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UNRAVELING THE STRAIT

How the Strait of Hormuz has Exposed Global Markets

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Executive Summary

The 2026 Iran war is the largest oil supply disruption in history, a loss exceeding the 1973 and 1979 oil crises combined. Historically, no single entity has legally owned nor solely controlled the Strait of Hormuz. Approximately 20 million barrels of oil and large volumes of liquefied natural gas (LNG) pass through daily from major producers, amounting to about $600 billion worth of energy trade per year. The route is also known for exporting one-third of the world's fertilizer trade. About 3,000 ships sail through the strait monthly. The key framework governing the passageway is the United Nations Convention on the Law of the Sea (UNCLOS). The closure set a terrible precedence, leaning on the broader legal logic of the framework that passage is a right and not a service. How will the Strait of Hormuz reopen without causing injury to the warring parties and surrounding Gulf states? What would that look like with or without the guarantee of peace from either side? What kind of fee structures will be applied and how will the market react? Will the costs shift to the final consumer? Can the pipelines increase their capacity to offset the strait's share?Arguably, Iran's control over Hormuz might not be the same as it was but its ability to shut Hormuz at a moment's notice has left an indelible mark on the global markets.

Introduction

A 167 km (104 miles) long vital maritime chokepoint connecting the Persian Gulf to the Gulf of Oman has exposed the global economy. The Strait of Hormuz has become Iran's 'Trump' card in the conflict. Roughly 20 percent of the world's petroleum and liquefied natural gas is carried through the strait, making it one of the most strategically and economically important waterways on Earth. Spanning 39 to 48 km (21 to 24 miles) at its narrowest point, it is bordered to the north by Iran and to the south by the Musandam Peninsula of Oman and the UAE. For millennia, it has been a threshold between continents, cultures, and empires and was affectionately referred in antiquity as "Bab as-Salam," Arabic for "Gate of Peace." Presently, the location couldn't be more detached from that affection than it is from its other name, "Bab al-Hadid," the Gate of Iron. Ancient sailors navigating between Mesopotamia, Persia, Arabia, and the Indian subcontinent recognized the strait as a natural gateway where both cordiality and constraint were observed. The strait formed part of a wider maritime network making the region a confluence of languages, religions, and innovation. Historically, no single entity has legally owned nor solely controlled the Strait of Hormuz. While the waters are divided between Iran and Oman, actual influence and control have shifted with the rise and fall of empires, powers, and international alliances. It has evolved through the years.

Historical Exchange of Control

Darius the Great envisioned the region as an imperial lifeline during the Bronze Age and the Persian Empire in 500 BC. The Kingdom of Hormuz in the 13th century controlled a wealthy island stronghold and taxed maritime trade between India, East Africa, and the Persian Gulf. By the 16th century, the Portuguese Empire had captured the island of Hormuz to monopolize spice and trade routes for a century until the Safavid Persian Empire expelled them with help from the British East India Company. The British policed shipping lanes to secure the route to India and notably used a naval blockade in 1951 to pressure Iranian Prime Minister Mohammad Mosaddegh during the nationalization of the Iranian oil industry. From the 20th century to the present era, the strait became a vital maritime chokepoint for global oil and gas. The discovery of vast oil reserves transformed the strait into one of the world's most vital economic arteries. During the 1980s Iran-Iraq War, the waterway became a naval battleground prompting large-scale U.S. naval escorts. As a true maritime chockpoint, the strait continues to experience high-stakes maritime blockades and shipping crisis that impact global logistics and international maritme law. While international law – the United Nations Convention on the Law of the Sea (UNCLOS) – guarantees transit passage, the waters overlap with Iranian and Omani territorial claims. Iran has frequently leveraged its military presence along the northern coastline, with Oman to the south exercising the same at will, to impose restrictions, patrols, and de facto oversight on commercial vessels transiting the strait. This is what we have witnessed and experienced in the wake of the conflict between Iran and the U.S. The world has, for all intents and purposes, been placed under the governance of two sovereign states working out their ideological differences.

