

Middle Eastern Conflict and Implications for Asian Energy Policy

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Executive Summary

Asia, including developed markets such as Japan and Korea, is hit hardest by the Middle East energy supply shock as Hormuz flows have largely ceased. ~90% of exports were Asia-bound, and Platts Dubai/Oman now trades at a 10–20% premium to Brent/WTI.

Near-term stabilization is coming from buffers and stopgaps, but the strategic direction is an accelerated energy transition, given attractive economics, faster deployment, and national resiliency imperative

The Middle Eastern conflict is “serving as a significant turning point ... [there is] a growing national consensus that we must undergo a fundamental energy transition.”

Kim Sung-hwan, South Korean Minister of Climate, Energy and Environment

Introduction

The current conflict in the Middle East has precipitated an energy shock not seen since the 1970s – one that disproportionately affects Asia, the end destination for the majority of oil and gas products from the Gulf. This energy shock will have significant implications for short term energy prices and medium-long term energy policy. Whereas the 1970s playbook emphasised demand dampening, stockpiling, and supply substitution, governments in 2026 are better prepared. They are looking to the medium-long term, for energy supplies that are insulated from volatility in global oil and gas markets – renewables.

Developed Asia’s energy transition, from fossil-fuel dependency to renewable and low carbon supplies, is well underway already, with a record USD 1.1tn of investment in 2025,¹ and favourable economics are driving deployment at scale, backed primarily by government and private sector decarbonisation commitments. We see the current Middle East conflict as an additional catalyst for this already fast-growing sector, and as a significant opportunity for investors.

Asia Pacific energy transition investment (USD, bn)

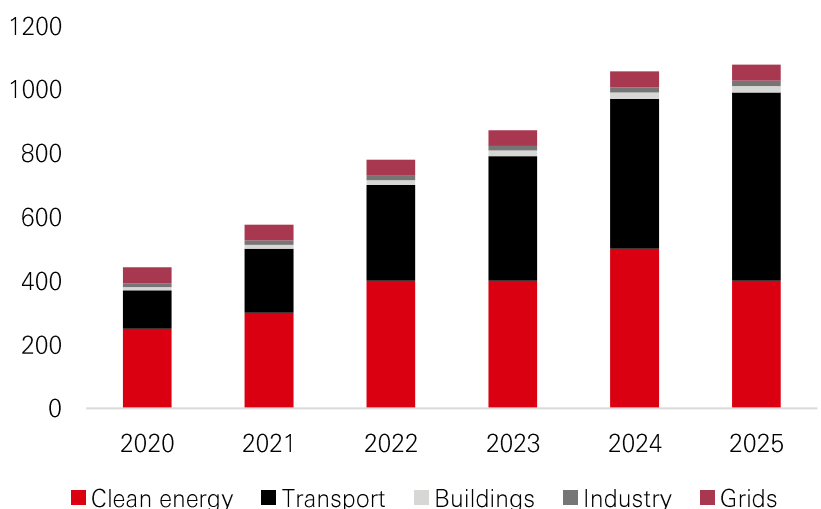


Figure 1 Source: BNEF, March 2026

1) Source: BNEF, March 2026

The scale of the disruption

The Strait of Hormuz is the aorta of the global oil and gas system – roughly 20% of global petroleum liquids consumption and a fifth of global seaborne gas transited the Strait pre-war, which has almost entirely ceased.² The conflict is the most serious energy shock in global history, exceeding the 1970s’ shocks in the impact on supply. Even in a scenario where hostilities cease rapidly, the region has already sustained significant damage to energy infrastructure. The full extent remains uncertain, but the implication is clear: restoration of pre-war export capacity is unlikely to be immediate, and disruption is likely to continue.

The direct impact falls predominantly on Asia, which is the principal destination market for gulf exports. The IEA estimates that almost 90% of total Hormuz export volumes in 2025 were destined for Asian buyers and many Asian refineries are configured for Gulf crude, limiting their ability to substitute.³ Platts Dubai and Oman, the primary benchmarks for Asian oil, are at a 10-20% premium over Brent or WTI, reflecting the tighter supply facing the region. Gulf LNG is similarly an important energy source for the region - Singapore, for instance which generates 95% of its electricity from LNG, of which c. 45% comes from Qatar alone.⁴ As such, the region is uniquely vulnerable, and governments have strong incentives to reduce reliance on this volatile energy source and instead develop more resilient energy infrastructure.

