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The Battle for Hormuz Will Reshape the Global LNG Market

By Leslie Palti-Guzman

The latest rounds of **strikes** between the United States and Iran underscore that the instability engulfing the Middle East since the Iran-backed **foreign terrorist organization** Hamas **attacked** Israel in October 2023 is far from over. The Gulf monarchies can no longer compartmentalize the Iranian threat. Tehran has activated its network of proxies across multiple fronts—from Gaza and Lebanon to Iraq, Yemen, and the Red Sea—while Israel and the United States have sought to degrade Iran's nuclear program, military capabilities, and governing apparatus.

The **hydrocarbon-exporting economies** of the Gulf Cooperation Council (GCC) have been particularly affected since the second phase of the Iran conflict began in February. Iran has retaliated by targeting U.S. military bases in the Gulf, along with energy and civilian infrastructure. Equally significant, the unresolved status of the Strait of Hormuz has emerged as the central strategic vulnerability for Gulf energy exporters and has become the immediate focal point of the conflict. This is especially true for Qatar, the world's second-largest liquefied natural gas (LNG) exporter, which lacks a meaningful alternative export route. The reliability of Gulf oil and gas exports will hinge on unimpeded transit via the Strait of Hormuz, as well as the end of attacks on energy infrastructure.

This paper examines the short- and long-term implications of the fragile U.S.-Iran memorandum of understanding (**MOU**) for Gulf LNG flows. It focuses on the evolving status of the Strait of Hormuz, shifting regional power dynamics, and the implications for major exporters such as Qatar.

Hormuz: The Battlefield and Prize of the War

Transit via the Strait of Hormuz will continue to experience periodic disruptions as long as the United States and Iran maintain competing visions for the future status and operation of the waterway. Iran

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insists on maintaining control through tanker **authorization** requirements or a **fee**, while the United States wants the strait to remain free and open.

The U.S.-Iran MOU signed on June 17, 2026, to halt military operations effectively collapsed in July 2026 when Iran targeted commercial shipping in the Strait of Hormuz. The United States has conducted sustained, targeted strikes against Iranian military capabilities linked to the disruption of maritime traffic. The **U.S. blockade** of Iranian ports is back in effect, along with Operation Project Freedom, which is designed to escort and defend tankers using the southern route, while non-compliant vessels are rerouted or disabled. The objective of U.S. Central Command (CENTCOM) is to induce Iran's economic collapse, reopen the strait, restore confidence among shipping companies, and encourage vessels to transit through the U.S.-protected route along the Omani coast, also known as the southern corridor, rather than the northern corridor still controlled by Iran's Islamic Revolutionary Guard Corps (IRGC). The United States' economic war on Iran may prove the most successful.

The recent Iranian attacks on commercial vessels appear to have been intended to punish ships using the Omani route instead of the Iranian-controlled corridor. They also demonstrated that, despite considerable damage inflicted by the United States and Israel, the IRGC retains the capacity to disrupt maritime trade. Iranian launchers, missile-production facilities, drone infrastructure, and other military assets have been degraded, but some **capabilities** appear to have survived underground. Both **Russia and China** appear to be helping Iran in different **capacities**, whether through intelligence sharing or the provision of military equipment and dual-use technologies.

The result is a military stalemate, a period of "no war, no peace" with profound economic consequences for the region. That said, while the MOU appears dead, the military escalation remains measured and targeted, stopping short of a full-scale war. Diplomatic efforts also remain active, notably with Qatar once again mediating between the parties. As of July 24, Iran has reportedly rejected a ceasefire deal passed along from the United States by Iraqi mediators, according to the *New York Times*. Also, Iran **rejected** Oman's latest proposal to share responsibility for managing the strait, including a voluntary transit-fee mechanism. Tehran continues to insist on both sovereignty and revenue, complicating efforts to revive a broader U.S.-Iran agreement. Instead, Iran again proposed managing one-way traffic on its side of the strait, while Oman would oversee vessels transiting in the opposite direction.

