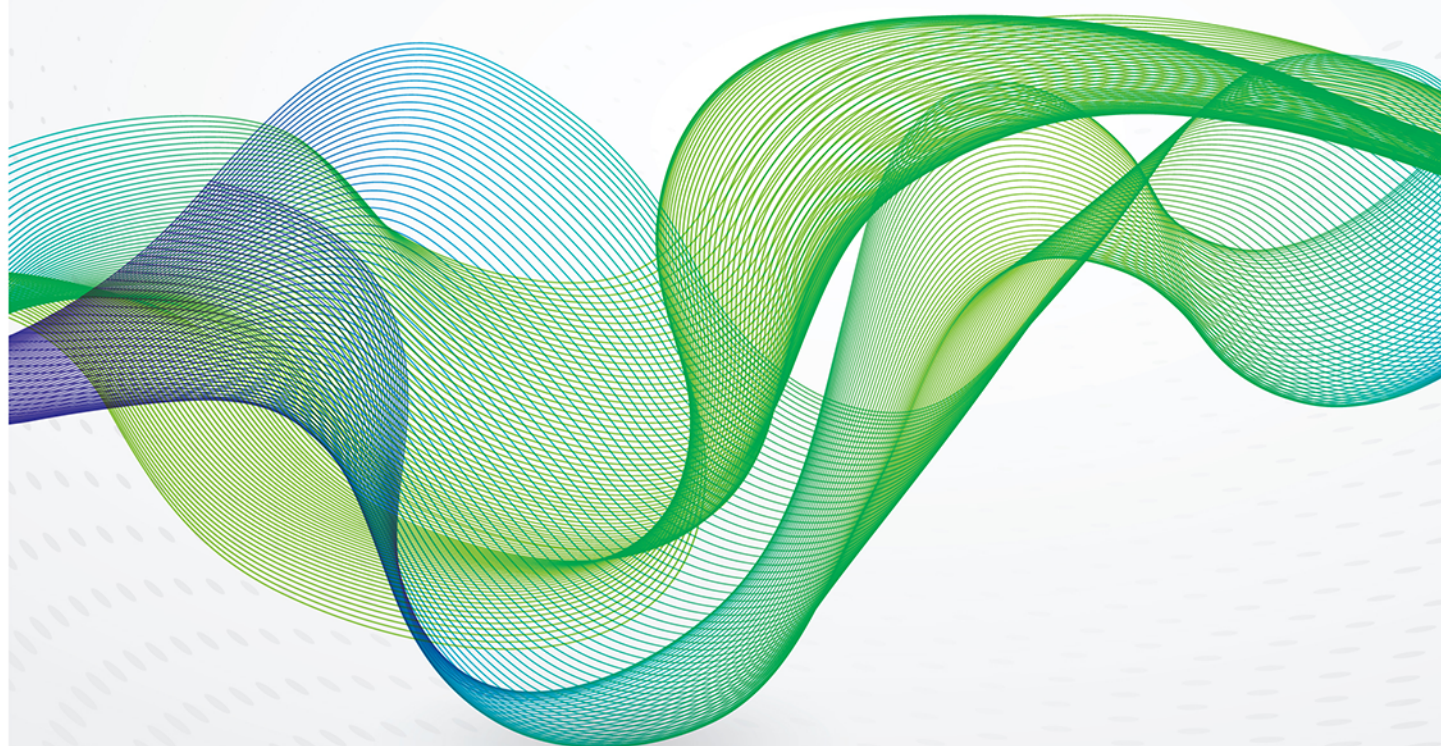
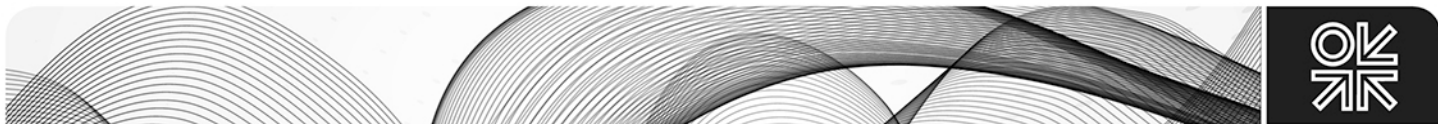


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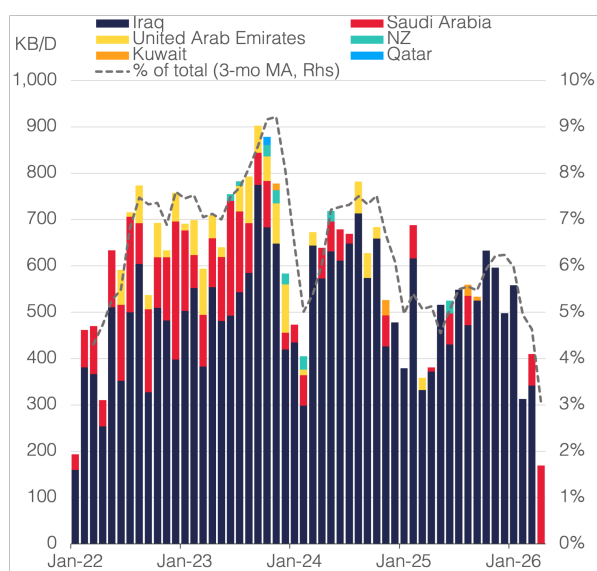
Europe's Oil Vulnerability to the Strait of Hormuz Disruption