The Crux of the Conflict

The key framework governing the passageway is the United Nations Convention on the Law of the Sea (UNCLOS). Part III of the convention states that the straits used for international navigation fall under the regime of transit passage and that all ships and aircraft have the right of transit passage without interference by bordering states (Articles 38 & 44). Sovereignty and transit rights coexist in the Strait of Hormuz with each bordering state – Iran to the north, and Oman to the south – controlling their side of the coastline and territorial sea (12 nautical miles/13.8 miles from the coastline). Consequently, Iran and Oman have enacted navigation and safety regulations, including the separation scheme that the International Maritime Organization (IMO) adopted for Hormuz. Both states expanded their territorial sea in 1959, and 1972, respectively, overlapping the Strait of Hormuz and key shipping routes. It is what led to the modern law of straits embedded in the UNCLOS in 1982, thus reflecting customary international law on navigation. It meant that coastal states would keep sovereignty over their territorial seas, while user states would retain a "non-suspendable right of transit" through international straits. Oman became a party to UNCLOS, but Iran did not ratify it, arguing that some convention rights, like transit passage, should benefit only state parties. It is why Iran has been pushing for tolls and selective access. It is also important to note that the U.S. is also not a party to UNCLOS. Washington has repeatedly brought up claims against both Iran and Oman related to transit through Hormuz. The prevailing sentiment in the capital is that the strait cannot be closed and that coastal states cannot require permission in ways that nullify transit passage. The geographical advantage has granted Iran and Oman the ability, not the right, to cutoff the strait to ordinary international navigation or impose discretionary tolls. It is an ability they have employed since the war began and the world has felt the impact of the interruption. The IMO issued a strong warning once this happened stating that the closure would set a terrible precedence, leaning on the broader legal logic of the framework that passage is a right and not a service that can be sold to the highest bidder by any of the bordering states. The United States cannot claim ownership nor administer the waterway because they have no sovereign rights over the strait. They treat the navigation along the strait as a matter of freedom of navigation, a matter that requires no permission from neither Iran nor Oman. Therein lies the crux of the conflict. Iran still retains the ability to disrupt shipping making the Strait of Hormuz an effective bargaining chip in the ongoing episode of the conflict. It brings to question the administration of other maritime chokepoints like the Strait of Malacca, the Suez Canal, and the Panama Canal, passages that are equally vulnerable to geopolitical conflicts, closures, or natural disruptions that can instantly spike global commodity and fuel prices.

The Global Economic Impact

The Strait of Hormuz navigable channels are split into two parallel 2-mile-wide lanes, separated by a 2-mile median or buffer zone. Approximately 20 million barrels of oil and large volumes of liquefied natural gas (LNG) – about 9.3 billion cubic feet per day – pass through daily from major producers like Saudi Arabia, the UAE, Iran, Kuwait, and Qatar. That amounts to about $600 billion worth of energy trade per year. Naturally, any blockades or disruptions cause prices to spike, triggering cascading inflation, elevated shipping costs, and severe economic contractions across vulnerable economies in Asia and Africa. Asia takes about 84 percent of the crude oil exported through the strait, with China receiving 47 percent of its seaborne oil from the Gulf region. The route is also known for exporting fertilizer (one-third of the world's fertilizer trade) from the Middle East (ME) where LNG is used in the production process. It is also a critical channel for imports to the ME, including food, medicine, and technological supplies. About 3,000 ships sail through the strait monthly.

When the Iran-U.S. crisis began and the strait was closed, there was a blanketing panic that swept across the world. Asia was the hardest hit as a result of a growing dependency of oil exports from the Gulf region. Measures were taken in daily life and work routines to conserve supplies amid oil shortage fears. Africa soon followed with similar measures as oil prices rose. In Europe, fuel rationing was implemented in countries like Slovenia to curb the use of oil resources against supply uncertainties. Meanwhile, thousands of oil ships were stuck in the strait, rendered immobile by the blockade, accumulating costs the longer the blockade remained in place. According to the International Energy Agency (IEA), the 2026 Iran war is the largest oil supply disruption in history, a loss exceeding the 1973 and 1979 oil crises combined. It prompted the IEA to authorize its largest-ever emergency stock release, making 400 million barrels available. Other oil-producing countries increased their output to compensate, while the U.S. sanctions on Russian oil were temporarily lifted to stabilize oil flows.