Iran's Strategy: Divide the Gulf

Since the war started in February, Tehran's strategy has not been limited to imposing costs on the United States and Israel. Iran is also trying to drive a wedge among the Gulf states and between those countries and Washington. To that end, Iran has deliberately targeted its neighbors differently. There are significant disparities in the number of attacks directed at the United Arab Emirates (UAE), Qatar, Oman, Saudi Arabia, Kuwait, and, more recently, Jordan. At the same time, Iran increasingly relies on its regional proxy network to exert pressure through militias in Iraq, the Houthis in Yemen and the Red Sea, and other aligned groups. The Iran-backed Houthis announced a "naval blockade" against Saudi Arabia on July 20. Each pattern of IRGC **attacks** appears intended to trigger a different national response and encourage bilateral negotiations with Tehran, rather than a coordinated regional response.

Table 1: Iran's Military Pressure Across the Gulf

Missle and drone attacks by country (February 28–June 1, 2026)

	U.S. Base	Abraham Accord	Pre-War Diplomatic Engagement with Iran	Iranian Attacks	Share of Iranian Attacks
UAE	✓	✓	Medium	2,846	42.2%
Saudi Arabia	✓	×	Low	1,234	18.3%
Kuwait	✓	×	Low	1,194	17.7%
Qatar	✓	×	High	737	10.9%
Barhain	×	✓	Low	700	10.4%
Oman	×	×	High	26	0.4%
Total				6,737	100%

Source: Asharq Al-Awsat compilation based on official GCC government statements and defense ministry data; and Energy Vista Analysis.

The war has also exposed the limits of Gulf unity. The Gulf states do not share the same strategic objectives, threat perceptions, or geopolitical alignments toward either Iran or the United States. Most host U.S. military bases, while Oman does not. Some have long-maintained understandings with Iran, particularly Oman and Qatar. Others possess stronger air defense or offensive military capabilities; the UAE, for example, was reportedly involved in some air **operations** during the conflict. Their energy geography also differs significantly. Saudi Arabia can bypass the Strait of Hormuz through its East-West Pipeline to the Red Sea, while the UAE has access to the **Fujairah export terminal**. By contrast, Qatar, Kuwait, and Bahrain remain far more constrained. These structural differences are shaping national decisionmaking, encouraging different hedging strategies, and, in some cases, reinforcing bilateral arrangements with Iran.

The current conflict is therefore likely to reignite the broader debate over the future of the United States' role in the Middle East. Will Washington gradually reduce its regional presence, or will it instead deepen selected strategic partnerships? The renewed U.S.-Saudi **discussion** on civilian nuclear cooperation should be viewed in this context. It reflects a U.S. diplomatic effort to keep Riyadh within its strategic orbit and aligned with its regional security strategy at a time when the kingdom, like several other Gulf states, is reassessing the durability of American security guarantees and considering whether it may eventually need alternative security partners. Yet no credible alternative can currently replace the United States. European countries, Turkey, and **Pakistan** may provide selected military capabilities,

but none can offer the scale of deterrence, maritime security, and force projection that the United States continues to provide across the Gulf.

Three Future Scenarios in Strait of Hormuz

"NO WAR, NO PEACE"

The current situation remains one of "no war, no peace," and it remains the base case. For the Gulf economies, however, it may also be the worst-case scenario because they operate constantly under a Sword of Damocles, with the ever-present threat of Iranian coercion and renewed attacks hanging over them. Intermittent disruptions will leave Gulf economies in a state of persistent economic bleeding as their principal export routes remain uncertain. The IRGC could also continue deliberately targeting Gulf energy infrastructure, significantly delaying the recovery of hydrocarbon exports.

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Since the outbreak of the conflict, Iran has targeted LNG facilities, oil export terminals, refineries, pipelines, storage tanks, and power infrastructure across Saudi Arabia, Qatar, the UAE, Kuwait, and Oman. More than **25 energy companies** operating in the GCC have declared force majeure since the conflict began, underscoring the scale of the disruption. Commercial planning and **investment** decisions are increasingly put on hold because of the current lack of forward visibility. Instead, energy companies operating in the Gulf must prepare for tail risks, develop mitigation strategies, anticipate potential write-offs, and manage the potential loss of clients and revenues.

