KSE | Institute

Assessment of the Impact of the Iran War on Russia

By Benjamin Hilgenstock, Borys Dodonov, Petras Katinas, Elina Ribakova, Lucas Risinger, Anatoliy Kravtsev, and Yuliia Pavytska. With contributions from Jacob Nell and Craig Kennedy.

- **The Iran crisis has the potential to set back efforts to reduce Russia's ability to pay for its war of aggression significantly as the current situation in the Strait of Hormuz drives up energy prices; it represents the biggest challenge to the sanctions regime in more than four years of full-scale war.**
- **Depending on the length of the conflict and the time required for a restoration of flows, global oil prices could remain around $100/bbl for two months or rise noticeably above $150/bbl for an extended period, while gas prices could soar to $40/mmbtu in the most pessimistic scenario.**
- **Even in an *optimistic scenario*, in which the active war ends after six weeks and flows recover quickly, Russia would generate an additional $84 bn in export earnings and $45 bn in budget revenues in 2026 compared to a no-war scenario—moderately reducing macro vulnerabilities.**
- **In a *pessimistic scenario* with an extended war and much slower post-war restoration of supplies, Russia would gain $252 bn in export earnings and $151 bn in budget revenues—almost inevitably leading to a budget surplus and the ability to maintain high war spending for years to come.**

Before the start of the Iran war, Russia's energy outlook had deteriorated markedly, with oil and gas export earnings as well as budget revenues dropping sharply—and oil export and production volumes being affected by sanctions for the first time in four years in February. However, Iran's closure of the Strait of Hormuz and retaliatory attacks on countries in the Persian Gulf have led to soaring energy prices and partial sanctions easing by the United States. In this report, we evaluate the potential impact on Russia through higher oil and gas export earnings and budget revenues in three different scenarios for the length of the crisis and time needed for the restoration of flows (see Table 1). Compared to the pre-war baseline, Russian oil and gas export earnings in 2026 could increase by $84–252 bn (+63–188%). In the central scenario of a three-month war and fast recovery, Russia would earn an additional $161 bn (+120%)—roughly $0.5 bn a day for the rest of the year—with exports during the four-month crisis approaching levels last seen in 2022. As the Russian budget remains heavily reliant on oil and gas, the impact on the fiscal situation would also be significant—$45–151 bn depending on the scenario. In the central scenario, this would markedly reduce existing financing pressure and allow Russia to maintain elevated defense spending, avoid painful spending cuts, and rebuild important macroeconomic buffers. Detailed assumptions and impact estimates can be found in Table 2.

1. Context: Mounting Pressure on Russia on the Eve of the War

Entering the crisis, Russia's energy outlook was in its worst state since the full-scale invasion in 2022, with both export earnings and volumes at their lowest levels in four years. The fall in oil export volumes (of 900 kb/d in February vs. January) is particularly noteworthy, as they had previously remained remarkably stable. Importantly, this triggered a marked drop in production of 700 kb/d (1.0 mb/d below Russia's OPEC+ quota), which has important implications for budget revenues. Together with persistently suppressed global prices despite a growing pre-crisis risk premium, an elevated discount of $23-24/bbl on Russian oil heavily weighed on oil export earnings, which fell below $10 bn in February for the first time since the Covid pandemic.

This worsening outlook took a serious toll on government finances, with oil and gas revenues almost 50% weaker in January-February than a year before and the budget deficit reaching 3.45 trillion rubles—more than 40% higher than in January-February 2025 and above 90% of the full-year plan. Additional pressure on budget financing, which can only come from utilization of the sovereign wealth fund and domestic borrowing, was therefore building and was set to trigger painful policy choices. For instance, the Kremlin is allegedly preparing a 10% cut to all "non-sensitive" budget spending—after already hiking the VAT rate, narrowing the universe of VAT-exempt businesses, and increasing other taxes and fees at the beginning of the year.

2. Impact of the Iran Crisis on Oil and Gas: Disruptions and Damages

The fundamental challenge is Iran's asymmetric capability to disrupt shipping in the Strait of Hormuz. Thus, even in the case of sustained and effective air strikes by the US and Israel on Iran's leadership and military, **a full reopening of the Strait during the active war phase is unlikely**. Its capabilities include naval mines, coastal anti-ship missile batteries, drones, and small submarines, the majority of which is operated by the Islamic Revolutionary Guard Corps (IRGC). These tools are relatively inexpensive, hard to detect, and can be deployed from dispersed coastal positions and islands around a narrow strait. Even their limited utilization will keep traffic through the Strait of Hormuz at a minimum without requiring Iran to fully close the waterway. As clearing mines and escorting vessels are time-consuming and resource-intensive, these asymmetric tactics can prolong the conflict by creating persistent shipping disruptions and uncertainty in energy markets.