Oil prices experienced severe volatility since the conflict began in February. Brent crude initially peaked at around $126 a barrel, averaged $101 during early combat, and subsequently fell to near $70 in July. Collapsed peace talks gave way to renewed missile exchanges and a return to strait blockade, oil prices climbed back to $90 a barrel. The collapse of the peace talks revealed the fluidity nature of the crisis and how difficult it is to operate in an area where movement can be halted and released at a moment's notice and there's little that can be done to mitigate the risks. Add the presence of mines, psychological or actual, navigation across and along the strait when open, becomes riskier. Ship insurance costs have skyrocketed with additional hull war-risk premiums hovering around 5 percent of a vessel's value per voyage. Iran's Persian Gulf Strait Authority (PGSA) imposed a mandatory insurance requirement for all ships using the strait. Major maritime insurers have periodically withdrawn war-risk coverage in the Gulf and are issuing cancellation on short notice. To circumvent traditional constraints, Iran proposed a Bitcoin-based insurance scheme to offer alternative marine coverage and facilitate transactions using cryptocurrency. Regardless of how the conflict will pan out, the issue of passage will remain contentious based on how much traffic returns to the strait.

The wounds of war have been felt across the markets and the cargo shipping industry will bear those wounds for years to come. However, economists argue that the world managed to avoid the full impact of the crisis because there was already too much oil circulating. Existing surplus, strategic national reserves, and commercial inventory offset the shortage and cushioned the price impact, particularly in the west. In Europe and in the U.S. the extra disposable income covered marginal barrels where that needed to happen. And that meant that in relative terms, the West has been cushioned from the spike compared to some of the poorer Asian nations that were heavily reliant on Hormuz for their crude flows in the first place.

Asia's Dependency

East Asia, for example, does not have oil fields. It is a geological disadvantage because oil forms from the remains of ancient marine life subjected to intense heat and pressure over millions of years. The Middle East sat over shallow, nutrient-rich prehistoric seas that generated massive, concentrated oil basins. On the contrary, East Asia is characterized by complex tectonic activity, volcanic formations, and shifting land masses, resulting in smaller, fragmented, and deeper reservoirs rather than the massive, easily extractable "super giant" fields housed in the Persian Gulf. As a result, East Asian nations like Japan rely heavily on the Gulf States. Furthermore, economies like Japan and South Korea built export-driven, manufacturing, and petrochemical powerhouses forcing the importation of oil from the closest suppliers. They tailored their refineries to process specific "medium" and "sour" crude oils from the Middle East. Retrofitting these massive, billion-dollar facilities to process different oil types is incredibly costly and structurally challenging. The U.S. crude oil is light and sweet and the Russian oil supply is largely committed to China and India. To change the structures back to favor the available light and sweet oil would take years and cost billions. The dependency is also demonstrated by contracts where most Asian refiners lock in more than 50 percent of their crude through long-term contracts, thus limiting their ability to pivot. Middle Eastern nations are aware of this that is why they are investing heavily in Asian refineries, integrating supply chains while making Asian refineries more dependent on Gulf oil. The energy crisis wrought by the Iran war was the culmination of a structural dependency built over half a century, and gave them very few alternatives based on the configuration of their refineries to fit medium and sour crude.

China's Energy Pivot

China has remarkably cut its oil import in the years leading to the crisis, and managed to diligently deal with the oil supply disruption at the outset of the war. They had reduced their oil imports by four or five million barrels a day, the lowest level in about eight years. Chinese crude imports from Gulf nations plunged 76.1 per cent year on year in June by volume, and their imports from increased Russian oil crude prices also declined for a second consecutive month since the war began, slipping 0.6 per cent year on year. The crisis also brought on weak refining margins and restrictions on refined product exports to retain market equilibrium capped refinery throughput and crude purchases. However, China's imports of liquefied natural gas rose 8.3 percent year on year in June, recovering for the second consecutive month since the war began, driven by a doubling of volumes from Malaysia and Russia, which offset a nearly 93 percent decline in shipments from Qatar. Qatar accounted for almost a third of Chinese imports before the war.

