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MONDAY MORNING QUARTERBACK

ENERGY MARKETS CEO BRIEFING NOTE

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The Next Big Challenge to Global Energy Markets could be the Bantustanization of Iran – Mirroring what happened in Iraq and Libya?

If regions across Iran retreat into separate geographic and ethnic power centers, the risk to oil markets could go far beyond a war premium!

By Sean Evers, Managing Partner, Gulf Intelligence

It would be a mistake to use an old pair of geostrategic glasses to assess what could unfold with Iran's energy industry and to the flows of global oil and gas through the Strait of Hormuz as a routine war premium, a temporary spike in crude oil prices that will fade with calmer headlines. It would be a costly misreading of the moment.

Yes, oil prices have already surged close to 10% today after the outbreak of U.S.–Israeli strikes on Iran on Saturday, pushing gains to nearly 30% year-to-date. Yes, OPEC+ has responded by accelerating output increases, lifting April production targets in an effort to reassure markets. But these are short-term stabilizers aimed at managing flow risk.

The deeper and far more consequential issue is this: the greater challenge to global energy markets is the potential bantustanization of Iran. We could see a fragmentation of the state into geographically and ethnically defined power centers, much like what unfolded in Iraq after the 2003 overthrow of Saddam Hussein and in Libya following the 2011 fall of Muammar Qaddafi.

In both Iraq and Libya, regime collapse did not immediately eliminate oil production capacity. What it did instead was fracture centralized authority. Competing regional actors, militias, sectarian blocs and foreign backers carved out spheres of influence. Oil infrastructure became leverage. Production swung violently. Contracts were contested. National governance weakened. In Iraq, external influence and internal fragmentation kept Baghdad's control uneven and unbalanced for years. In Libya, rival governments fought for ports and terminals, turning oil into a bargaining chip in a fractured political landscape.

That is the precedent energy markets need to now consider in Iran.

Systemic Fragility: When a War Premium Becomes Structural Stress

The immediate shock of this conflict has exposed something markets were reluctant to confront: how thin global energy buffers have become.

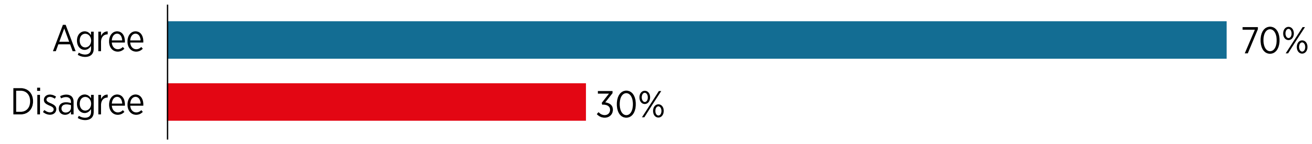
The Strait of Hormuz is not simply another transit corridor. Roughly one-fifth of global crude and a substantial share of LNG flows pass through that narrow passage. It is the artery connecting Gulf production to Asia, Europe and beyond. Even before any formal closure, tanker hesitations, navigation warnings, missile incidents near shipping lanes, and changes in war-risk insurance calculations have slowed flows.

In modern energy markets, psychology precedes physics. A declared closure is not required to trigger disruption. When tanker owners pause, insurers rewrite risk policies overnight, and LNG carriers reconsider transit, markets shift from trading barrels to trading fear.

This stress will not be evenly distributed. Asia, which receives the overwhelming majority of Hormuz crude flows, will feel it first and hardest. Around 80% or more of the crude moving through the Strait ultimately heads to Asian markets. Europe, though somewhat diversified since the Russian gas crisis, remains exposed on LNG, especially given thinner storage levels compared with last year.

The global energy system today operates on just-in-time logistics disguised as abundance. Spare capacity exists largely on paper. Storage buffers are thinner than policymakers admit. LNG rerouting options are geographically constrained. For Qatari and Emirati LNG, there is no meaningful alternative to Hormuz.

Oil prices only popped up 10% today because geopolitical risk premium had already pumped up crude by 20% through Jan & Feb?



