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Global LNG Shock and Europe's Growing Vulnerability

By

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Executive Summary

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LNG Shock Meets Structural Fragility

- ✦ The partial closure of the Strait of Hormuz, handling ~20% of global energy flows, has tightened supply, driven price spikes, and exposed the fragility of global energy markets despite expectations of normalization.
- ✦ While LNG has globalized gas markets, its reliance on rigid infrastructure, chokepoints, and slow capacity expansion has created an inelastic system where disruptions are immediate but recovery is delayed, embedding persistent volatility and risk.

LNG Supply Shock and Global Spillovers

- ✦ Europe is losing cargoes to Asia as small price premiums shift flows, while strikes on Qatar and instability in the Strait of Hormuz have removed about 17% of global LNG capacity and raised the risk of a 2022-style price spike above €150–200/MWh.
- ✦ LNG shortages are constraining fertilizer production and trade, increasing input costs for farmers and raising the risk of lower crop yields, higher food prices, and broader inflationary pressure across economies.

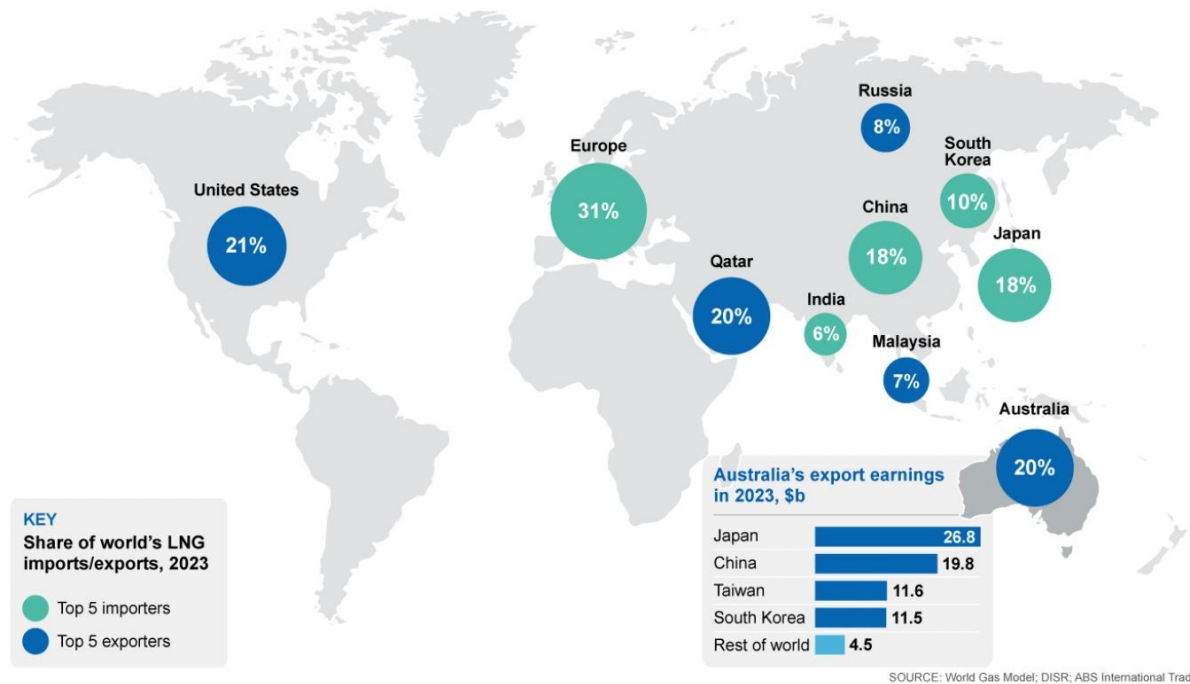
Europe's Structural Vulnerability

- ✦ Moving from stable Russian pipeline gas to globally traded LNG has made Europe more dependent on spot markets, price signals, and external suppliers, creating a system that is inherently more volatile and sensitive to global shocks.
- ✦ Europe exited winter with storage below 30% (around ~28% in key countries), its lowest since 2022, while gas prices have risen over 70% since the conflict began—leaving limited buffers to absorb further supply disruptions.
- ✦ Reduced Russian flows, combined with altered seasonal pricing patterns and higher summer prices driven by global competition and policy mandates, have made it less attractive to build storage, increasing exposure during periods of stress.
- ✦ As Europe enters the storage refill season, competition with Asia for LNG cargoes is intensifying, raising procurement costs and risking insufficient reserves ahead of winter. At the same time, uneven national responses—Italy seeking Algerian gas, Belgium diversifying imports, and others relying on existing flexibility—highlight fragmented resilience across the region.

LNG as Power and Profit