The 1970s shocks

Of course, this is not the first shock that the region is facing. Japan’s response to the 1970s crises provides a useful reference for the impact these shocks can have, with responses focused on ensuring both short-term stabilisation and longer-term structural change:

- ◆ **Stockpiling:** Passed the 1975 Oil Stockpiling Law, which mandated significant oil and gas reserves in order to ensure a stable supply in times of crisis.
- ◆ **Energy efficiency:** Sponsored energy efficiency programmes, such as the 1978 Moonlight Program, which focused on power generation, heat utilisation, and power storage technologies.
- ◆ **Renewables:** Sponsored research and development of renewable energy sources to eliminate their reliance on foreign energy sources, including as part of the 1974 Sunshine Project - ultimately unsuccessful at the time.
- ◆ **Alternative fuel supplies:** Diversified fuel supplies to limit the importance of any one source of fuel, which was more successful.

Japanese Energy Mix, 1972 & 2022

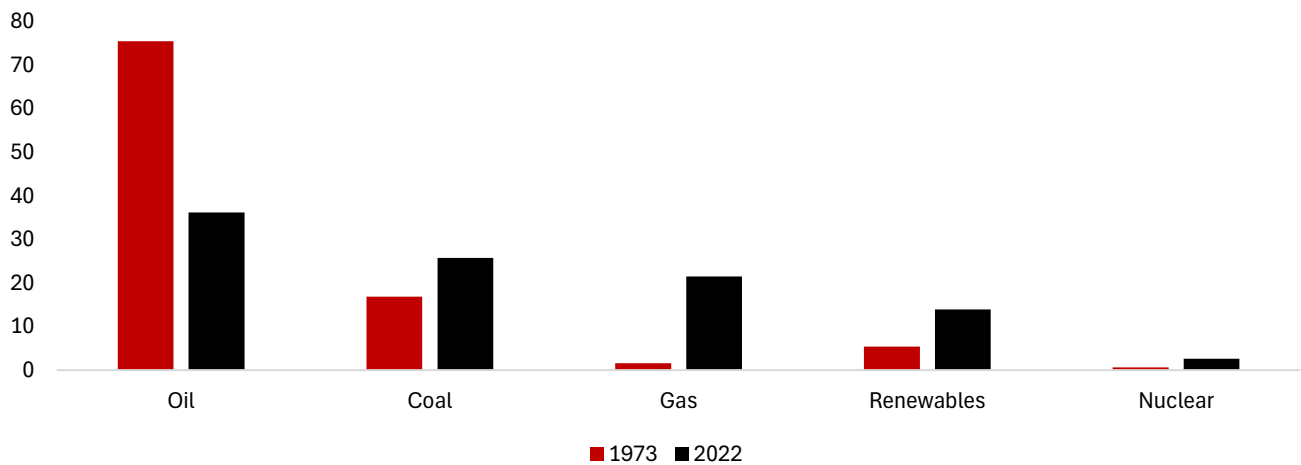


Figure 2 Source: [Japanese Government](#), December 2024

2) Source: IEA, February 2026
3) Source: IEA, December 2025
4) Source: Singapore Government Ministry of Trade and Industry, KPLER, December 2025

Responses in 2026

Developed Asian nations are better prepared in 2026 than they were in the 1970s. Oil and gas stockpiles sat around 180 days before the conflict, and they provide a buffer in the near term. Governments also have alternative fuel sources they can turn to in the short term, including by lifting restrictions on coal power generation temporarily, such as is happening for decommissioned coal-fired powerplants in South Korea, Thailand, and Japan. Again, these are short term measures - any new coal-fired powerplants risk becoming stranded assets, as cheaper and cleaner forms of energy take their place, particularly in light of national transition policy frameworks.