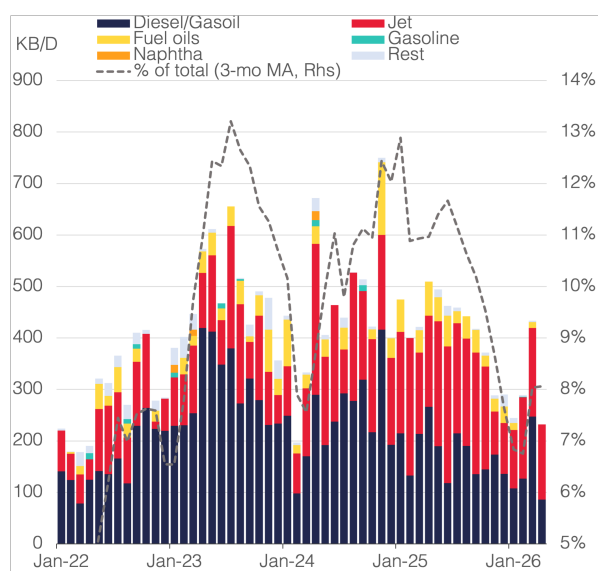
The US-Israel war on Iran has been sending shock waves through oil markets. What started as a disruption to oil flows through the Strait of Hormuz (SOH) has now resulted in large output losses in key Gulf producing countries estimated at around 12 million b/d (mb/d) in March.¹ The impacts of the flow shock and production losses have propagated across the physical supply chain, financial layers and across geographies. The initial impacts were most strongly felt in Asia given its high exposure to SOH flows both in terms of crude and products.² Europe's exposure to the SOH is much lower compared to Asia. In term of crude, Europe imported 520 thousand b/d (kb/d) of crude via SOH in 2025 constituting around 5% of its total crude imports (**Figure 1**). Europe's exposure is higher in products, amounting to 420 kb/d, or 10% of total imports, in 2025 (**Figure 2**). Around 90% of this exposure is concentrated in middle distillates, especially jet fuel, for which imports via the SOH account for nearly half of total imports (~45%). Despite its lower exposure to the SOH, Europe can't insulate itself from the price shock and inflationary pressures. In March, EU energy prices increased 4.9% compared to a 3.1% decline in February causing inflation to rise from 1.9% in February to 2.5%.³ And if the disruption through the SOH persists, European supplies of crude and products could be impacted, especially as the competition for the available pool of crude and products that could have been used to offset the losses from the Gulf, intensifies. EU's buffers such as strategic and commercial stocks are limited in the face of such a severe supply shock, and if the disruption is prolonged, those buffers will be further depleted impacting consumers and forcing EU governments to take some tough and costly measures.

Fig. 1: EU-27 crude imports via SOH



Notes: As of April 6, 2026. Source: Kpler, OIES

Fig 2: EU-27 products imports via SOH



Notes: As of April 6, 2026. Source: Kpler, OIES

Product supply tightness

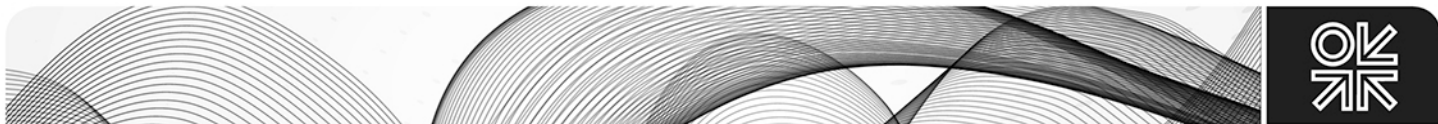
At the onset of the US-Israel war on Iran, the EU was in a relatively weak position regarding its petroleum products supplies due to some structural trends, a series of shocks, and governments' responses to these shocks.

To start with, EU refining capacity has been shrinking due to refinery closures and conversions. Between 2020 and 2024, Europe's refining capacity declined by nearly 600 kb/d from 15.3 mb/d to 14.7

¹ OIES, 'OIES Oil Monthly Issue 52', 27 March 2026.

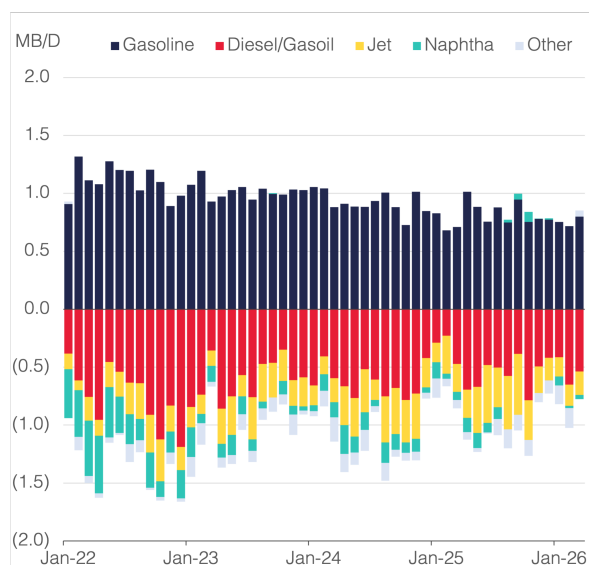
² Fattouh, B. and Mehdi, A. 'Through the Looking Glass: Oil and the Search for Direction'. OIES Energy Comment, March 2026.