- ✦ Europe's dependence on U.S. supply strengthens Washington's negotiating power, with potential shifts in access and pricing tied to broader trade agreements, including commitments of about \$250bn annually.
- ✦ Gulf disruptions have widened the gap between cheap U.S. gas (\$3/mmBtu) and high global prices (\$18/mmBtu), enabling traders and firms with flexible LNG access to capture significant profits and reinforcing the strategic role of U.S. LNG in global markets.

Key Picture: Global LNG Market



Source: [Phenomenal World](#)

Introduction

One month after US and Israeli strikes on Iran, global energy markets are already near a worst-case scenario, as Europe is facing a second major energy shock in less than five years. The Strait of Hormuz, handling roughly 20% of global oil, products, and LNG, remains largely closed, severely disrupting flows and exposing markets to extreme risk. The threat of further escalation, including attacks on pipelines, refineries, and export terminals, raises the possibility of a full-scale energy crisis, particularly if accompanied by US ground intervention. While futures markets continue to price in eventual normalization, physical markets tell a different story: sharply rising prices for refined products signal acute supply stress and growing fragility in the global energy system.

The Rise of LNG and Structural Inelasticity

Global LNG use has [more than doubled since 2009](#), driven by technological advances, falling costs, and strong policy and industry support. Its flexibility has transformed natural gas into a globally tradable commodity, central to energy security strategies. However, this flexibility comes at a cost. LNG requires complex infrastructure and long-term investment, exposing countries to global price volatility and geopolitical disruptions. Supply chains remain fragile, and investment in LNG can crowd out alternative energy pathways.

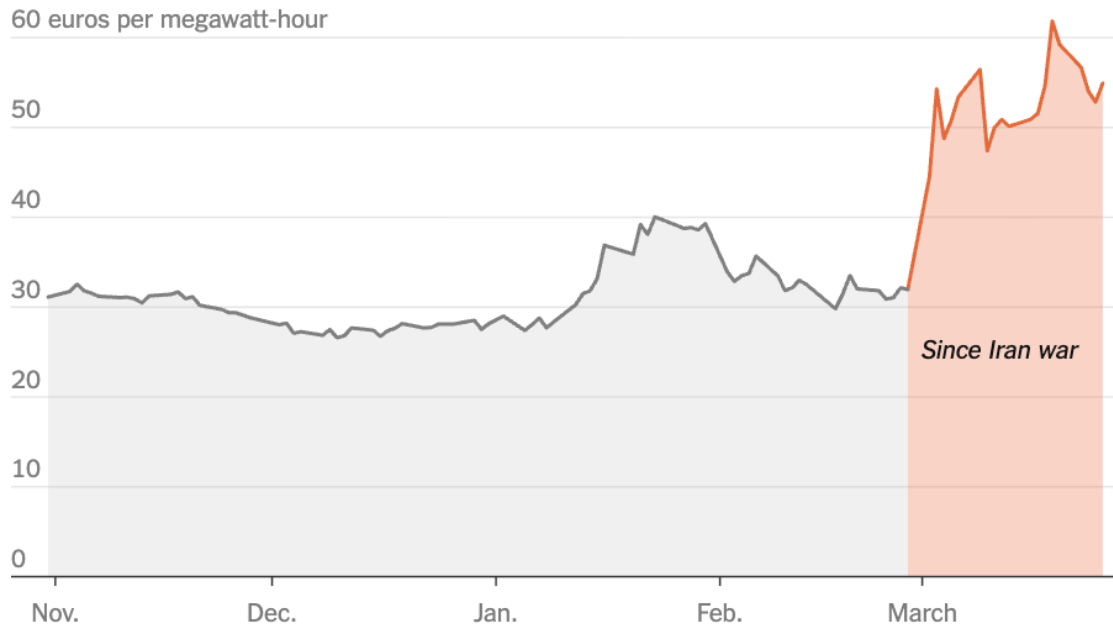
The LNG market is no longer defined by cycles of surplus and shortage, but by structural inelasticity. Limited spare capacity, reliance on chokepoints, and rigid infrastructure have removed buffers from the system. Supply disruptions are immediate, while new capacity takes years to develop. Although additional supply is expected later in the decade, it will arrive too late to stabilize near-term markets. Fixed seasonal demand cycles in Europe and Asia further amplify these pressures, embedding a persistent risk premium into global gas prices.