There may be short windows during which petroleum tankers can transit the Strait of Hormuz. Gulf producers will attempt to maximize those openings, as seen in June when Qatar was able to export approximately 40 loaded LNG tankers through the strait, equivalent to roughly 2.8 million tons, according to ship-tracking data. But renewed attacks, even if limited and targeted, could close the route again within hours. At the time of writing, Strait of Hormuz crossings had fallen by 70 percent compared with the "truce" period (June 7–July 7), according to **Kpler**.

RETURN TO FULL-SCALE WAR

The second scenario is a return to full-scale war, which would carry non-negligible destruction risks to energy and civilian infrastructure but could also break the stalemate and bring the IRGC back to the negotiating table on terms more favorable to the United States. This scenario could also give the United States, Israel, or both an opportunity to "finish the job" once and for all and even decimate the IRGC, an outcome that some Gulf states have **supported** since the beginning of the war.

Initially, the U.S. electoral calendar appeared likely to constrain such an escalation, as high fuel prices remain politically sensitive ahead of the November midterm elections. Gasoline prices were rising again the week of July 20 in the United States, topping $4 per gallon, while voters remain worried about rising **inflation**. Iran's recent behavior and its targeting of Gulf countries, however, have made the timing of any full-scale war less predictable.

A renewed military campaign could also become more likely if Washington succeeds in assembling a broader coalition that includes Gulf partners and European allies. Those countries have a direct interest

in ensuring that the Strait of Hormuz remains permanently open and that energy flows from the Gulf are no longer subject to repeated disruption. Such a coalition would allow the United States to share the military and **financial** burden of the campaign while making sustained military engagement more politically acceptable at home.

The central question would be the campaign's objective. Would it be limited to restoring freedom of navigation through the Strait of Hormuz, the Red Sea, or both? Would it seek to permanently degrade Iran's missile and drone capabilities? Would it aim to dismantle Iran's **nuclear program**? Or would it ultimately extend to regime change?

From the perspective of Gulf exporters, significantly reducing Iran's ability to threaten energy infrastructure and maritime trade could restore confidence among investors, insurers, shipowners, and energy consumers. Gulf economies cannot operate indefinitely under recurring cycles of conflict and uncertainty. As a result, some policymakers may conclude that a more decisive military outcome offers the only durable path to regional stability and secure commodity flows. However, the Gulf states are also wary of the cost of infrastructure damage and the uncertainty surrounding the outcome. Israel would likely join the United States in seeking to deal a decisive blow to the IRGC, further widening both the geographic scope and the intensity of the conflict.

COMPREHENSIVE PEACE

The third scenario is a comprehensive peace agreement. For now, it remains the least likely and most remote outcome, given the extent to which the parties remain at odds over multiple fundamental issues. However, both sides have shown interest in keeping diplomatic channels open. Over time, such negotiations could eventually lead to the release of frozen assets and a gradual lifting of sanctions on Iran. If that happens, Iran could return much more fully to international energy markets.

It would become a major global competitor in both oil and natural gas. Iran possesses one of the world's largest hydrocarbon resource bases and enormous long-term production potential. This transformation would not occur overnight. It would require technology, capital, and investor confidence. **China**, of course, never really left Iran's energy sector. Other international companies would likely follow if sanctions were lifted.

For global gas markets, this scenario would reinforce expectations of abundant supply for decades to come. It is certainly something that Qatar and every major LNG exporter is already thinking about.

Qatar's Immediate LNG Priorities

Qatar is among the countries most exposed to prolonged disruption in the Strait of Hormuz. Its vast LNG expansion program to nearly double its existing export capacity of ~77 million metric tons per annum (mtpa) was intended to reinforce its position as the world's second-largest supplier and would have contributed to bringing global LNG prices down by 2027 by tipping the market into oversupply, an outcome that LNG consumers were eagerly anticipating. The conflict now raises a broader question: Is the anticipated LNG glut merely delayed, or has the future supply outlook been fundamentally altered?