³ BNN Bloomberg (By AP), 'Inflation increases to 2.5% in Europe as Iran war boosts energy prices', 31 March 2026.



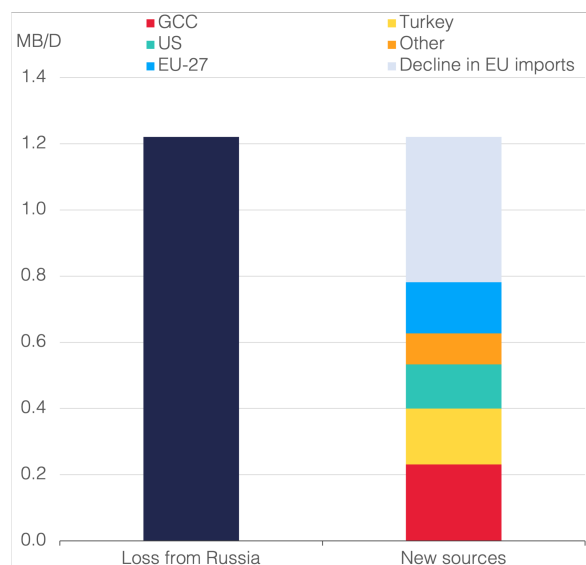
mb/d, while EU refinery runs in 2025 stood around 500 kb/d below 2019 levels, at 9.5 mb/d versus 10 mb/d in 2019. These declines did not fully reflect changes in demand patterns. After collapsing by around 2.5 mb/d y/y in 2020 during the COVID shock, EU oil demand had recovered by nearly 70% by 2025 and continued to grow in both 2024 and 2025, with annual growth exceeding the 2010-2019 average and gasoline and jet making a full recovery above pre-COVID levels (in 2025 gasoline demand stood +450 kb/d and jet +90 kb/d above 2019 levels). Despite EU's efforts to electrify its transport sector, this sector (road transport, shipping and aviation) remains highly reliant on petroleum products where in 2023 motor gasoline and diesel oil, LPG, blended biodiesel and blended bio gasoline made almost 98% of energy consumption in road transport (car and vans and heavy duty vehicles), almost 100% in domestic and international air transport and around 98% of energy consumption in international water transport⁴. Imports of clean products also remained elevated at 3.2 mb/d in 2025, driven primarily by middle distillates, whose share of total imports held near 60%, slightly above 2019 levels. In contrast, EU is long in gasoline most of which is exported to Africa and the US (**Figure 3**).

Fig. 3: EU-27 clean products balance



Source: Kpler, OIES

Fig 4: EU replacement of oil products imports from Russia, 2025 vs 2022



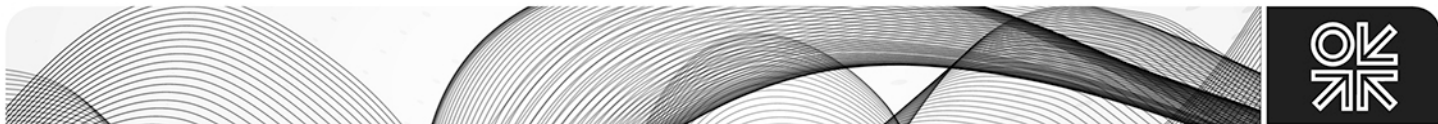
Source: Kpler, OIES

Following the Russian-Ukraine war in 2022, Europe's imports of Russian products have declined sharply following the 6th EU sanction package against Russia, which took effect at the start of 2023. To replace these losses, the EU had to rely on alternative sources of supplies from more distant sources, lengthening the supply chain and increasing its cost. One of these sources has been the GCC which between 2020 and 2024 saw an expansion in refining capacity (+1.6 mb/d), refining runs (+1.5 mb/d), and exportation of products (+1.56 mb/d). Between 2022 and 2025, Europe increased its imports from the Gulf by 230 kb/d to 700 kb/d (see **Figure 4**). In 2025, Saudi Arabia and Kuwait were the main suppliers together accounting for nearly 80% of the total. By product, diesel and jet were the main products, together accounting for nearly 70% of total imports.

The US and India are also important sources of middle distillates supply to the EU. Outside the GCC, they have been the largest exporters of distillates to Europe, particularly diesel. India's importance has increased in recent years, as expanding refining capacity and access to discounted Russian crude have boosted refinery runs and product exports, some of which have flowed to Europe.

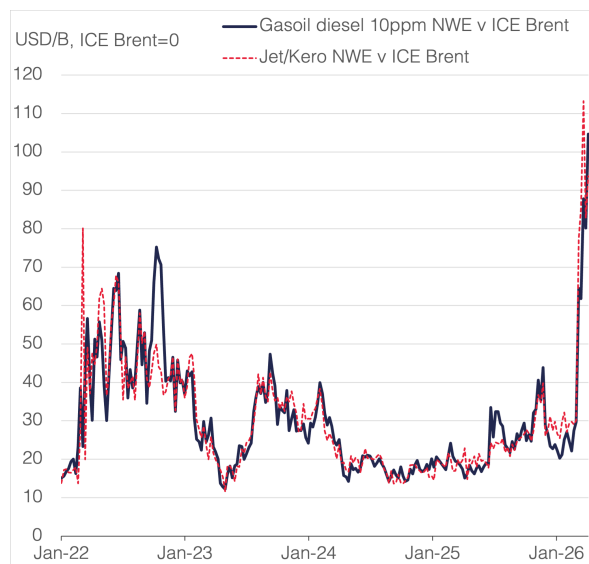
The 18th EU sanction package against Russia reinforced the ban on importing refined oil products from Russia and introduced the anti-circumvention ban targeting oil products produced from Russian crude

⁴ Eurostat, 'Final energy consumption in transport – detailed statistics', 11 May 2026.