A Systemic Supply Disruption and LNG Flows Reordered

Recent disruptions have rapidly reshaped global LNG trade flows. Europe is increasingly losing cargoes to Asia, as tighter supply and higher prices incentivize traders to redirect shipments. Even small price differentials, on the order of [\\$1–\\$3/MMBtu](#), are enough to shift flows. Strikes on Qatar’s LNG infrastructure and instability in the

Strait of Hormuz have further tightened supply just as Europe enters its critical storage refill season, increasing risks for the coming winter.

Figure 1: European Natural Gas Prices



Source: [NYT](#)

Iranian attacks have disabled [around 17% of Qatar’s LNG export capacity](#), taking 12.8 mtpa offline for up to five years and forcing QatarEnergy to declare force majeure on long-term supply contracts. This represents roughly [\\$20 billion in annual lost revenue](#) and threatens key LNG flows to Europe and Asia. The disruption also affects major partners such as ExxonMobil and extends beyond LNG, reducing exports of condensate, LPG, helium, and naphtha. With limited repair progress and delays to expansion projects, the shock could have long-lasting effects on global energy supply.

Prolonged disruption of Middle Eastern LNG supplies could sharply increase European gas prices and trigger a 2022-style energy crisis. A three-month halt in Qatari exports could push prices from [around €50/MWh to €155/MWh](#), while longer disruptions could drive prices [above €200/MWh](#). With LNG flows through the Strait of Hormuz disrupted and cargoes diverted to Asia, Europe faces tighter supply and rising competition. A three-month outage could remove up to 21 million tonnes of LNG from the global market, pushing storage levels toward critical lows.

Spillovers: From Energy to Food Security

The energy shock is rapidly spilling into the global food system. LNG is a critical input into fertilizer production, and disruptions to gas supply, combined with constraints in key shipping routes such as the Strait of Hormuz, are tightening both production and trade in essential nutrients like ammonia, urea, and sulphur. Export restrictions by major producers are compounding the squeeze, just as major agricultural regions enter key planting periods.

The impact is already visible. Farmers across the U.S., South Asia, and Africa are facing rising input costs, shortages, and uncertainty. Higher energy and transport costs are further increasing the cost of cultivation while limiting access to fertilizers.

The consequences, however, will emerge with a lag. Reduced fertilizer use risks lower crop yields for key staples such as corn, wheat, and rice, potentially driving food prices higher later in the year. Unlike the 2022 crisis, which was concentrated in grain trade, this shock is broader—affecting energy, fertilizers, and logistics simultaneously.

What begins as an energy disruption is therefore transmitting into the global food system, amplifying inflationary pressures and extending economic stress beyond the energy sector.