Even with these measures in place, energy prices have still risen materially in places like Japan. This is not just in merchant wholesale prices, but generation companies on the ground have also reported immediate upwards pressure on long term power purchase agreement (PPA) pricing for solar projects, for example.

JPEX Day Ahead Market Prices (JPY/kWh)

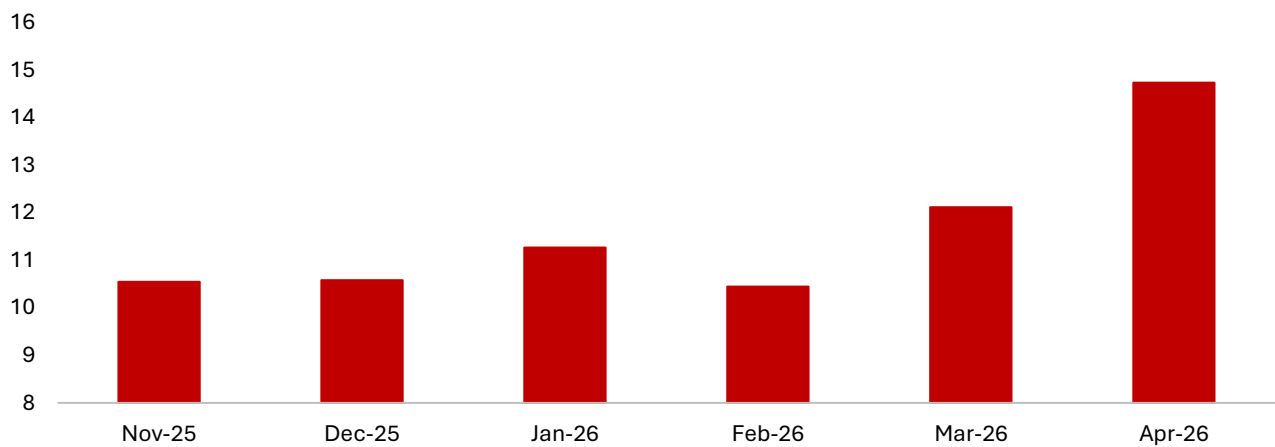


Figure 3 Source: [JPEX](#), April 2026

The Asian Energy Transition

The biggest difference between the policy responses in 1973/9 and 2026 is that energy transition technologies have matured, and we foresee the primary policy response in the form of an acceleration in the energy transition in Asia. Renewables are an attractive proposition for policymakers increasingly worried about national resilience, as a form of generation capacity divorced from volatility in oil and gas markets. South Korea’s administration has been most explicit in spelling out the political and strategic rationale. Kim Sung-hwan, the Minister of Climate, Energy and Environment framed accelerated renewable deployment as a direct response to the Middle East conflict, stating that the crisis represents "a growing national consensus that we must undergo a fundamental energy transition".⁵

The source of much of the momentum behind the energy transition, even before the conflict began and the price of oil and gas rose precipitously, was the attractive economic rationale. PV+BESS already enjoyed a LCOE advantage (\$50-131/MWh) over gas peaking (\$149-251/MWh), nuclear (\$141-220/MWh), and coal (\$71-173/MWh) generation in many markets.⁶ Underlying this is a sustained decline in technology costs, with Solar PV production costs, for instance, having fallen by more than 90% over the past decade with further reductions expected. Similarly, the cost of batteries, which are of critical importance to connect to electric grids to help manage the intermittent renewable power supply, have fallen by more than 92% over the last 15 years.⁷

5) Source: CNBC, March 2026
6) Source: Lazard, June 2025
7) Source: BNEF, December 2025

Levelised Cost of Energy (LCOE) Comparison: Significant historical cost declines for utility-scale renewable energy generation technologies