China's reduction in demand, more than Japan's daily oil imports, leveled the global oil market. If China had been competing for barrels on the marketplace, oil prices would have potentially been higher. Considering the other measures taken by other countries, they collectively contributed to a softened impact on the global market. However China's agility also comes from strategic investments towards electrification. China is a leading market for electric vehicles (EVs). Approximately 90 percent of the world's solar equipment comes from China. In the first few months following the conflict, solar exports from China increased considerably. However, solar and oil are not in competition with each other because oil is hardly used in the power sector, except for powering oil-based generators that produce electricity. Liquefied natural gas is also another source of energy, highly concentrated with the U.S., Qatar, Australia, and Russia making up 70 percent of the global supply. China's consumption of LNG is increasing and the U.S. recently became the world's largest LNG exporter, gaining considerable competitive advantage on Qatar where China is the largest exporter. LNG facilities in Qatar were recently attacked during the ongoing crisis, furthering the limitations on LNG exportation that were preexisting as a result of the strait closure. Qatar is planning on expanding its LNG infrastructure which could lead to more exportation in the near future. However, without a crisis resolve in the works, the Strait of Hormuz will remain a thorn on the Gulf's side even if the passage fees are increased.

Alternative Routes

Alternative routes are limited with only Saudi Arabia and the United Arab Emirate (UAE) having operational crude pipelines that could potentially re-route flows to bypass the Strait of Hormuz. These two crude pipelines worked and were key in moving the oil during the crisis. The UAE has the 400 km Abu Dhabi Crude Oil Pipeline (ADCOP) that begins at the facilities in Habshan and connects to Fujairah. The UAE exports around 1.1 million barrels per day of domestic crude via this route, allowing room for an additional 700,000 barrels in case of strait disruptions. The Abqaiq-Yanbu pipeline system (East-West Crude Pipeline) in Saudi Arabia, connects oil processing facilities in Abqaiq to the Red Sea port of Yanbu, and has the capacity for up to 5-7 million barrels per day. The upshot was in the aggregate. If all the pipeline workarounds work at their maximum, you wont necessarily need as many ships to go through Hormuz in the long-term. This will potentially motivate the region to build more pipelines to avoid using the strait.

The other options are more like re-routes. The Cape of Good Hope re-routes commercial tankers around the southern tip of Africa instead of passing through the Persian Gulf and the Suez Canal, and adds about 10-15 days of transit time to Europe and 5-8 days to Asia, incurring substantial extra fuel and insurance costs. Multi-modal trade corridors, such as the Etihad Rail, can be utilized for containerized and time-sensitive goods, which shifts cargo between Gulf ports and land transport. Some oil and petroleum products are occasionally trucked or piped across borders in the region, however, those land routes end up costing more and can incur other risks compared to maritime shipping. Eventually, states in this region will have to consider innovative alternatives that will cut through the bureaucracy as much as it will cut through the land standing between exports and their destination.

A Dubai-based architecture firm ZNERA Space, looked at the ongoing issue and proposed a solution to build an inland canal and infrastructure corridor to counteract closures in the Strait of Hormuz. The innovative design concept proposes a $200+ billion maritime passage across the UAE connecting the Persian Gulf to the Gulf of Oman. Undoubtedly, the canal would provide a sovereign UAE alternative to the strait, especially considering their latest move away from the Organization of the Petroleum Exporting Countries (OPEC). Envisioned as a route across the Hajar Mountains, it aims to combine logistics, energy transport, and urban development, subsequently creating new economic and tourism zones along its banks. Designers intend for the waterway to spur desert regeneration and establish new

microclimates similar to the Nile. However, military and geotechnical analysts have deemed the project highly challenging due to the massive excavation required through difficult mountainous terrain and the enormous financial costs.

What's Next?

For the time being the question remains, how will the Strait of Hormuz reopen without causing injury to the warring parties and surrounding Gulf states? Will we have a tolling arrangement? What would that look like with or without the guarantee of peace from either side? What kind of fee structures will be applied and how will the market react? Will the costs shift to the final consumer? Can the pipelines increase their capacity to offset the strait's share? Arguably, Iran's control over Hormuz might not be the same as it was but its ability to shut Hormuz at a moment's notice has left an indelible mark on the global markets. Markets adapted quickly absorbing shock and fending off price extremes. But it is safe to say that most nations will strongly consider alternatives. China has demonstrated how a future with reduced oil consumption looks like, while Japan has demonstrated how oil dependency will be detrimental. Although the waterway will continue to be vital we have learned some lessons from this crisis including how history can be cyclical. It's not like we weren't aware of the geographical disadvantage the world shares in critical martime chokepoints.

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