

MIDDLE EAST CRISIS AND PAKISTAN'S ENERGY SECURITY VULNERABILITIES

By
Momina Fatima
Intern

Centre for Strategic Perspectives (CSP), ISSI
Email Address: csp@issi.org.pk

Supervised by
Mian Ahmad Naeem Salik

August 20, 2026

*(Views expressed in the brief are those of the author, and do
not represent those of ISSI)*



Geopolitical instability now moves quickly through energy markets, shipping routes and national economies. For energy-importing states, even a temporary disruption at a major transit route can produce immediate supply and price pressures. The Strait of Hormuz is especially important because it is the only maritime outlet from the Persian Gulf to the Gulf of Oman and the wider Arabian Sea. Any prolonged disruption to this route would therefore create significant challenges for energy-importing economies.¹

The 2026 Middle East crisis turned this structural dependence into a direct strategic risk. Around one-quarter of the world's seaborne oil trade and about one-fifth of global LNG supply passed through the narrow waterway between Iran and the Arabian Peninsula.² Pakistan's reliance on Gulf oil and LNG meant that disruption in the strait could raise import costs, delay cargoes and create shortages without Pakistan itself being directly targeted.

The crisis therefore exposed more than a temporary supply problem. It revealed a broader weakness in Pakistan's energy security: a narrow supplier base, dependence on a single maritime corridor, limited strategic reserves and insufficient contingency planning. Emergency conservation measures

¹ "World Oil Transit Chokepoints," U.S. Energy Information Administration (EIA), Accessed on August 15, 2026, https://www.eia.gov/international/analysis/special-topics/World_Oil_Transit_Chokepoint

² "The Middle East and global energy markets," June 11, 2026, International Energy Agency (IEA), <https://www.iea.org/topics/the-middle-east-and-global-energy-market>

and efforts to secure replacement cargoes helped manage the immediate shock, but they did not remove the underlying vulnerability.

Global and Regional Energy Shockwaves

The impact spread rapidly across oil and gas markets. Qatar, a leading global LNG exporter and Pakistan's main LNG supplier, reported damage to its principal export facility. The disruption removed about 17% of export capacity and was estimated to place roughly US\$20 billion in annual income at risk.³ Because Qatar supplies buyers in Asia, Europe and the Middle East, the loss of capacity did not remain a local problem. Importers were forced to compete for a smaller pool of replacement cargoes, pushing prices higher across several markets at the same time.

Oil markets reacted just as sharply. Fears of prolonged disruption through Hormuz produced a sudden rise in Brent crude prices and increased volatility in freight and insurance markets. The price shock reflected both the physical risk to supply, and the premium attached to uncertainty over how long shipping restrictions might last.

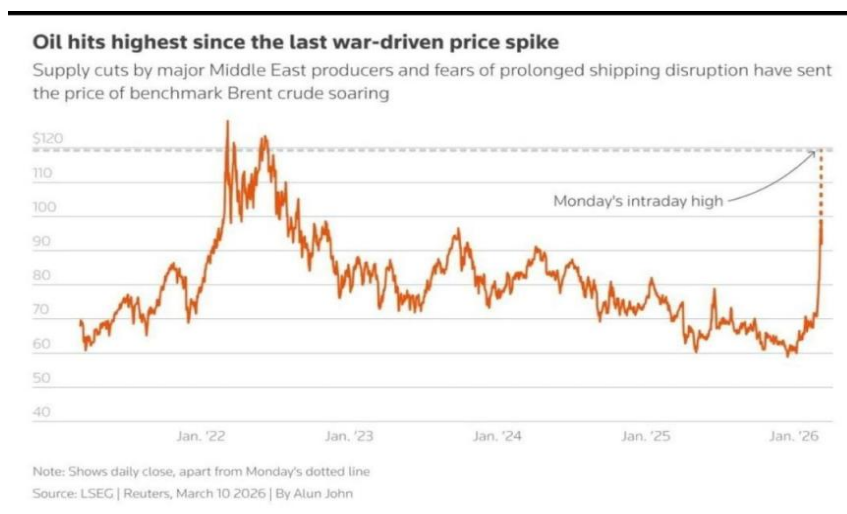


Figure 1: Brent crude price volatility during the 2026 Middle East crisis.⁴

Pakistan entered the crisis with little room to absorb a prolonged shock. According to the Pakistan Economic Survey 2025-26, average natural gas consumption during July-March of FY2026 stood at