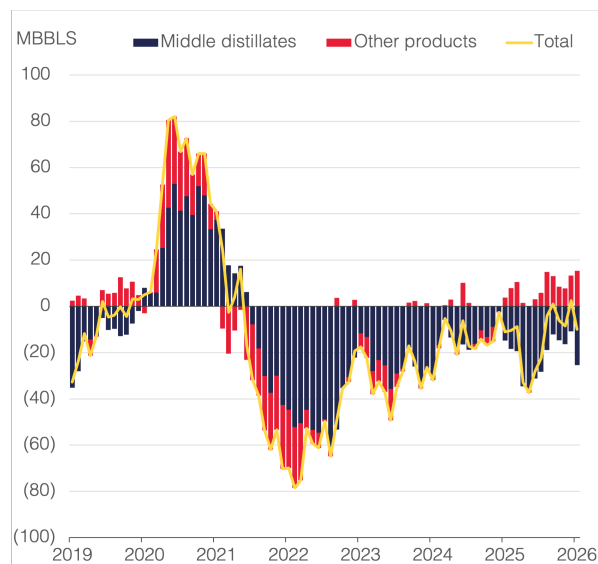
with the rule entering into force in January 2026. Even before the start of the war, diesel prices and margins in Europe were elevated (**Figure 5**), while product stocks, particularly distillates, stood below the five-year average (see **Figure 6**).

Fig. 5: NWE product cracks



Source: Argus, OIES

Fig 6: OECD Europe commercial stocks vs 5-year average



Source: IEA, OIES

Following the US-Israel war on Iran, the world has lost a key source of products supply. It is estimated that Iranian strikes on the GCC have disrupted more than 3 mb/d of primary refinery capacity across the region,⁵ including the UAE's Ruwais refinery, Bahrain's Sitra refinery and Kuwait's Mina Abdulla refinery with refined products exports from GCC falling from 4.9 mb/d in February to 2.1 mb/d in March, with most of the loss accounted for by the UAE (-1 mb/d), followed by Kuwait (-0.7 mb/d) and Qatar (-0.3 mb/d). According to Kpler data, global refinery runs fell by 3.9 mb/d m/m in March and, as of the first week of April, were down by around 6.5 mb/d compared to February pre-war levels. In March, Middle East refinery runs accounted for nearly 80% of the total decline, or 3.1 mb/d. While Saudi Arabia has been able to export around 1.2 mb/d of products via the Red Sea, most of these exports have been directed to Asia and Africa (60% of the total), which are heavily reliant on supplies from the Gulf.

Europe's exposure to losses have been high, especially for diesel and jet fuel, while GCC diesel and jet fuel exports to the EU declined by 70% (or 370 kb/d) in March. The competition for products cargoes has also intensified with other regions short in supplies, particularly Asia, attracting cargoes even when this requires diverting them through longer and more costly trade routes. For instance, Vortexa reported that six diesel tankers loaded from the US Gulf Coast have been diverted away from Europe with the ultimate destination remaining unclear.⁶ To redirect some of these flows towards Europe, EU importers will be forced to out-bid other importers.

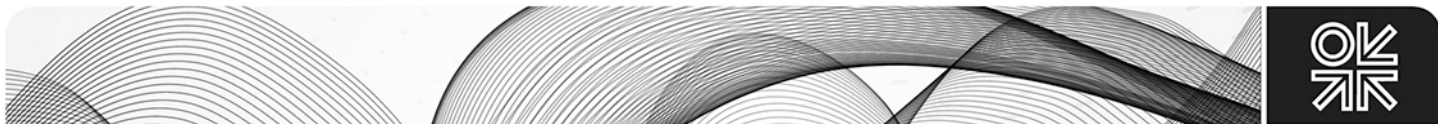
Also, the restrictions on exports of refined products by a few countries are reducing trade flows. China, one of the few countries with surplus refining capacity, has imposed a ban on exports of products even though it has instructed its refineries to maintain diesel and gasoline output at least at the 2025 levels to secure supplies for the domestic market.⁷ India has announced a levy on fuel exports.⁸ In February 2026, China and India exported 820 kb/d and 1,230 kb/d of products, respectively, with diesel and jet

⁵ IEA, 'Oil Market Report', 12 March 2026.

⁶ Vortexa, 'Six US-laden diesel tankers divert away from Europe', 2 April 2026.

⁷ Bloomberg, 'China Tells Top Refiners To Halt Diesel and Gasoline Exports', 5 March 2026.

⁸ Bloomberg, 'India Slaps Taxes on Fuel Exports as Iran War Jolts Supply', 27 March 2026.