On an average day before the war, ~20 mb of crude oil and products, and ~300 mcm of LNG, were shipped through the Strait of Hormuz—accounting for nearly 20% of global oil and LNG supply. After nearly three weeks of war and several Iranian strikes on ships in the Persian Gulf, the Strait of Hormuz is largely closed, with only a few ships making the transit. In addition, Qatar has shut down the Ras Laffan LNG plant, the largest in the world, and the IEA reports that Gulf countries have shut in at least 10 mb/d of oil production.

We assume that while the war continues, the flow of oil from the Persian Gulf will be halved to around 10 mb/d, which assumes 4–6 mb/d are diverted through bypass pipelines—utilizing the significant spare capacity of 4–6 mb/d across the 5–7 mb/d Saudi East-West pipeline and the 2 mb/d Emirati pipeline to Fujairah—as well as 3–5 mb/d of Iranian oil or shipments approved by Iran which continue transiting the Strait. This means an increase in flows from the current level—around 3-4 mb/d–once the bypass pipelines are working at full capacity and Iran approves more transits. **We also assume that LNG supply to the global market will be cut by around 300 mcm per day** (or nearly 1 bcm every 3 days) until the active war ends as plants in the Gulf region—Ras Laffan in Qatar and Das Island in the United Arab Emirates—will remain closed.

Once the war finishes and production restarts, we assume that it will take some time to get back to pre-war levels. In the case of oil, an orderly and rapid startup will take a month at 50% production in our most optimistic scenario—a good outcome given the complexity of the reservoirs in question and the need for some wellwork and operational interventions. In the case of LNG, the affected plants will likely have warmed up and will need to be cooled down again, likely using cargo from another plant (e.g., Omani LNG), and we expect this process to also take a month at 50% production. These estimates are conditional on no significant damage to upstream production infrastructure or liquefaction facilities having occurred during the active war.

However, we also see a risk of a slower and more complex startup, especially in the case of a longer conflict with more substantial damage to oil and gas infrastructure. The services supply chain is likely to be stretched dealing with multiple major repairs to oil and gas infrastructure and field restarts, which are likely to involve well interventions and restarting complex pressure maintenance systems. Given the scale of the challenge—bringing 10–15 mb of shut-in production and associated processing facilities, multiple refineries, and the world's largest LNG liquefaction facility back online—it could take considerable time to return

production to pre-war levels. In our pessimistic scenario, we assume three months at an average of 50% of normal output before full production is restored, but there is further risk to the downside.

3. Three Scenarios for the Impact Analysis

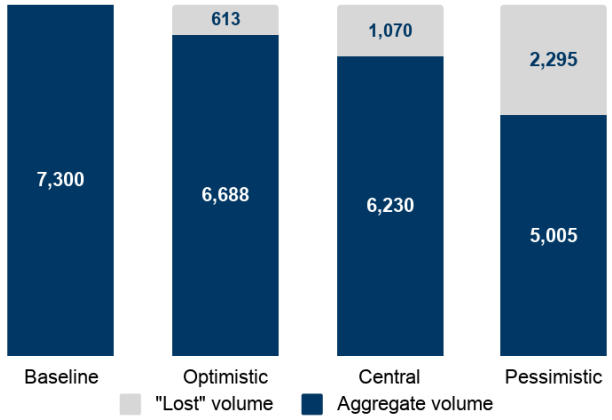
For our assessment, **we develop three scenarios that differ in terms of the length of the active war as well as the time required for a restoration of production and flows** (see Table 1). Figures 1 & 2 illustrate the impact on flows through the Strait of Hormuz, while Figures 3 & 4 show assumptions regarding prices. Table 2 contains detailed numbers for all assumptions on a monthly and annual basis.

