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Iran War: Key Escalation Risks

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However severe the damage already inflicted on the energy sector in the Middle East, the worst-case scenario has so far been avoided. What this might entail is a U.S. strike on Kharg Island's energy infrastructure, through which about 90% of Iran's oil exports are shipped, and Iran retaliating by littering the Strait of Hormuz with thousands of sea mines. The United States and Israel would respond by bombing energy infrastructure across Iran, and Iran would punch back with attacks on energy infrastructure across the Gulf states. Were this to occur, even if hostilities subsided in short order, it would take months to reopen the strait and years to repair the damage to the infrastructure in the region.

In addition to causing a long-lasting shock to oil and gas prices, the disruption would significantly impact several other sectors for which the region and its shipping lanes are critical, including aluminium, agriculture and helium production. Agriculture, in particular, would be hard hit. About one-third of the world's fertilizer trade passes through the Strait of Hormuz. Because natural gas is the dominant feedstock that goes into making fertilizer, much of the global fertilizer production is concentrated in the Middle East, where this input is abundant and relatively cheap.[1]

The parties to the conflict did come close to the worst-case scenario but pulled back. When Israel struck Iran's South Pars gas field, Iran responded by targeting Qatar's Ras Laffan LNG hub. South Pars supplies about 70% of Iran's domestic gas, making it essential for the country's electricity generation, industry and agriculture. Ras Laffan accounts for about one-fifth of the global LNG supply. Qatari authorities stated that Iran's missile attack reduced its LNG export capacity by 17% and that repairs could take up to five years.

The longer the war continues, the greater the risk that one side inadvertently passes a point of no return. For example, whereas the United States might view seizing Kharg Island without destroying its energy facilities or occupying parts of the coastal region along the Strait of Hormuz as a limited military operation, such an action could represent a critical red line for Iran.

The United States has red lines of its own. These may include mass casualties, attacks on the home front, the continued closure of the Strait of Hormuz, renewed attacks by the Houthis in the Red Sea and further damage to energy, water and industrial infrastructure in the Gulf region. Such developments could prompt a more aggressive military response not only from the United States but also the Gulf states.

Bottom line: While the threat of mutually assured energy disruption may be preventing both sides from deliberately crossing key escalation thresholds, many things can still go wrong in the fog of war. The longer the conflict persists, the greater the risk of a targeting error occurring or a red line being misread, and of this triggering an escalation.

[1] "How does the Iran war affect fertiliser supplies, prices and food security?" Reuters, March 17, 2026

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