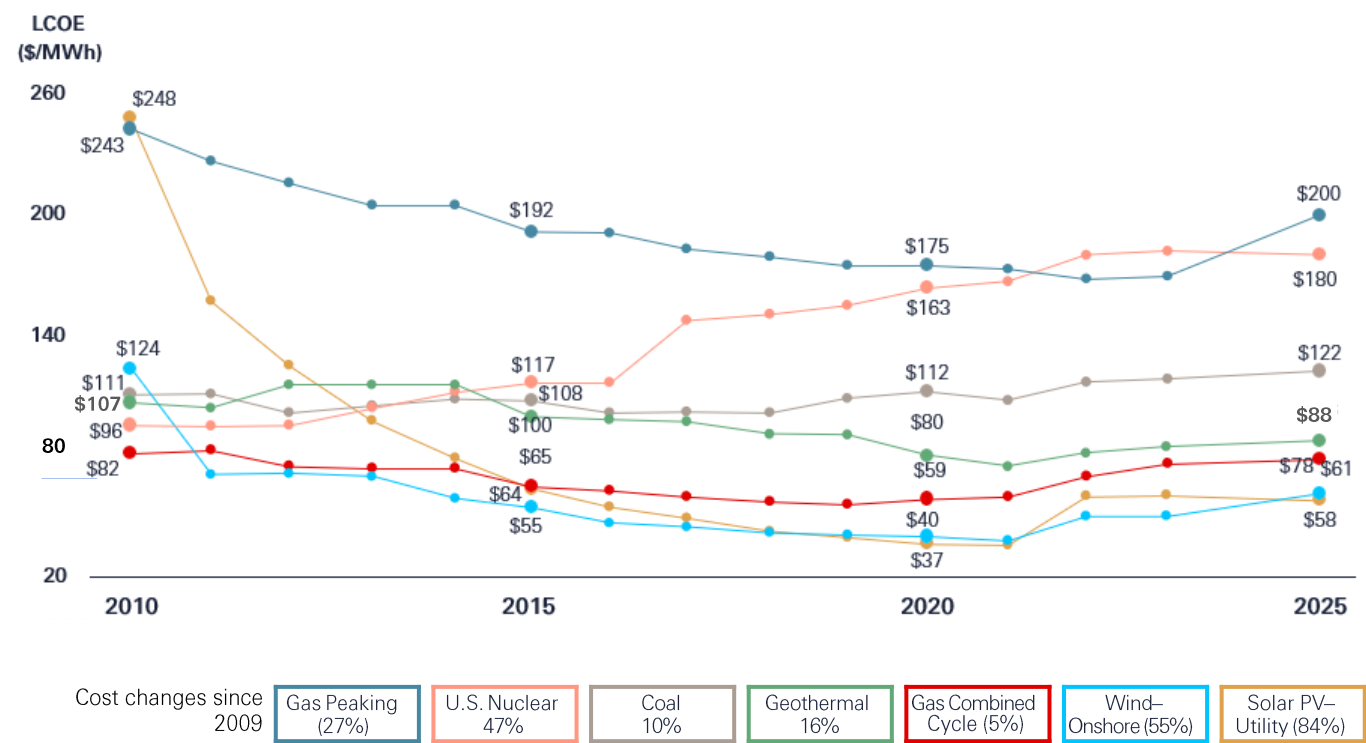


Figure 4 Source: [Lazard](#), June 2025

Renewable power sources also enjoy an advantage in the speed of construction. Development cycles for large-scale solar are typically 3-5 years, lower than nuclear (10-15 years) or fossil fuels (5-7 years). Smaller-scale, distributed solar is even faster. For governments looking to quickly bring capacity online, as well as investors looking to minimise development risk, these are attractive characteristics.

Conclusion

The supply shock is significant, but the second-order effects on policy and capital allocation are equally important over the long-term. The conflict has highlighted the fragility of the seaborne energy trade through maritime chokepoints. These vulnerabilities will remain salient in infrastructure investment decisions, forcing policymakers to ask the question – can they rely on a consistent supply of oil and gas in times of crisis?

Against this backdrop, we believe that the Asian Energy Transition offers significant opportunities for investors. In the short term, we are already observing PPA prices rising for renewable energy generation capacity. Longer term, existing demand drivers we’ve discussed in previous papers, improving economics, and the new additional impetus created by the Middle East conflict will further strengthen the investment case for the sector.



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