The first phase of this crisis is about chokepoints and price spikes.

The second phase, perhaps the more dangerous one for longterm ramifications, is about political geography.

Internal Fault Lines: Geography of Oil and the Risk of Fragmentation

Iran's hydrocarbon geography is highly concentrated. Most oil production lies in the south, and roughly 40–45% of total output is located in Khuzestan province. Khuzestan has a significant Arab population, though it is deeply integrated into the broader Iranian state. Historically, separatist sentiment surfaced during the Iran–Iraq war, but today there are no powerful or capable movements able to detach the province under current conditions. The probability of outright separation remains low for now.

The second major hydrocarbon concentration lies along the Persian Gulf coastline, particularly in Bushehr and Hormozgan provinces. These provinces contain most offshore oil and the bulk of Iran's vast gas reserves. There is little to no significant separatist momentum in these regions. In gas, fragmentation risk is extremely low. In oil, it is limited but not zero.

More politically sensitive regions lie elsewhere. Kurdish areas along the western border have long-standing cross-border cultural and historical ties spanning Iraq, Turkey and Syria. Baluchistan in the southeast carries peripheral instability risk. Yet critically, neither region contains the bulk of Iran's oil reserves.

Which makes the risk more subtle.

The danger is not necessarily immediate secession of oil-rich territory. It is the erosion of centralized authority over production, export terminals and revenue flows. If prolonged conflict weakens governance in Tehran without producing a stable successor authority, oil infrastructure could become politically leveraged. Even without formal breakup, rival regional actors could assert influence over assets. Pipelines could be interrupted intermittently. Export terminals could become bargaining chips.

That is how fragmentation destabilizes energy systems, not through formal borders, but through contested control.

Regional Meddling: The Iraq Parallel Revisited

Iran does not exist in isolation. It borders Iraq, Turkey, Azerbaijan, Armenia, Turkmenistan, Afghanistan and Pakistan, while facing the Gulf states across a narrow maritime corridor. Ethnic and cultural linkages extend across nearly every one of those borders.

Azeris in northwestern Iran share language and identity ties with Azerbaijan. Kurds straddle Iran, Iraq and Turkey. Baluch populations span Iran and Pakistan. Arabs in Khuzestan connect culturally to communities across the Gulf.

In a scenario where central authority weakens, neighboring states will not remain passive observers.

The post-2003 experience in Iraq is instructive. External actors backed competing sectarian and ethnic factions. The result was not outright disintegration but prolonged fragility. Baghdad's authority remained formally intact, yet governance was persistently compromised by regional interference and internal fragmentation. Oil revenues were entangled in political disputes between federal and regional authorities. Infrastructure decisions became politicized.

Libya's experience after 2011 went further. Rival governments claimed legitimacy. Oil terminals changed hands repeatedly. Production collapsed and rebounded in cycles, driven not by geology but by power struggles.

If Iran were to experience a similar pattern, not necessarily formal breakup, but de facto bantustanization, neighboring states could seek influence over regions aligned with their strategic interests. Proxy relationships could emerge. Energy infrastructure could become entangled in geopolitical competition.

This is the structural challenge markets are only beginning to price.

From Price Shock to Structural Risk

The initial 10+% jump in oil prices reflects immediate supply anxiety. The 30% year-to-date rally reflects not only a rising geopolitical supply risk premium, but also a possible structural question on whether Iran will remain a unified, centrally managed hydrocarbon state, or will it gradually evolve into a politically fragmented system where regional and external actors contest influence over energy assets.

Markets can absorb airstrikes. Markets can absorb temporary shipping disruptions. What they struggle to absorb is prolonged structural fragmentation of a major oil producer sitting astride the most critical energy chokepoint on the planet. If Iran's political geography begins to resemble Iraq after 2003 or Libya after 2011, fragmented, externally influenced, and internally contested, the risk premium embedded in crude prices will not fade.

It will become permanent.

And that is the next big challenge now facing the global energy markets to price in. ■

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