³ "Qatar Energy Declares Force Majeure on Some LNG Contracts Due to Iran War," March 24, 2026, Al Jazeera, <https://www.aljazeera.com/news/2026/3/24/qatarenergy-declares-force-majeure-on-some-lng-contracts>

⁴ Mike Dolan, "The dangerous politics of US oil-driven redistribution," Reuters, March 11, 2026, <https://www.reuters.com/markets/commodities/dangerous-politics-us-oil-driven-redistribution-2026-03-11/>

2,316 MMCFD, while RLNG consumption remained significant at 613 MMCFD.⁵ The figures show that imported gas had become an important part of the energy mix even as domestic supply constraints persisted.

Supply Disruption and Emergency Response

The immediate concern was the availability of fuel. Tensions around Iran threatened a route carrying a large share of Pakistan's petroleum and LNG imports. The government introduced emergency conservation measures, including a reduced working week in parts of the public sector, while energy authorities tried to secure replacement supplies.⁶ These steps limited demand in the short term but also illustrated how quickly an external shock could affect domestic economic activity.

The IMF's April 2026 regional outlook, as cited in the draft, indicated that the crisis could reduce Pakistan's FY2026-27 growth projection by around 0.6% points under the disruption scenario.⁷ The estimate underlined the wider economic cost of an energy shock: weaker industrial output, higher transport and production costs, pressure on household incomes and reduced fiscal space.

On the gas side, the Pakistan's Petroleum Minister confirmed that Qatar remained Pakistan's largest LNG supplier. Emergency cargoes were secured only after the disruption at Ras Laffan reduced Qatar's export capacity.⁸ On the oil side, Pakistan asked Saudi Arabia to reroute crude through Yanbu, while Kuwait provided an emergency shipment of diesel and jet fuel.⁹

Macroeconomic Transmission

The crisis has affected the economy through several interconnected channels. During July-March of FY2026, Pakistan's petroleum import bill declined by 5.95% to US\$11.2 billion, while LNG Imports fell by 29.7%, demonstrating lower international prices and weaker demand from oil and gas-based power

⁵ "Pakistan Economic Survey 2025-26," Ministry of Finance, Accessed on August 15, 2026, https://finance.gov.pk/survey/chapter_26/Complete_PES2025_26.pdf?utm_

⁶ "Pakistan requests alternative supply routes via Yanbu, Saudi Arabia assures full support," Ministry of Energy, March 4, 2026, <https://petroleum.gov.pk/NewsDetail/OWU3ZDQ5MzYtMzAxZi00NzVmLWFKNDMtZWUxZTg0NjY5ZjMw?utm>

⁷ "International Monetary Fund, Regional Economic Outlook Update Middle East and Central Asia," IMF, April 16, 2026, <https://www.imf.org/-/media/files/publications/reo/mcd-cca/2026/april/english/text.pdf>

⁸ "Qatar Energy Declares Force Majeure on Some LNG Contracts Due to Iran War," March 24, 2026, Al Jazeera, <https://www.aljazeera.com/news/2026/3/24/qatarenergy-declares-force-majeure-on-some-lng-contract>

⁹ Waseem Abbasi, "Pakistan Says Kuwait-Backed Fuel Shipment Helped Ease Supply Pressure amid Hormuz Disruption," Arab News, May 12, 2026, <https://www.arabnews.com/node/2643252/amp>

generation.¹⁰ However, after the start of the crisis higher international oil and LNG prices raised the import bill and increased demand for foreign exchange. The resulting pressure on reserves and the balance of payments was particularly serious for an economy already dependent on external financing.