Table 1: Scenarios

Optimistic	• **Active war lasts for a total of six weeks** (until mid-April) • **Fast and orderly production restoration** (50% of pre-crisis volume for four weeks) • Aggregate **reduction of production of ~600 mb of oil and ~20 bcm of LNG** • **Oil prices** remain around $100/bbl until there is a clear pathway to de-escalation and fall to the pre-war level of ~$70/bbl by the end of the year • **LNG prices** will rise to around $25/mmbtu in Asia and slightly less in Europe, and will end the year around the pre-war level of $12/mmbtu
Central	• **Active war lasts for a total of three months** (until end of May) • **Fast and orderly production restoration** (50% of pre-crisis volume for four weeks) • Aggregate **reduction of production of ~1,100 mb of oil and ~30 bcm of LNG** • **Oil prices** rise to $140/bbl until there is a clear pathway to de-escalation and fall to ~$80/bbl by the end of the year (somewhat above the pre-war level of ~$70/bbl) • **LNG prices** will rise to around $30/mmbtu in Asia and slightly less in Europe, and will end the year somewhat above the pre-war level at $15/mmbtu
Pessimistic	• **Active war lasts for a total of six months** (until end of September) • **Slower restoration of production** (50% of pre-crisis volume for three months) • Aggregate **reduction of production of ~2,300 mb of oil and ~70 bcm of LNG** • **Oil prices** rise to $150–200/bbl until there is a clear pathway to de-escalation and end the year at $90/bbl (noticeably above the pre-war level of ~$70/bbl) • **LNG prices** will rise to around $40/mmbtu in Asia and slightly less in Europe, and will end the year somewhat above the pre-war level at $18/mmbtu

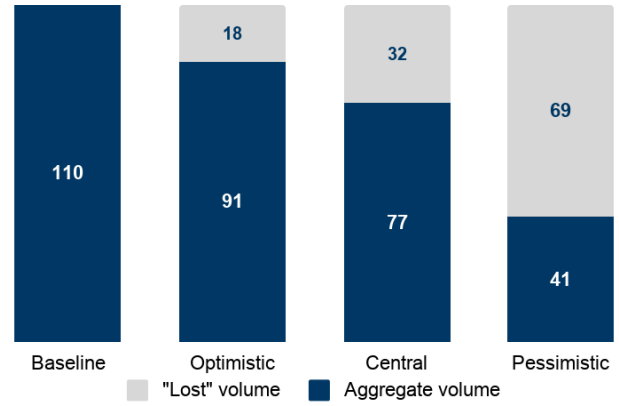
Optimistic scenario: We assume that the **conflict lasts for six weeks until mid-April** and is **succeeded by a fast and orderly restart, which takes a further four weeks** at an average of 50% of pre-war baseline production. In volume terms, this **scenario takes ~600 mb of oil and ~20 bcm of LNG out of global balances**. For prices, we assume that **oil prices hold at around the current level of $100/bbl** until there is a clear pathway to de-escalation and reopening of the Strait, at which point prices will shift sharply lower—since the IEA reserve release and previously forecast excess production in 2026 will broadly cover the lost barrels—**ending the year at around the pre-war level (~$70/bbl)**. **For LNG, we see higher prices for Asian countries**, since they are the main buyers of Gulf LNG and have the more acute deficit, **but European prices will not be far behind** as countries need to fill storage over the summer and cannot afford to lose too many flexible cargoes to Asia. We estimate prices of **up to $25/mmbtu for Asia and slightly less in Europe** until there is clarity on de-escalation and reopening, at which point **prices can start to adjust and end the year at around the pre-war level of $12/mmbtu**.

Figure 1: Strait of Hormuz oil flows in 2026, mb



Source: KSE Institute

Figure 2: Strait of Hormuz LNG flows in 2026, bcm



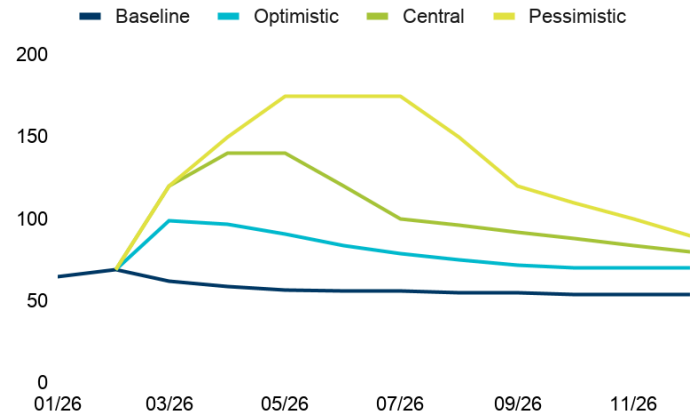
Source: KSE Institute

Central scenario: We assume that the **conflict lasts for three months until the end of May** and is **succeeded by a fast and orderly restart, which takes a further four weeks** at an average of 50% of pre-war baseline production. In volume terms, this **scenario takes ~1,100 mb of oil and ~30 bcm of LNG out of global balances**. For prices, we assume that **oil prices move to $140/bbl** until there is a clear pathway to de-escalation and reopening of the Strait, at which point prices will shift sharply lower, **ending the year above the pre-war level at $80/bbl**. **For LNG, we see prices around $30/mmbtu in Asia and slightly lower in Europe** until there is clarity on de-escalation and reopening, at which point **prices can start to adjust and end the year somewhat above the pre-war level at $15/mmbtu**.