Structural Shift in Europe LNG Imports

Europe’s record LNG imports in 2025 have reshaped its gas market, accelerating the shift away from Russian pipeline gas toward flexible global supply. Russia’s share of EU pipeline gas imports dropped from around 40% in 2021 to [just 6% in 2025](#). Combined pipeline and LNG imports from Russia declined to roughly 13% of total gas imports. The EU has reinforced this shift through policy. In January 2026, it adopted a regulation to fully phase out Russian gas imports, with a ban starting in March 2026 and full elimination by 2027. As a result, the US emerged as the dominant supplier, accounting for [over 77% of imports](#), as Europe prioritized energy security and storage rebuilding. Europe has successfully reduced its dependence on Russian gas, replacing it with diversified LNG imports and alternative suppliers. However, this transition comes with higher costs, infrastructure constraints, and increased exposure to global LNG market volatility.

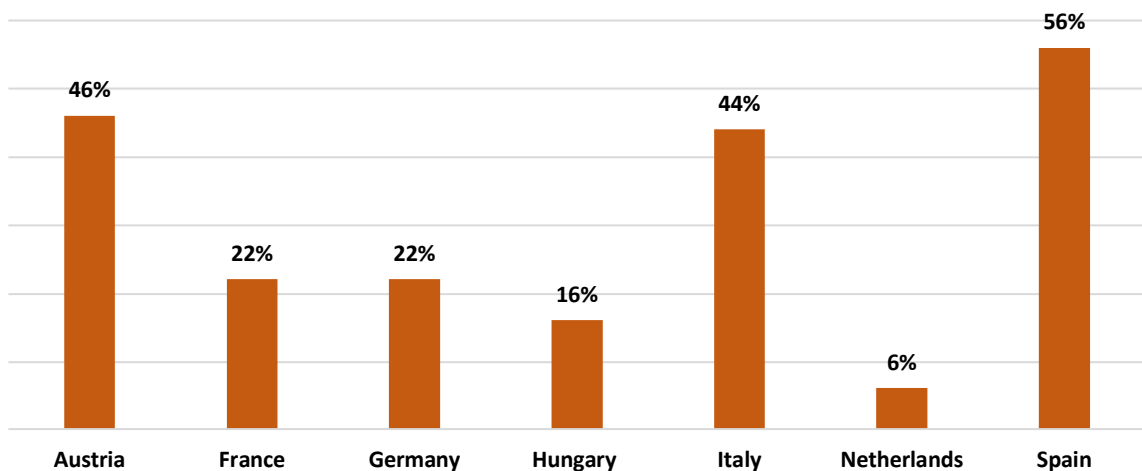
Europe’s Structural Vulnerability

Thus, Europe is particularly exposed within this system. [Its reliance on spot LNG markets](#), rigid storage cycles, and declining long-term gas demand create a paradox: a region undergoing structural transition while remaining highly vulnerable in the short term. Although Europe imports relatively little gas directly from the Middle East, disruptions in the Gulf have driven prices sharply higher, with benchmarks rising over 70% since the start of the conflict. At the same time, Europe exited winter with storage levels below 30%, its weakest position since 2022.

Although the EU is not yet facing immediate supply shortages, storage levels remain below historical averages in key countries (around 28%), limiting resilience. If disruptions persist, Europe may struggle to refill reserves ahead of winter, potentially forcing demand cuts or government intervention.

This vulnerability reflects both structural and market dynamics. This reflects both structural and market-driven factors. Reduced Russian pipeline flows have tightened supply, while shifts in global LNG dynamics have altered traditional seasonal pricing patterns. Higher summer prices, driven by global competition and policy-driven storage demand, have discouraged stockpiling, leaving Europe more exposed during periods of stress.

Figure 2: Storage level in %



Source: [GIE AGSI](#)

The outlook therefore remains challenging. Elevated prices and increased competition from Asia for LNG cargoes are complicating procurement, raising the likelihood that rebuilding adequate reserves will come at a significant economic cost—placing pressure on households, businesses, and governments.