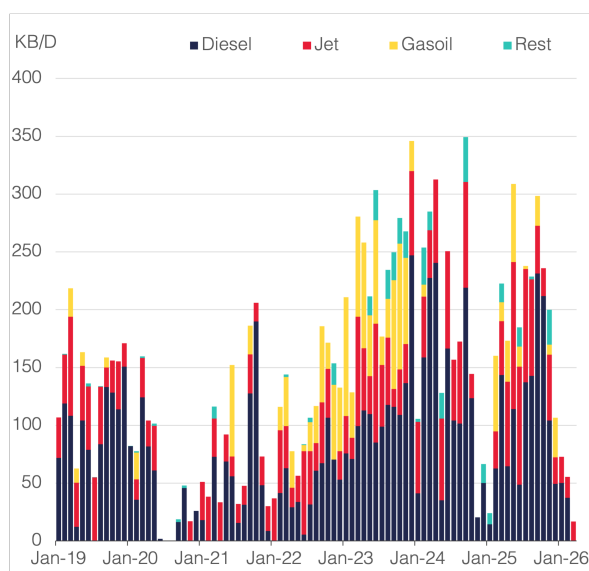


fuel comprising nearly half of the total exports. In March, India's product exports to Europe fell to their lowest in more than five years, at just 17 kb/d, compared with a 2025 average of 200 kb/d (**Figure 7**). Meanwhile, its exports to Asia rose to 650 kb/d from a 2025 average of 550 kb/d. China's product exports in March were little affected, holding near 700 kb/d.

The tensions in the products markets and concerns about shortages if the war continues have caused jet fuel and diesel prices and crack spreads to increase sharply (see **Figure 5**, p.4). This should incentivise EU refineries to run harder, postpone maintenance, and shift yields toward middle distillates. So far, rising cracks have had a limited impact and will not help offset the physical supply losses from the Gulf, especially for jet fuel. Also, as discussed below, if the disruption persists, EU refineries could become more constrained by the availability of crude grades that could yield higher proportions of distillates. The increased volatility in diesel prices and margins has also spilled over into paper markets, with open interest on ICE gasoil futures already declining by 15% between end-February and end-March (**Figure 8**).

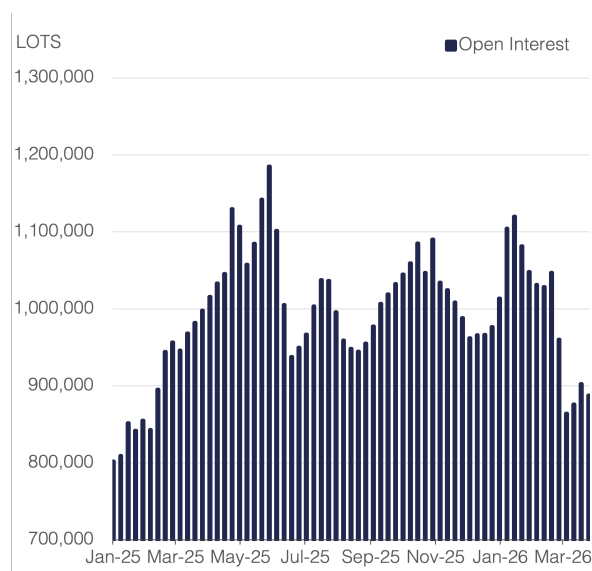
Unlike Asia, rationing has not yet spread in Europe, but this could change if the disruption persists. Slovenia has become the first EU country to introduce fuel rationing. The European Commission has asked member countries to consider 'voluntary demand saving measures ... with particular attention to the transport sector' and 'refrain from taking measures that may increase fuel consumption, limit the free flow of petroleum products or disincentivize EU refinery output'.⁹ There are reports that some of the large European aviation groups in Europe are considering plans to ground planes in case of fuel shortages¹⁰. In Italy, several airports have already issued advisories of limited fuel supplies.¹¹ The IEA has outlined a range of demand-side measures for governments, businesses and households, spanning road-transport, air travel, cooking and industry, to ease pressures on consumers amid strains in diesel, jet fuel and LPG markets.¹²

Fig. 7: India product exports to EU-27



Source: Kpler, OIES

Fig 8: ICE Gasoil futures



Source: ICE

⁹ Politico, 'Brussels says Europeans should consider travelling less to avoid energy shortages', 30 March 2026.

¹⁰ Bloomberg, 'Lufthansa Prepares Crisis Plans That Include Grounding Jets', 31 March 2026.

¹¹ Bloomberg, 'Italy Sets Jet Fuel Limits at Some Airports on Supply Gap', 5 April 2026.