Pessimistic scenario: We assume **a longer conflict, which lasts for six months until September**, and is **succeeded by a slower restart, which takes a further three months** until December at an average of 50% of pre-war production, prolonged by complexities in repairing damaged infrastructure and managing well restarts and pressure in old and complex reservoirs. In volume terms, this **scenario takes ~2,300 mb of oil and ~70 bcm of LNG out of global balances**. We assume that **oil prices move in a more volatile manner to $150-200/bbl**, reflecting the need to price up to destroy inelastic oil demand and balance the market. Prices will shift lower once there is a clear pathway to de-escalation and reopening of the Strait, but will **end the year noticeably above the pre-war level at $90/bbl**. **For LNG, we see less dramatic movements**. This partly reflects the ability of China—the largest single importer of Persian Gulf LNG—to replace LNG with domestic production and pipeline gas, as well as the wider scope for substitution and demand destruction (especially in low-income Asian countries); it also reflects the ongoing surge in LNG supply, which is likely to add 40 bcm of non-Qatari supply this year. This would imply **prices around $40/mmbtu in Asia and slightly lower in Europe** until there is clarity on de-escalation and reopening, at which point prices can start to adjust. Nevertheless, they would **end the year well above the pre-war level at $18/mmbtu**.

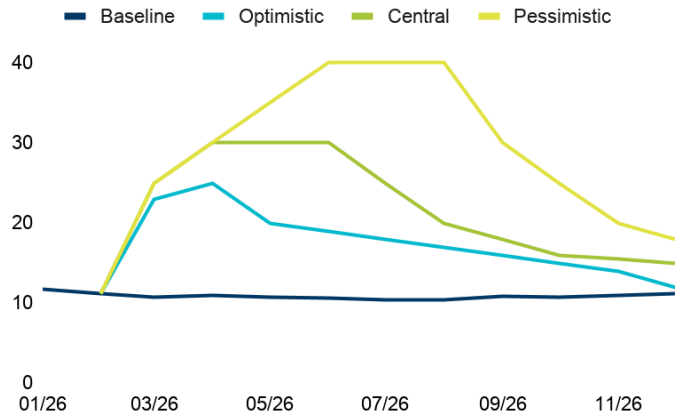
While these scenarios capture a reasonable range of outcomes, history suggests a skew towards a longer conflict and slower recovery. Prior conflicts in the region often lasted longer than expected, and were often followed by a slower-than-expected post-conflict recovery in production, as a result of a mix of damage to facilities and social unrest. For instance, Iran has never regained its pre-1979 revolution level of production, while Kuwait and Iraq took 4 and 23 years, respectively, for production to return to the pre-1990 war level of production. In such a “super-pessimistic” scenario, global oil prices could rise to $200/bbl and gas/LNG prices to $50/mmbtu for an extended period, which would trigger a major stagflationary shock to the world economy.

