grid with Cyprus and Greece, effectively linking it to the European power system. This project enhances regional energy security and supports the integration of renewable energy, but its progress depends on geopolitical stability. Any escalation between Israel and Iran could divert Israeli resources and political focus away from such cooperative projects, or increase security risks that deter further investment.

Figure 6: The East Med Gas Pipeline



Source: DEPA International Projects

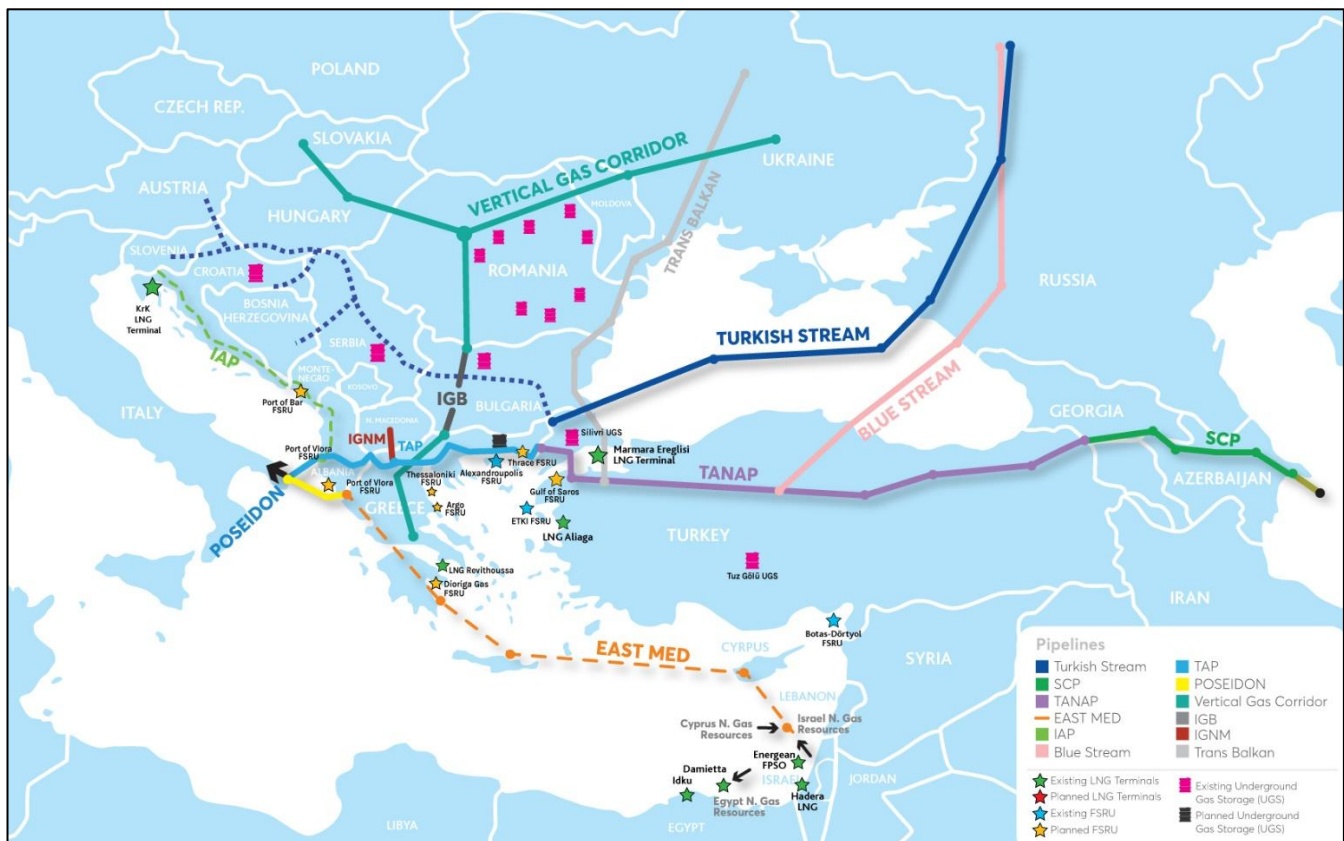
Figure 7: The Great Sea Interconnector



Source: IPTO

LNG is also central to SE Europe's diversification strategy. Israel has explored becoming a regional gas exporter through existing LNG terminals in Egypt and potential deliveries to European ports, including those in Greece. In this context, Iran's opposition to Israel's regional energy role and its support for hostile non-state actors pose indirect threats. Even the perception of instability can disrupt investment flows or influence European energy planning away from projects with perceived geopolitical risks. Figure 8 shows all the LNG terminals and FSRUs, currently in operation or planned, in the wider Eastern Mediterranean region.

Figure 8: The Expanded South Corridor



Source: IENE

Iran, for its part, is attempting to build energy alliances that bypass Western routes and sanctions. It has expressed interest in reviving energy cooperation with Balkan countries via potential gas pipelines through Türkiye or alternative corridors. However, these initiatives face strong opposition from Israel and its allies, and from most EU countries, who are wary of Iran gaining a foothold in European energy markets. This results in SEE countries having to navigate a delicate balance between economic opportunity and geopolitical alignment. It is of interest to note that Swiss-based EGL company (the founder of the TAP pipeline) in 2008/2009 quietly dropped a financially advantageous contract with Iran for importing 5.0 bcma, following strong US opposition.

Energy infrastructure in SE Europe is also susceptible to cyber threats, especially as it modernizes and integrates smart grid technologies. Given the ongoing cyber warfare between Israel and Iran, and Iran's capacity to target Western-linked energy systems, the SEE countries participating in projects with Israeli involvement may be perceived as targets. This risk requires enhanced cybersecurity cooperation and preparedness, potentially increasing the cost and complexity of new energy infrastructure.

When it comes to electricity supply and grid stability, increased interconnectivity with Israel via the Great Sea Interconnector would allow SE Europe to benefit from Israel's low-cost gas generated electricity and solar energy potential. Although the benefits for Israel from the Great Sea Interconnector are far greater, since this interconnector will help end Israel's energy isolation, while providing a much-needed balancing mechanism. However, sustained regional conflict—particularly involving Hezbollah in Lebanon, which borders Israeli energy assets—could hinder Israel's ability to invest in much-needed electricity and gas projects. Furthermore, such instability would dampen enthusiasm in SE Europe for relying on energy imports from conflict-prone regions.

Geopolitical uncertainty also affects financing. International financial institutions and private investors often assess the political risk of long-term energy projects. The unpredictability of Israel-Iran tensions adds a layer of risk to ventures involving Israeli energy exports or cooperation with Israeli firms. This has a chilling effect, particularly in SE Europe, where many countries are already struggling with limited fiscal space and economic uncertainty.

In response, the SEE countries are diversifying not only supply routes but also energy sources. Renewables, including hydro, solar and wind, are gaining ground across the region. While these sources reduce reliance on volatile regions like the Middle East, they cannot yet fully replace the need for flexible gas-based backup systems. Hence, despite efforts to localize and green their energy supply, the SEE countries remain exposed to potential disruptions in gas imports from the Eastern Mediterranean and from the Gulf countries.

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