Qatar's first priority will be to restore its undamaged export capacity (64 mtpa) as quickly and as fully as possible. Two liquefaction trains, co-owned by QatarEnergy and ExxonMobil, were attacked by Iran on March 18 at the giant Ras Laffan LNG complex. QatarEnergy indicated that repairs could require three

to five years, leaving the country with a **17 percent loss** of its total export capacity. Although there has been little subsequent public clarity on the damage assessment, those repairs are unlikely to be Qatar's immediate focus.

The other commercial priority will be accelerating the **construction** of the North Field East liquefaction plants, which were well underway before the conflict, and the project could become operational in **2028**. However, a full return to capacity and adding new volumes will require greater visibility regarding transit through the strait. A producer the size of Qatar cannot simply operate every liquefaction train unless it is confident that multiple cargoes can safely transit the Strait of Hormuz every single day.

The second priority will be restoring customer confidence. Qatar has long been perceived as a highly reliable supplier. It has built strong relationships with buyers and has often shown flexibility on delivery timing. Force majeure declarations now threaten that reputation. Before the latest round of strikes, market participants expected QatarEnergy might lift force majeure by August or September. That timetable is now much less certain, and some news outlets are already reporting that the new target is **October**.

Qatar could still export slightly less than 30 million metric tons (mt) of LNG this year, according to Energy Vista, but the result will ultimately depend on how much LNG can transit the strait. Under conditions of partial access, as was the case in June, QatarEnergy might be able to export approximately 2 mt every month through the strait.

As a third priority, Qatar could also pursue a bilateral arrangement with Tehran to allow some exports without a fully reopened waterway, a move that could strain Doha's relations with Washington unless it was framed as an energy security measure to supply buyers facing acute shortages, such as **Pakistan**. **Oman** and Qatar have emerged as the most conciliatory toward Iran and the most eager to pursue dialogue, including potentially accepting a fee, if necessary. Doha had appeared open to negotiating a "**temporary**" toll, which could also open the door to recurring negotiations in the future.

One possible outcome is the emergence of two competing shipping systems within the Strait of Hormuz. On one side would be an Iran-approved corridor, reserved for vessels authorized by Tehran or operated by countries aligned with its strategic interests. Such a system could increasingly serve Iran, Russia, China, and other states friendly to Tehran, though always subject to Iranian good will and coercion. On the other side would be the U.S.-backed and internationally protected corridor, relying on the Omani route and supported by Western naval forces and their partners.

This would resemble the situation that developed in the Red Sea, where the Houthis, from early 2024 to May 2025, selectively accommodated vessels linked to countries with which they maintained implicit or explicit arrangements. Numerous **reports** suggested that Chinese, Russian, and Iranian-linked shipping was able to transit without security risk by securing backdoor arrangements. These de facto arrangements contributed to the emergence of a differentiated maritime security environment that favored non-Western interests.

Meanwhile, Iran continues to deal bilaterally with Oman, and possibly other Gulf countries, to impose its vision of a new mechanism ruling the strait. Tehran keeps proposing managing one-way traffic on its side of the strait, while Oman would oversee vessels transiting in the opposite direction, with "service fees" going to the IRGC.

Could Qatar Still Come Out of the Crisis as a "Winner?"

Regaining market share will be another high-ranking priority. The longer the disruption lasts, the more other suppliers will capture Qatari market share, both through existing trade flows and through new final investment decisions in more stable jurisdictions.

Qatar should not be written off as a long-term LNG winner, but only if transit via the Strait of Hormuz once more becomes predictable and normalized. The country remains the world's lowest-cost LNG supplier and therefore retains unmatched pricing competitiveness. If construction at North Field East (33 mtpa) and North Field South (16 mtpa) resume at full speed after a delay of 12–18 months, Qatar could aggressively pursue buyers through competitive spot cargoes and discounted long-term contracts with lower oil-linked slopes that other suppliers may find difficult to match.