Figure 3: Global crude oil price, $/bbl



Source: KSE Institute

Figure 4: Global LNG price, $/mmbtu

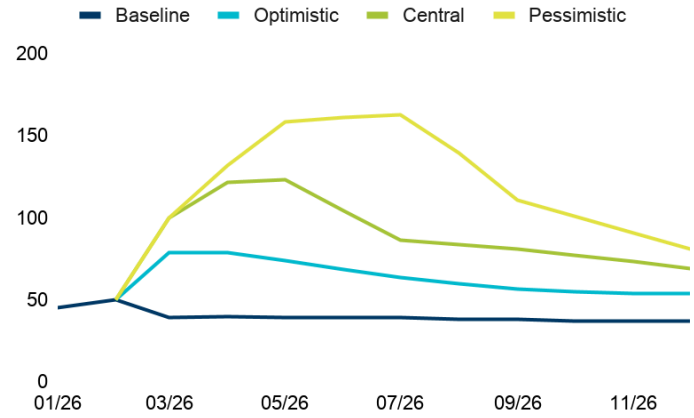


Source: KSE Institute

4. Impact on Russian Prices and Volumes

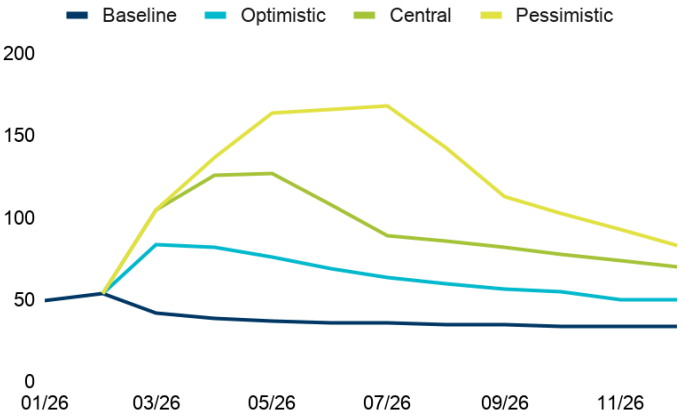
We assume that the discount on Russian oil prices will gradually narrow due to the war, assuming that sanctions are less stringently enforced and purchasers are more focused on securing supply. However, elevated shipping costs as a result of congestion and longer journeys will keep discounts from collapsing. This applies to both crude oil as well as oil products, and the narrowing of discounts will be more pronounced the longer the crisis lasts, i.e., most significant in the pessimistic scenario ($10/bbl for Urals, $7–8/bbl for ESPO, and $7/bbl for oil products by the fall) and somewhat less so in the central scenario ($12/bbl for Urals, $8–9/bbl for ESPO, and $10/bbl). In the optimistic scenario, discounts would narrow to $18/bbl for Urals, $9–10/bbl for ESPO, and $12/bbl for oil products by the summer, before widening again in Q4 as—in our assumption—the US waiver on Russian producer sanctions will be allowed to expire as global prices fall below $80/bbl, once again reducing demand for Russian exports. In the baseline scenario, discounts would have remained elevated for some time in our view before risk perceptions and overcompliance in the face of US sanctions slowly subside. The resulting Russian oil export prices are shown in Figures 5 & 6.

Figure 5: Russian crude oil price, $/bbl



Source: KSE Institute

Figure 6: Russian oil products price, $/bbl

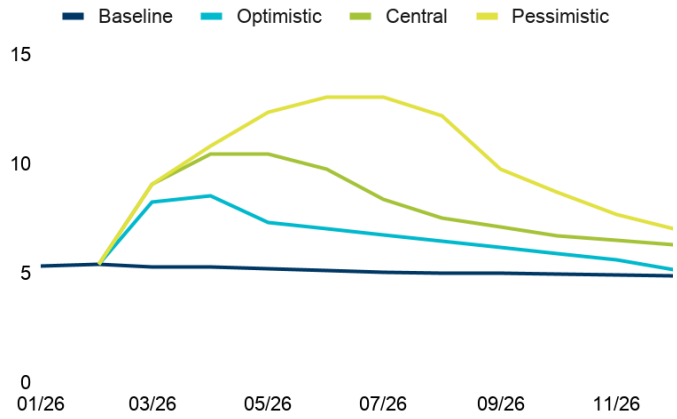


Source: KSE Institute

Note: Crude oil prices marginally exceed products prices in the baseline scenario, while products prices exceed crude prices in the three war scenarios.

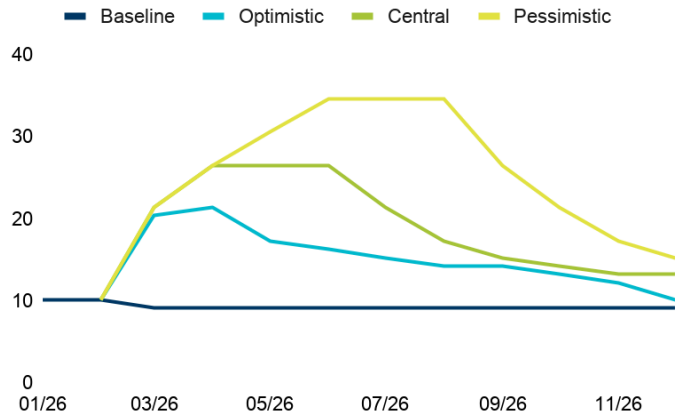
Gas deliveries via pipelines to China and other non-European markets are assumed to follow legally oil-indexed contracts, in which prices are linked to Brent via slope coefficients; deliveries to China also include a discount. Under current market conditions of elevated oil prices, these oil-indexed contracts become comparatively more profitable, as gas prices rise in line with Brent (see Figure 7). At the same time, **the crisis is tightening global LNG supply** and increasing competition for cargoes between Europe and Asia, **putting upward pressure on hub prices**. **Russian LNG is assumed to be redirected to Asian markets at a discount following the REPowerEU phase-out** (see Figure 8). **However, this discount is expected to narrow** as LNG freight rates rise due to longer routes and reduced vessel availability, including disruptions affecting Qatar's fleet (which accounts for around 9% of global LNG shipping capacity).