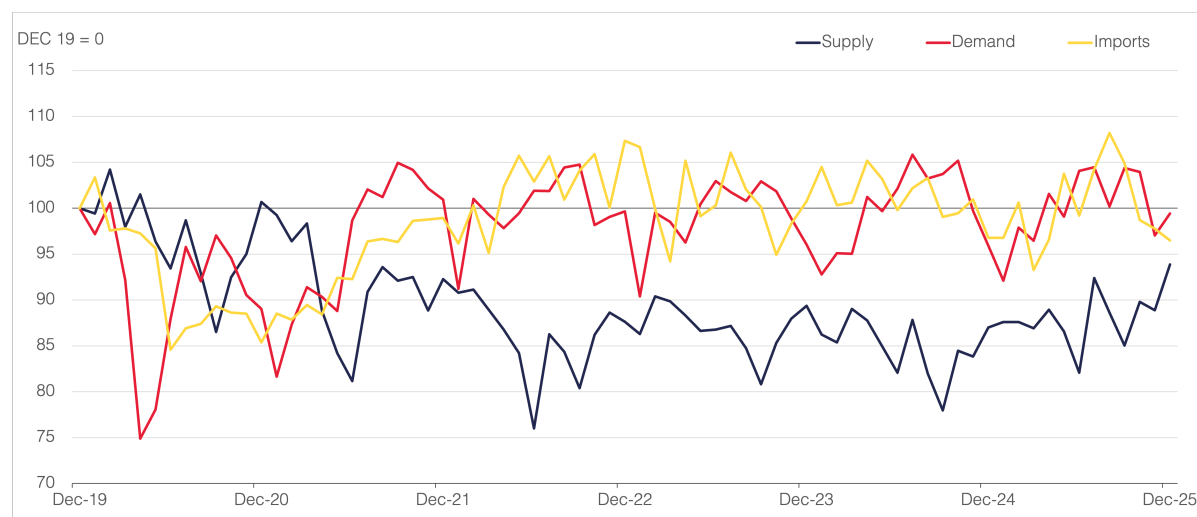
¹² IEA, 'New IEA report highlights options to ease oil price pressure on consumers in response to Middle East supply disruptions', 20 March 2026.

Rising Asian competition for crude

In addition to its impacts on product supplies, the US-Israel war on Iran has also triggered a crude flow shock, causing major supply disruptions. We estimate Gulf production losses at close to 11 mb/d m/m in March.¹³ At the same time, crude exports from the region fell from 13.7 mb/d in February to less than 8 mb/d in March, a decline of nearly 6 mb/d.

Despite its decarbonization efforts, the EU remains a large importer of crude oil. EU's crude production has been in decline and while EU demand has slowed, crude imports remain relative steady around 9.3 mb/d since 2023 (**Figure 9**).

Fig. 9: EU supply, demand and oil imports (Dec-19 = 100)



Source: IEA, Kpler, OIES

Also, following the Russian-Ukraine war, EU's seaborne imports of Russian medium sour crude decreased sharply (**Figure 10**). Russian oil transit through the Druzhba pipeline continued to feed refineries in Hungary and Slovakia until the recent Russian attack on the pipeline in Ukraine in January 2026. Hungary and Slovakia blame Ukraine for deliberately prolonging the outage, restricting Russian flows through the pipeline. EU refineries had to replace Russian barrels with new sources including from the US, Latin America and the Gulf. From the Gulf, most of the increase originated from Iraq followed by Saudi Arabia (**Figure 11**). Iraqi crude has become an important source of crude supply, particularly for Mediterranean refineries.

The EU will face its largest loss from Iraqi crude—specifically Basrah Heavy and Basrah Medium—with the impact felt most strongly in the Mediterranean region. Iraq has suffered massive loss of production estimated between 3 mb/d and 3.5 mb/d, and unlike Saudi Arabia, it does not have any significant route bypassing around the SOH. Iraqi Kirkuk can reach the Mediterranean via the Kirkuk-Ceyhan pipeline. But the flows through the pipeline have not been stable due to an ongoing dispute between the KRG and the Federal Government. After a two-week stalemate in March, exports via the pipeline started to flow again at an initial rate of 100,000-140,000 b/d before reaching 170,000 b/d.¹⁴ While the resumption of Kirkuk exports offers some relief, it is not enough to replace the lost barrels from the South of Iraq. In addition to volumes, there is a quality issue. Even before the war, Mediterranean refiners were raising concerns about Kirkuk quality, as the grade has become heavier. This issue is now compounded by the loss of KRG output which was previously mixed before export. While Kirkuk can be blended with lighter crudes, the differentials for lighter crudes have also increased.

¹³ OIES, 'OIES Oil Monthly Issue 52', 27 March 2026.

¹⁴ MEES, 'Iraq Starts Kirkuk Crude Oil Exports', 20 March 2026.

