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WEEKEND READING
ENERGY MARKETS BRIEFING NOTE

"The Strait of Hormuz May Never Reopen the Way the World Once Knew It?"

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The Strait of Hormuz May Never Reopen the Way the World Once Knew It?

By Sean Evers, Managing Partner, Gulf Intelligence

For half a century, the Strait of Hormuz has been treated as a permanent fixture of global trade. It is a narrow but dependable artery through which roughly one fifth of the world's oil and gas exports pass each day. The assumption embedded in energy markets, shipping logistics and geopolitical strategy has always been that even during crises the Strait ultimately stays open and traffic flows as normal.

That assumption may now be obsolete. The current conflict suggests a far more consequential possibility. The Strait of Hormuz may never again function as the free flowing corridor it once was. Instead it may begin to resemble another Middle Eastern chokepoint that has quietly entered a prolonged phase of disruption, the Bab al Mandeb.

For nearly three years the Bab al Mandeb has operated in a semi disrupted state. Ships still pass through it but the corridor has become unpredictable. Insurance premiums have surged, naval escorts have multiplied and many vessels now choose to reroute thousands of miles around Africa rather than risk the passage. The waterway has not formally closed, yet neither has it returned to normal. The Strait of Hormuz may now be entering a similar grey zone reality where traffic continues intermittently but the era of free flowing global commerce through the corridor has ended.

Insurance Markets Rather Than Navies Are Closing the Strait

Contrary to popular perception, the disruption to shipping through Hormuz has not been caused primarily by naval blockades or physical barriers to navigation. Instead the immediate shutdown of tanker traffic has been triggered by the far less visible but enormously powerful mechanisms of marine insurance.

Within hours of the conflict escalating, reinsurers in the Lloyd's market withdrew war risk coverage for vessels transiting the Strait. Protection and indemnity clubs followed by cancelling extensions on existing policies, leaving many shipowners without coverage for voyages through the region. Without those policies in place tanker operators cannot legally or financially risk sailing through the waterway. The result was immediate. Vessels began diverting, pausing voyages or exiting the Gulf as quickly as possible, and transits through the Strait plunged sharply.

This episode illustrates a critical but often overlooked reality about global trade. Maritime insurance markets quietly govern the functioning of the world's shipping lanes. When insurers withdraw coverage ships simply stop moving regardless of whether naval forces are present or whether the sea lane itself remains physically open.

In this environment even military escorts may not be enough to restore traffic. Governments may deploy naval protection and declare the Strait secure, but insurers and shipowners must still weigh the risks of missile strikes, drone attacks or mines. Until insurance coverage returns at manageable prices the Strait can remain commercially closed even if governments insist it is operational.

The Stakes Extend Far Beyond Oil and Gas

While global attention has understandably focused on the implications for oil and gas markets, the disruption to shipping through Hormuz carries consequences that extend far beyond energy. One of the most immediate emerging risks is the potential impact on fertiliser supply and global food prices.

A significant share of the world's ammonia and nitrogen shipments, which are key inputs used to manufacture synthetic fertilisers, moves through the Strait of Hormuz. Estimates suggest that between a quarter and a third of global trade in these fertiliser inputs depends on this narrow corridor. Modern agriculture relies heavily on synthetic nitrogen fertilisers which underpin roughly half of global food production. If fertiliser supplies become constrained or prices surge the effects ripple directly through global food systems.

Supply pressures have already begun to appear. A drone attack forced the shutdown of Qatar's largest fertiliser facility, tightening supply in global markets that were already vulnerable to shipping disruption. Prices have reacted quickly. Egyptian urea, one of the key global benchmarks for fertiliser markets, has jumped more than

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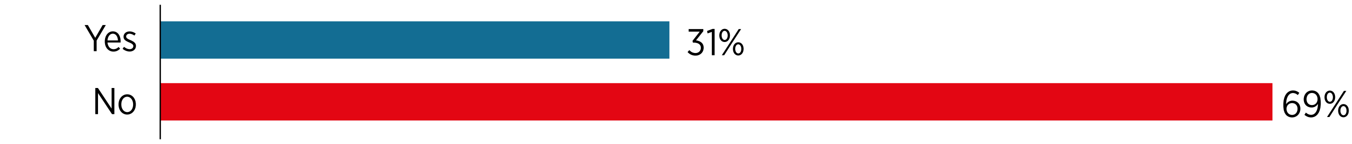
Do you expect the Strait of Hormuz to re-open to normal oil & gas Tanker flows before US/Israel War with Iran ends?



(*nb. Polling conducted with 100+ Energy Market Stakeholders)

25 percent within days. At the same time the Middle East supplies roughly 45 percent of global sulphur trade, another critical ingredient used in fertiliser production. Any disruption to these flows risks pushing fertiliser prices higher and raising costs for farmers worldwide.

The implications extend into food inflation. Higher fertiliser prices increase the cost of growing staple crops such as wheat, rice and potatoes while also raising the price of animal feed used in meat and dairy production. Logistics costs amplify these pressures further. Fuel remains one of the largest expenses in global shipping and transport which means rising energy prices quickly translate into higher costs across supply chains. In this sense Hormuz is not simply an energy chokepoint but a pressure point for the broader global economy.

A New Era of Strategic Chokepoint Risk

The longer shipping disruption persists the more likely the Strait of Hormuz is to settle into a prolonged state of partial instability similar to the Bab al Mandeb. Iran does not need to impose a permanent blockade to achieve this outcome. Sporadic attacks on vessels, credible threats against shipping or energy infrastructure and continued geopolitical tension can maintain enough uncertainty to keep insurers cautious and shipowners reluctant.

At the same time the physical alternatives to the Strait remain limited. Saudi Arabia can redirect some crude exports through its East West pipeline to the Red Sea and the United Arab Emirates can export certain volumes through Fujairah outside the Strait. Iraq maintains limited pipeline capacity through Turkey. Yet together these routes can only replace a fraction of the oil normally shipped through Hormuz. For countries such as Kuwait, Qatar and Bahrain the Strait remains effectively the only export route available.

If tanker traffic remains restricted for an extended period storage capacity across the Gulf could eventually fill forcing producers to reduce output. Such production cuts would tighten global energy markets and add further pressure to prices.

Even if military tensions ease the reopening of the Strait is unlikely to be immediate. Marine insurers will need to renegotiate war risk policies voyage by voyage. Some insurers may refuse to quote coverage entirely while others may demand extremely high premiums before agreeing to cover shipments through the region. The reopening process will therefore likely unfold gradually beginning with a handful of vessels testing the route under naval protection before confidence slowly rebuilds.

For decades the Strait of Hormuz symbolised the resilience of global energy trade. Despite wars, sanctions and periodic crises ships continued to pass through the corridor and markets assumed that stability would ultimately prevail. The events unfolding today suggest that this assumption may no longer hold.

The Strait will almost certainly reopen at some point, but it may never again operate as the stable and predictable highway of global commerce that the world once relied upon. Instead, like the Bab al Mandeb, it may become a strategic chokepoint where ships still pass but where instability has become a permanent feature of the global economy. ■

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