National Responses: Fragmented Adjustment

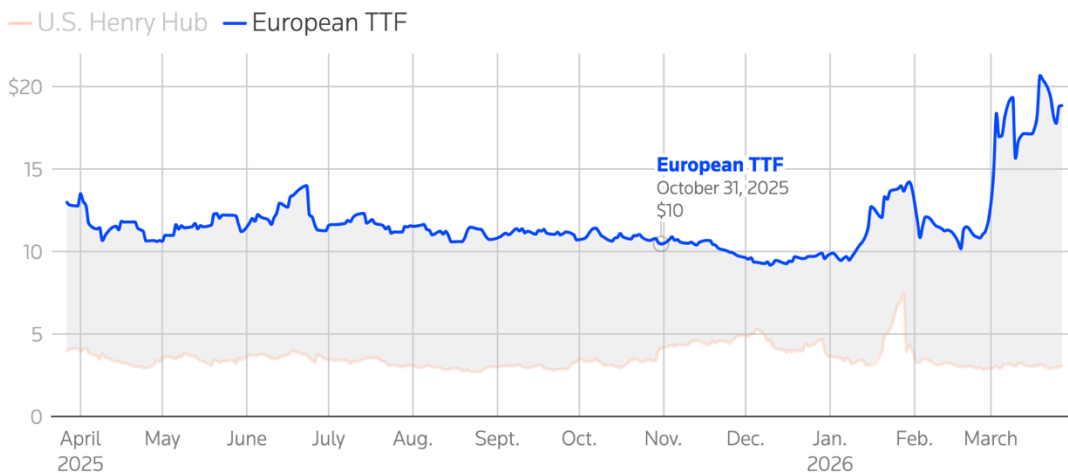
Italy and Belgium are moving quickly to offset disruptions in Qatari LNG supply. Italy, where Qatar accounts for around 30% of gas imports, is seeking alternative supplies from Algeria while exploring renewables and efficiency measures to reduce dependence. Estimates suggest that accelerated renewable deployment and electrification could replace a significant share of Qatari imports within a year. Belgium faces a smaller shock, with about 8% of LNG supply affected, but is also diversifying sources, including imports from the US and Nigeria. However, the planned phase-out of Russian gas by 2027 limits long-term flexibility. Other countries, such as Poland, appear more resilient due to diversified supply portfolios and flexible procurement strategies.

LNG as a Geopolitical Instrument

The US is using Europe’s energy vulnerability to strengthen its negotiating position, warning that access to U.S. LNG could become less favorable if the EU rejects the proposed trade deal. U.S. officials signaled that while energy trade would continue, terms could worsen, with alternative buyers ready to absorb supply. Under the proposed agreement, [the EU is expected to commit to around \\$250 billion annually](#) in U.S. energy purchases through 2028.

At the same time, rising energy prices driven by the Gulf conflict are reshaping LNG markets, creating clear winners. Traders and firms with access to low-cost U.S. gas can now profit from a widening transatlantic price gap. Earlier in the year, this arbitrage was unattractive: U.S. gas prices, liquefaction costs, and transport pushed total costs close to European prices. However, the disruption of roughly 20% of global LNG supply through the Strait of Hormuz has changed the equation. While U.S. prices remain around \$3/mmBtu, European (TTF) and Asian (JKM) prices have surged to \$18/mmBtu and above. This has created a lucrative arbitrage opportunity for firms with U.S. LNG offtake agreements, such as Shell, TotalEnergies, and BP. Among them, Venture Global is particularly well positioned, as a significant share of its production remains uncontracted, allowing it to capture spot market premiums. If the price spread persists, LNG arbitrage could generate substantial profits, reinforcing the role of U.S. LNG as a key stabilizing force in global energy market

Figure 3: The Spread Between European and US Gas Prices Has Spiked



Source: [Reuters](#)