A rise in oil prices therefore moved beyond petrol stations and appeared in food distribution, manufacturing costs, freight charges and electricity tariffs. Therefore, LNG disruption created an additional physical supply risk because imported gas supports both power generation and industrial activity. The IMF has repeatedly identified expensive energy imports and weaknesses in the energy sector as risks to macroeconomic stability.¹¹

Maritime and Logistics Costs

Maritime insecurity added another layer of pressure. Security incidents involving commercial vessels increased the risk to tankers and merchant shipping, while uncertainty raised insurance premiums, freight charges and transit times. UNCTAD has noted that disruption at major maritime chokepoints can transmit higher shipping costs across global supply chains, with developing economies facing the greatest difficulty in absorbing them.¹²

Economic and social Vulnerabilities

- As economic security erodes, survival becomes uncertain, resulting in vulnerable communities increasingly exposed to insecurity and limited resources.
- Pakistan's exposure arose from the combination of route concentration and supplier concentration. A large share of imported oil and LNG moved through the same maritime corridor, while Qatar and Saudi Arabia remained central to gas and oil supply. This left limited room to shift quickly when the corridor itself became insecure.
- The country lacked the strategic petroleum and LNG buffers required to manage a prolonged disruption. Emergency cargoes could ease immediate shortages, but replacement supplies were more expensive, subject to shipping delays and dependent on the willingness and capacity of partner states.

¹⁰ "Pakistan Economic Survey 2025-26," Ministry of Finance, Accessed on August 15, 2026, https://finance.gov.pk/survey/chapter_26/Complete_PES2025_26.pdf?utm_

¹¹ "Pakistan 2024 Article IV Consultation and Request for an Extended Arrangement under the Extended Fund Facility," IMF, October 10, 2024, <https://www.imf.org/-/media/files/publications/cr/2024/english/1pakea2024003-print-pdf.pdf>

¹² "Review of Maritime Transport 2023," United Nations Conference on Trade and Development (UNCTAD), Accessed on August 15, 2026, <https://unctad.org/publication/review-maritime-transport-2023>

- Imported LNG had become important for electricity generation and industry. A disruption therefore threatened not only household fuel availability but also power supply, industrial output and export competitiveness. Weaknesses in the broader energy system amplified the effect of the external shock.
- High energy imports meant that a price spike quickly became a balance-of-payments problem. Higher import costs increased pressure on foreign exchange reserves, widened fiscal risks and reduced the government's ability to protect consumers without creating additional subsidies or debt.
- The response remained largely reactive. Fuel-saving measures, requests for rerouted cargoes and emergency shipments were necessary, but they were introduced after the disruption had already affected supply expectations. A clearer national protocol for stock monitoring, demand management and supply prioritisation was missing.

Policy Recommendations:

- The Ministry of Energy, OGRA, port authorities and oil marketing companies should establish a permanent energy contingency mechanism. It should maintain a daily national dashboard covering petroleum stocks, LNG cargo schedules, port capacity and demand in essential sectors.
- Pakistan should expand strategic petroleum storage and develop practical LNG storage options, including floating and onshore capacity. Supplier diversification should be built into long-term contracts rather than pursued only during a crisis.
- The government should also negotiate contingency arrangements for alternative loading points, emergency cargo swaps and rerouting through ports outside the immediate Hormuz risk zone. OGRA's stockholding requirements should be reviewed so that commercial inventories support a credible national reserve.
- The longer-term response should reduce the share of imported fuel in electricity generation and transport. Faster expansion of renewable energy, stronger grid reliability, improved energy efficiency and more disciplined sectoral reform would lower exposure to future price and supply shocks.

Conclusion:

The Hormuz crisis functioned as a stress test of Pakistan's energy resilience. The immediate response prevented a deeper disruption, but it also showed that national energy security could not rest on uninterrupted access to one maritime chokepoint and a narrow group of suppliers. The central lesson

was not that every external shock could be prevented, but that its domestic impact could be reduced. Strategic reserves, diversified supply arrangements, stronger crisis coordination and a faster transition towards domestic and renewable energy should therefore be treated as national security priorities rather than routine sectoral reforms.