Qatar also possesses a powerful commercial-diplomatic model. QatarEnergy is not simply a company; it is an instrument of the Qatari state. Commercial decisions can be aligned with foreign policy, government-to-government agreements, financing, and long-term strategic relationships. This model may allow Qatar to regain market share, notably with Asian countries, even after a major disruption.

The country is also transforming itself into a global portfolio player. The recent start-up of the Golden Pass LNG export project in the United States, 70 percent owned by QatarEnergy and 30 percent owned by ExxonMobil, is central to that effort. QatarEnergy's merchant LNG share from Golden Pass (12.6 mtpa) is approximately equivalent to the volume lost from the two damaged Ras Laffan trains, which are also joint ventures between QatarEnergy and ExxonMobil. The symmetry raises questions about whether Doha and Tehran may have had a **quiet understanding** regarding which facilities would be targeted and how much supply would be removed from the market.

Qatar is also about to control a much larger LNG shipping fleet. Before the war, it aimed to own or manage approximately **200 LNG carriers** by the early 2030s. Some newbuilding deliveries and vessel orders now appear to have been **delayed**, but QatarEnergy's strategic decision of owning and controlling a large fleet remains central to its pursuit of market dominance.

Pipeline alternatives to export Qatari gas may be discussed in the future, including an expansion of the existing Dolphin Pipeline, a larger connection to Oman through the UAE, or routes through Saudi Arabia toward Turkey or the Eastern Mediterranean. A deep-sea pipeline from Oman toward India could also be studied. But these options would require large amounts of capital, time, and geopolitical coordination. Qatar, the UAE, and Oman are themselves LNG competitors, and Doha is unlikely to welcome dependence on another state for its exports. Unlike oil producers, Qatar has few realistic options for bypassing Hormuz.

Tail Risk: Indefinite Loss of Qatari LNG

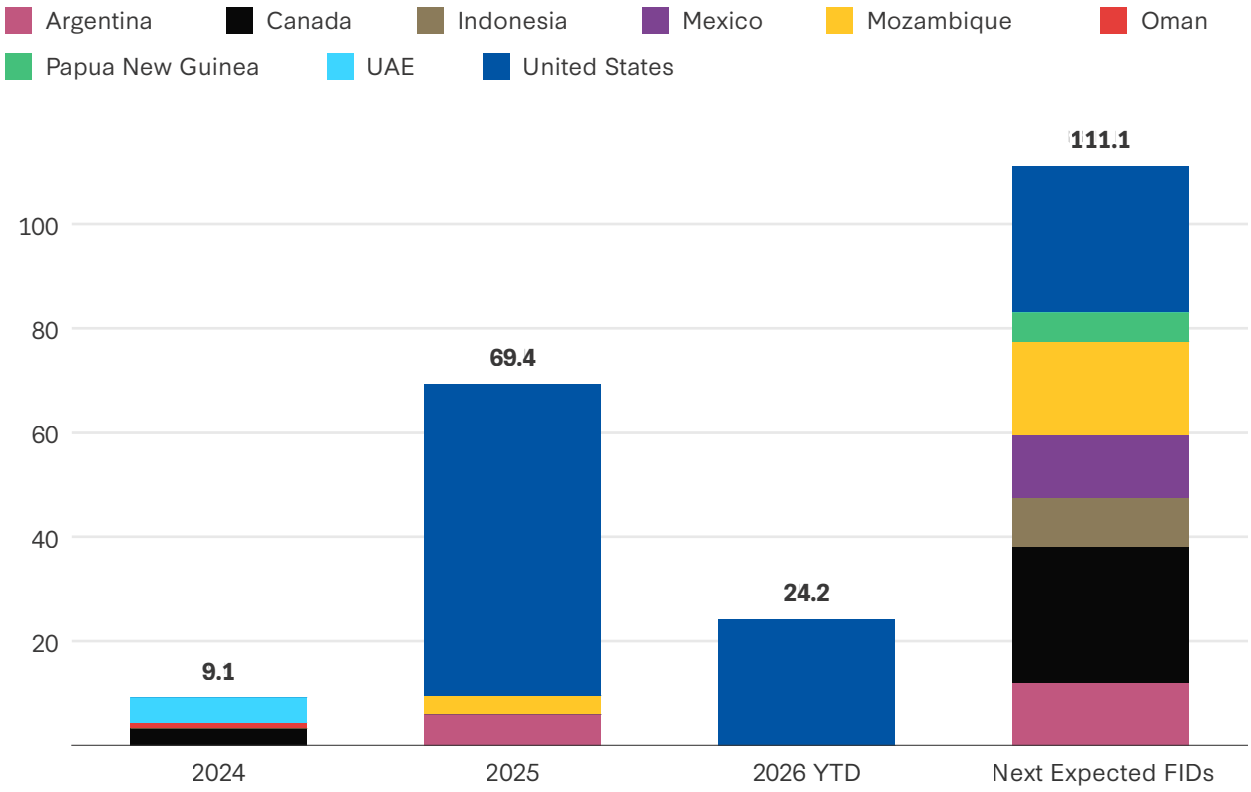
The possibility that a large share of Qatari LNG remains unavailable for an extended period should not be dismissed. The Strait of Hormuz could remain unreliable. Ras Laffan could be struck again. A political transition in Iran could also create new uncertainties over the long-standing tacit understanding that has governed the world's largest gas field, North Field–South Pars reservoir, shared between Doha and Tehran. A more nationalistic Iranian government, or a post-sanctions Iran seeking to become a major gas exporter, might demand a renegotiation of existing arrangements.