Figure 7: Russian pipeline gas price, $/mmbtu



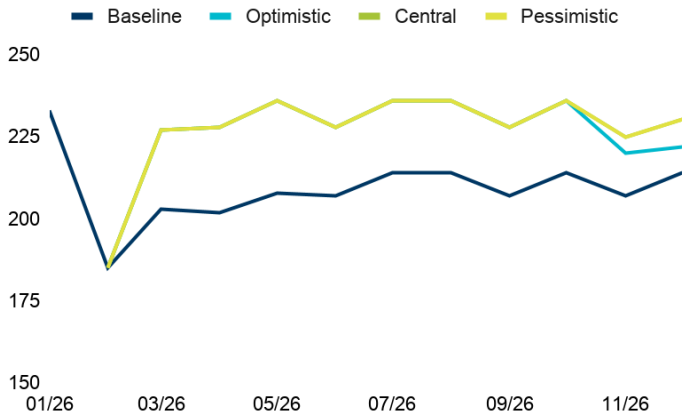
Source: KSE Institute

Figure 8: Russian LNG price, $/mmbtu



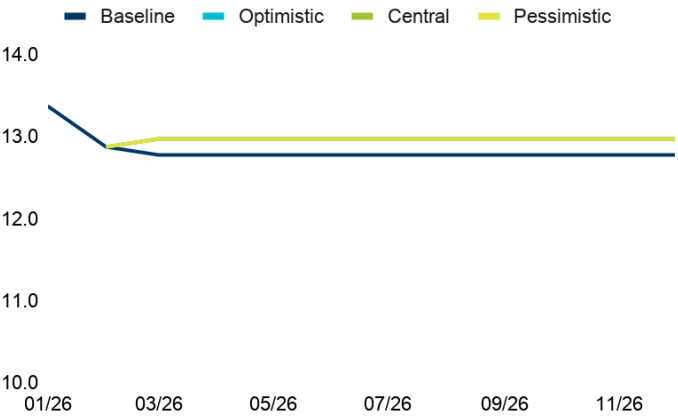
Source: KSE Institute

Figure 9: Russian oil export volumes, mb



Source: KSE Institute
Note: central and pessimistic scenarios overlap.

Figure 10: Russian gas export volumes, bcm



Source: KSE Institute
Note: scenarios overlap.

Furthermore, **we assume that Russian oil export volumes will rebound** as US waivers on sales of oil already exported—and floating around on tankers—frees up transport capacity. In all three scenarios, exports will increase in March–April, reaching their long-time average of 4.9–5.0 mb/d in crude oil and 2.7 mb/d in oil products (see Figure 9). In the baseline scenario, volumes would have remained noticeably suppressed for a considerable period. However, in our view, Russia would not be able to increase production much beyond

~11.5 mb/d—and, thus, exports beyond ~8.0 mb/d—as the industry's long-term development has been constrained by sanctions on investments in oil and gas exploration and production development (many of which have been in place since Russia's annexation of Crimea in 2014). In the optimistic scenario, we assume that US sanctions will be reinstated in Q4 and bring export volumes back down towards the baseline.

As far as natural gas is concerned (see Figure 10), **pipeline gas volumes are expected to remain stable at around 300 mcm/d**, as most pipelines are near maximum capacity. **LNG exports will also remain at ~130 mcm/d**, since Yamal LNG and Sakhalin-2 are operating at or near full capacity. Yamal LNG faces additional logistical constraints due to its reliance on a limited fleet of ice-class vessels, further limiting export growth.