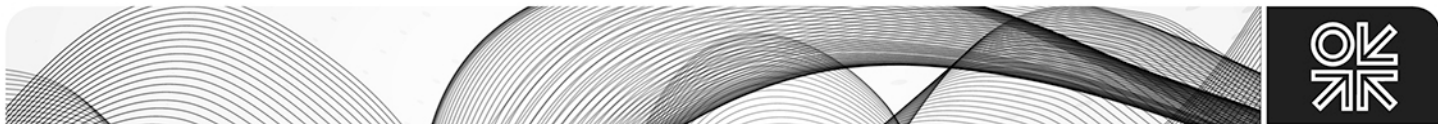
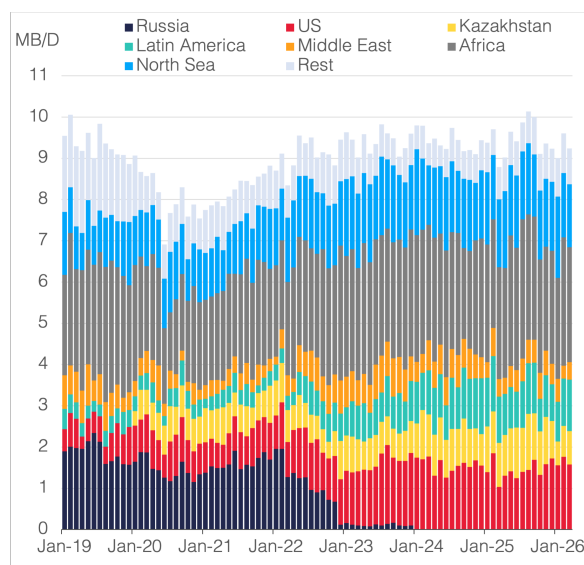
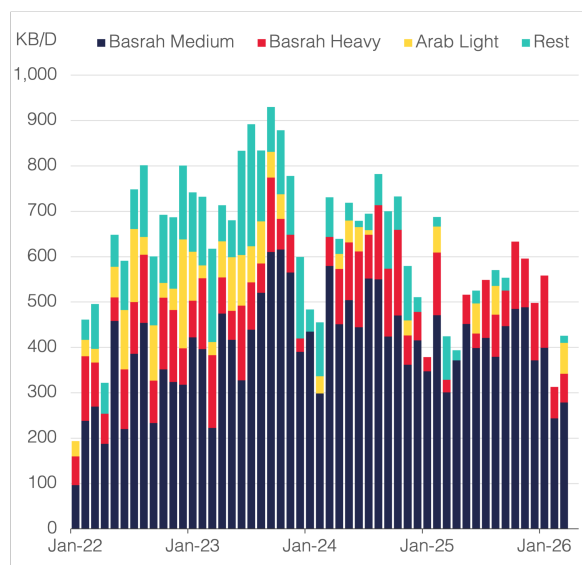


Fig. 10: EU-27 crude imports by origin



Source: Kpler, OIES

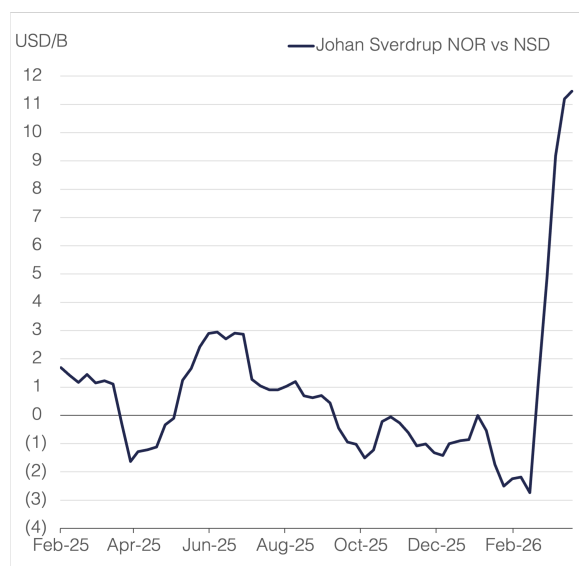
Fig. 11: EU crude imports from Middle East



Source: Kpler, OIES

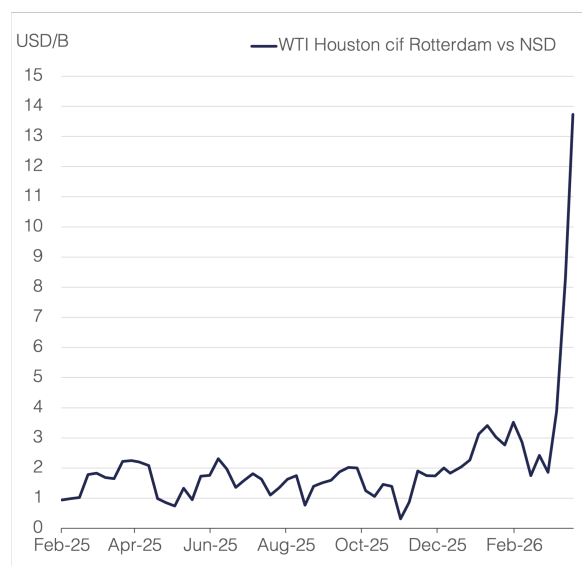
So far, Europe has not fully experienced the impact of the loss Gulf supplies as loaded cargoes that cleared the SOH destined to Europe before the war are still arriving in Europe in April. But as the disruption continues, this effect will fade and European refineries must replace the lost barrels, particularly medium sour barrels, or they must cut runs. Given the high freight rates and the strong market backwardation which increase the cost of moving barrels from further away places, the first call is to replace the loss from local crudes such as Johan Sverdrup. Also, last year, Norway has started the production of a new medium sweet grade, Johan Castberg, which has high middle distillates yields, highly desired in this context. The increase in demand for medium crudes and nearby amidst its lower availability has caused a sharp increase in medium crude differentials with Johan Sverdrup and Johan Castberg reaching record levels helping to pull crude from faraway places like Guyana (**Figure 12**). Crudes from Brazil and other Latin American producers can help offset some of the lost barrels from the Gulf. But high freight rates and heavily backwardated markets, alongside competition from Asia for these barrels, have made the arbitrage more costly for EU refineries.