A prolonged disruption would fundamentally reshape the global LNG market. But the market also adapts. The global energy system adjusted to the loss of Libyan LNG, Yemeni LNG, and, more recently, Russian pipeline gas in Europe. The Russian gas disruptions triggered severe price spikes, led to persistent volatility, and eroded buyers' confidence in natural gas as a reliable energy source. Yet, new supply emerged and markets gradually rebalanced. U.S. LNG played a particularly important rescuer role following Russia's invasion of Ukraine and is doing so again amid the current Middle East disruptions.

The critical question is therefore whether the world will still miss lost Qatari LNG three to five years from now, once new liquefaction capacity in the United States, Canada, and elsewhere comes online. U.S. LNG is undergoing an unprecedented expansion. Projects currently under construction will add more than 120 mtpa of liquefaction capacity based on Energy Vista analysis, more than **doubling** the country's current LNG export capacity over the next five years. In **2027** alone, approximately 52 mtpa of new U.S. capacity is expected to enter the market, with Plaquemines LNG Phase 2, Calcasieu Pass 2, Rio Grande LNG, and Port Arthur LNG all likely to ship their first cargoes. Canada is also emerging as a significant LNG exporter. By the end of the decade, it is expected to have roughly **20 mtpa** of export capacity and could rise to more than 45 mtpa if the proposed Ksi Lisims LNG project and a second phase of LNG Canada proceed.

Figure 1: Increasing Liquefaction Capacity Leads to More Diversified LNG Suppliers

Global LNG final investment decisions by year and supplying countries (mtpa)



Source: Energy Vista intelligence; IGU 2026 World LNG Report; GIIGNL Annual Reports 2026; and company announcements.

> *The more diversified and abundant global energy supplies are, the less vulnerable the market becomes to the disruption of any single producer, even one as important as Qatar.*

As global LNG supply becomes increasingly abundant, temporary disruptions become less strategically significant. The more diversified and abundant global energy supplies are, the less vulnerable the market becomes to the disruption of any single producer, even one as important as Qatar.

The answer will also depend on the demand side of the equation, including the trajectory of Chinese LNG demand, AI-driven power consumption, industrial gas applications, demand-side management, and the availability of alternatives to natural gas, including fuel switching, nuclear power, renewable energy, and coal. The conflict may make emerging markets more cautious about expanding LNG imports because of affordability concerns and supply security risks. Yet memories can be short. If prices decline and supply concerns ease, many buyers are likely to return and may even become more willing to sign long-term contracts, particularly where viable alternatives to natural gas remain limited.