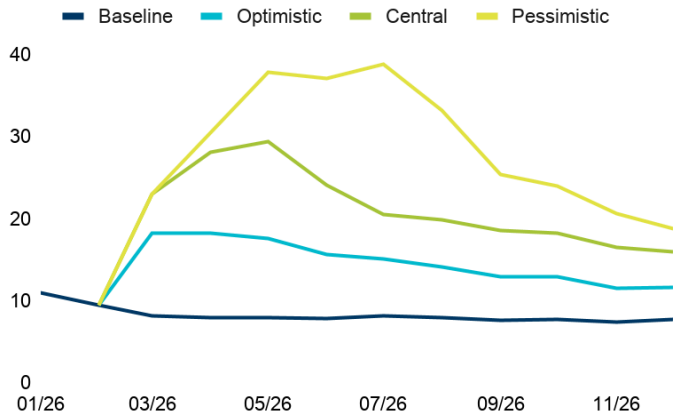
5. Impact on Russian Export Earnings and Budget Revenues

This section discusses the impact of the Iran war on Russian export earnings from oil and natural gas (see Figures 11–14 and Table 2) in different scenarios and compares the outcomes with a hypothetical no-war baseline scenario, in which challenges would have grown significantly due to low global prices and sanctions.

- **Baseline scenario:** Oil export earnings would have remained around $7.5–$8.0 bn per month for all of 2026 as US sanctions and Indian buyers' commitment to import less Russian oil keep pressure on volumes and discounts. Gas export earnings would have continued to slowly decline to below $3.0 bn per month for most of the year. Altogether, Russia would have earned $99 bn from oil and $35 bn from gas exports in 2026—a level that has traditionally led to major macroeconomic instability.
- **Optimistic scenario:** Oil export earnings peak at ~$18 bn in March-April and gas export earnings at $5.7 bn in April before declining in subsequent months, while finishing the year still considerably above the baseline scenario. Altogether, Russia would receive $169 bn from oil (+$70 bn vs. baseline) and $50 bn from gas (+$15 bn vs. baseline) in 2026.
- **Central scenario:** Oil export earnings peak at $28–29 bn and gas export earnings at ~$7 bn in April–May before declining markedly in subsequent months. However, they will remain significantly above the baseline scenario for the entire year. Altogether, Russia would receive $235 bn from oil (+$136 bn vs. baseline) and $60 bn from gas (+$25 bn vs. baseline) in 2026.
- **Pessimistic scenario:** Oil export earnings continue to rise, reaching $37–39 bn per month in May–July, while gas export earnings reach a peak of $9 bn per month in June–July. Readjustment thereafter would be relatively quick but export earnings would remain markedly above the baseline scenario for the rest of the year. Altogether, Russia would receive $310 bn from oil (+$211 bn vs. baseline) and $77 bn from gas (+$42 bn vs. baseline) in 2026.

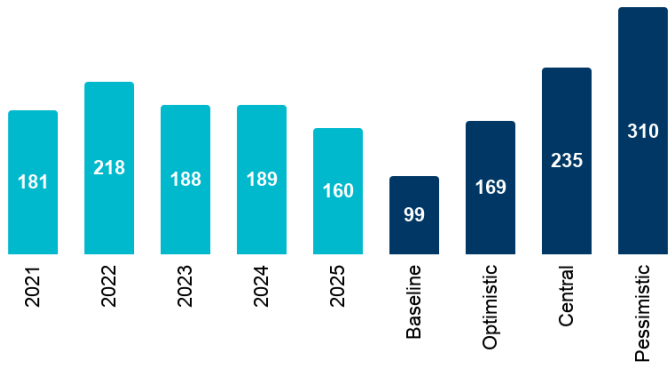
To estimate the impact on Russian oil and gas budget revenues, we rely on a simplified approach that assumes that the state takes a certain share of export earnings through taxes and duties, largely the crude oil mineral extraction tax (MET). In recent years—2024 and 2025—this "take rate" on oil was broadly stable at ~51%. However, it tends to fluctuate with prices, increasing when they are high and decreasing when they are low. **For the purposes of this assessment, we assume that the take rate for oil is 50% at a Urals price of $60/bbl or below, increases to 55%% at a price of $60–80/bbl, and reaches 60% at a price above $80/bbl.** The highest rate historically was observed from late 2011 to early 2015, when oil prices were around $100–110/bbl. **For natural gas, we assume a take rate of 40% independent of the price**, on the grounds that Russia has typically had a lower tax rate on gas than on oil, and that around two-thirds of LNG exports are from Yamal, which as an Arctic project benefits from favorable tax treatment. While we calculate oil and gas budget revenues in US dollars, it is worth emphasizing that their ruble equivalent will likely increase by less, as much stronger export earnings will inevitably lead to a strengthening of the ruble.