Fig. 12: Johan Sverdrup vs North Sea Dated

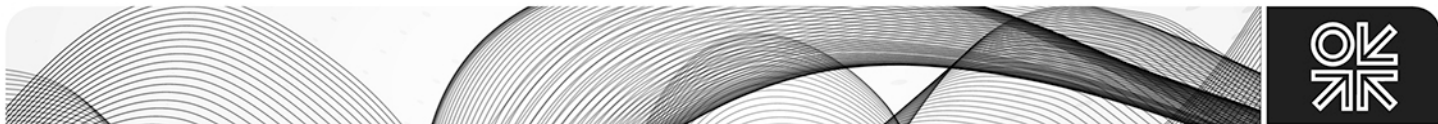


Notes: As of w/e 2 April 2026. Source: Argus, OIES

Fig 13: WTI vs North Sea Dated



Notes: As of w/e 2 April 2026. Source: Argus, OIES



These sharp movements in price differentials are not only limited to sour crudes. WTI has become a baseload for many European refineries. As Asian refineries started pulling larger volumes of WTI due to the reduced availability and the higher cost of UAE's Murban, WTI has also been trading at record premiums to their benchmarks in Europe (**Figure 13**). But this has not been limited to WTI. Asian buyers have been competing for other grades such as CPC Blend and Algeria's Sahara Blend, core crudes for Mediterranean refineries despite the surge in freight costs reducing availability for European refineries.

In short, while European refineries could offset some of the losses of Gulf supplies from the Atlantic basin, the competition has intensified, especially for medium sour crudes: the pool that Europe could have used to offset the loss from the Gulf is becoming more costly and is shrinking in size. In addition to the availability problem, the EU also faces a quality problem. EU refineries may have to settle for crudes that don't necessarily optimise their refinery configuration, diminishing the yield of key products. Currently, the wide margins especially for some products such as diesel and jet fuel have encouraged European refineries to increase their runs. But if the disruption continues, and as EU refineries look to replenish their stocks by higher cost and less optimal crude, this could push them to trim runs reducing their supply of products.

Reflections on policy and security

Given the interconnectedness of oil markets, the shock whose impact was initially felt the most in Asia has now shifted to other places in the world including Europe.

In response to these shocks, Europe has been taking several measures.

On March 11, the IEA member countries agreed to release around 400 million barrels of emergency stocks (public stocks and obligatory industry stocks) with the EU contributing around 118 million barrels. The overall release consists mainly of crude, but Europe has prioritised the release of refined products (55 million barrels). Given the size of the supply shock and its duration, the impacts of the current release will provide only temporary relief. The IEA member countries are already considering further release.

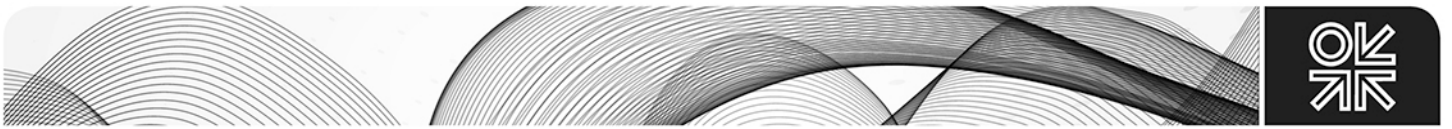
To help offset the shock on final consumers, some countries are considering tax cuts (Italy), providing subsidies for some products (UK), fuel aid packages to some sectors and loans to small businesses (France), caps on retail fuel margins (Greece) and fuel price caps (France). These measures may have adverse effects if they suppress the price signals for consumers to reduce consumption. For instance, in France following the introduction of the price cap, hundreds of French filling stations ran out of fuel as consumer rushed to fill up¹⁵.

Unlike the US, the EU has not relaxed any sanctions on the importation of Russian crude, and it remains to be seen whether some of the EU sanctions rules of the EU sanctions Package against Russia will be relaxed, for instance to allow some importation of products from countries that refine Russian crude.

Despite US President Trump's pressure on European nations to help secure the SOH and while EU reaffirms 'the importance of safeguarding maritime routes, and safety of navigation, including in the Strait of Hormuz and all associated critical waterways' and 'the absolute necessity to permanently restore safe and toll free freedom of navigation in the Strait of Hormuz, consistent with UNSC Resolution 2817 and the Law of the Sea', the EU leaders have so far rejected military involvement and the focus is to reopen the SOH via coalitions and diplomacy.¹⁶ The French Foreign Minister position perhaps reflects most accurately EU's approach indicating that securing these goals may require an international mission to escort vessels, but this will only happen 'once calm has been restored' and 'in a strictly defensive posture'. Given its current posture, the EU is likely to have limited influence on SOH operations during the war and in shaping the post-war governance framework that emerges around SOH. Europe was already operating within a segmented system of sanctioned and non-sanctioned crude and refined product markets. Several Asian countries have now entered into bilateral agreements

¹⁵ Bloomberg, 'Some French gas stations run dry as price caps spur rush to fill', 1 April 2026.

¹⁶ Bloomberg, 'Take Hormuz by Force? France and Britain Have Better Ideas', 3 April 2026.



permitting cargo transits through the SOH. While the volumes involved remain relatively small—and could be overtaken by any broader settlement concerning the SOH—these arrangements raise a deeper question for Europe, specifically, whether it is prepared to adapt to a two-tier passage system through the SOH and the potential consequences this would have on security, governance, transparency and further market fragmentation.