A New Geography of LNG Security

The Iran war is strengthening the case for suppliers based in the Organisation for Economic Co-operation and Development (OECD), particularly those in the Western Hemisphere, as buyers increasingly prioritize politically stable jurisdictions with secure shipping routes. The Trump administration has increasingly emphasized the Western Hemisphere as a sphere of influence and a region of energy abundance, stretching from Canada and Alaska through the Caribbean and Guyana to Mexico, Venezuela, Brazil, and Argentina. The region is gaining strategic relevance.

North America's West Coast is particularly attractive because it combines political stability, direct access to Asian markets, and routes that avoid the Strait of Hormuz, the Panama Canal, the Suez Canal, and the Malacca Strait. LNG Canada and Mexico's ECA LNG are already operating, with additional Canadian and Mexican export projects under construction or approaching investment decisions. While Alaska LNG remains driven more by geopolitics than commercial fundamentals, the project continues to benefit from strong political support in both Washington and Anchorage. The Trump administration also continues to pressure **Northeast Asian buyers** to participate. Whether this transactional commercial diplomacy will succeed remains uncertain.

While the conflict is likely to increase the Western Hemisphere's share of global LNG supply, other producers will also compete in this new geography of LNG security. Projects are advancing or being discussed in **Indonesia**, **Papua New Guinea**, and **Mozambique**, among other countries.

Key Takeaways

1. This is not the end of the Iran conflict. It is still far too early to assess the war's ultimate consequences, and several scenarios remain possible. The IRGC fights for its survival and may believe that it has little left to lose. For the United States, the conflict has become a test of global leadership, military credibility, and deterrence. Washington has repeatedly affirmed its commitment to a free and open Strait of Hormuz. China, Russia, and other powers are

watching what that commitment means in practice, not only for the Gulf but also for freedom of navigation elsewhere.

2. The future status of the Strait of Hormuz remains unresolved and will likely remain uncertain as long as the IRGC continues to be in its current role. The broader question therefore remains open: Is fundamental regime change inside Iran necessary to restore lasting confidence in the Gulf countries among investors and energy consumers?
3. The war in the Middle East and the battle for Hormuz are accelerating a broader reordering of geopolitical alliances and LNG trade flows. The Western Hemisphere is gaining momentum, and U.S. LNG is increasingly indispensable.
4. Qatari LNG may recover and compete aggressively, emerging as one of the long-term winners of this crisis. QatarEnergy's exceptionally low production costs, pricing flexibility, strong government-to-government customer relationships, deep financial pockets, state policy backing, large LNG fleet, and ability to control the timing of its expansion mean it could wedge a market share war against the U.S. LNG play. However, such a recovery depends entirely upon reliable shipping access and Doha's relationship with Tehran. The tail risk of prolonged supply loss because of unsafe shipping routes via Hormuz or further debilitating attacks at Ras Laffan cannot be ignored.

Qatari LNG may recover and compete aggressively, emerging as one of the long-term winners of this crisis. . . . However, such a recovery depends entirely upon reliable shipping access and Doha's relationship with Tehran.

5. Multi-energy hedging as a strategy for importing nations has been vindicated. Buyers will increasingly seek diversity not only among suppliers but also among fuels, energies, delivery entry points, shipping access, technologies, and contract and price structures. Gulf suppliers, in turn, will accelerate the development of diversified supply portfolios and export routes. As a result, Iran may have already played its Hormuz card, and the IRGC's ability to use the strait as a strategic weapon may start to wane.
6. Energy security has again moved ahead of environmental considerations. Methane **regulation**, emissions reporting, and related environmental priorities have not disappeared, but they have become less prominent as governments focus on physical supply, affordability, and resilience. ■

Leslie Palti-Guzman *is a senior associate (non-resident) with the Energy Security and Climate Change Program at the Center for Strategic and International Studies in Washington, D.C., and founder and president of Energy Vista.*

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