Figure 11: Oil export earnings, $ bn



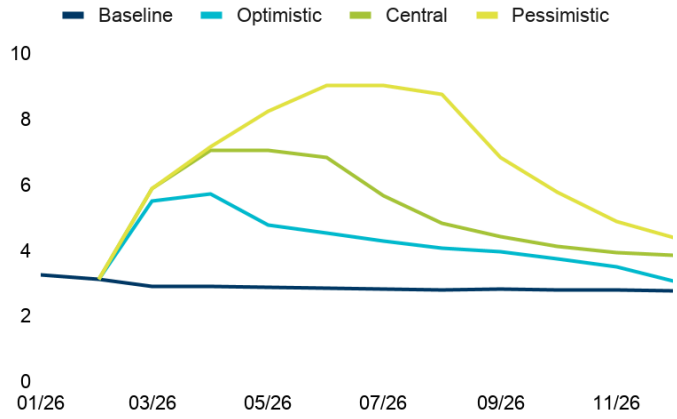
Source: KSE Institute

Figure 12: Oil export earnings in 2026, $ bn



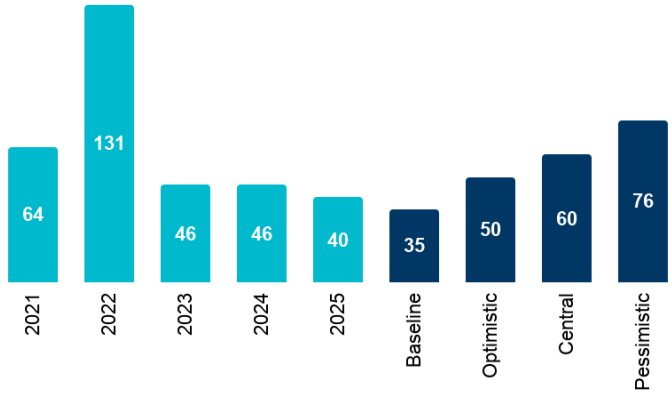
Source: KSE Institute

Figure 13: Gas export earnings, $ bn



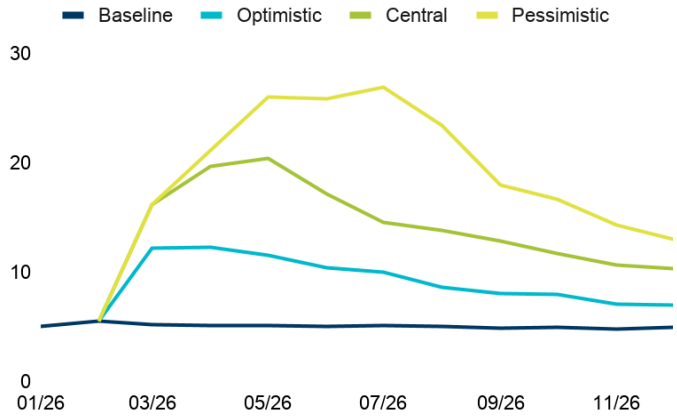
Source: KSE Institute

Figure 14: Gas export earnings in 2026, $ bn



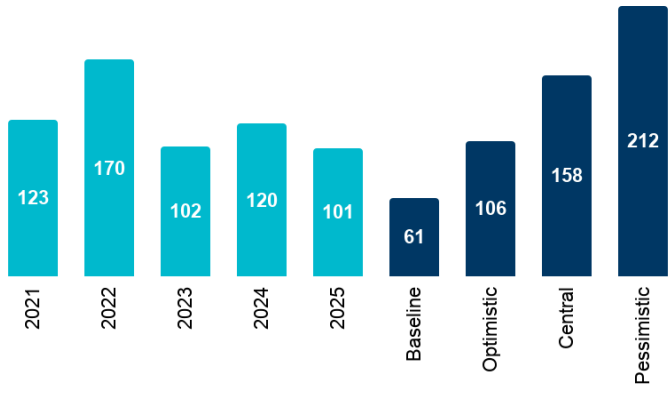
Source: KSE Institute

Figure 15: O&G budget revenues, $ bn



Source: KSE Institute

Figure 16: O&G budget revenues in 2026, $ bn



Source: KSE Institute

Estimates for oil and gas budget revenues are shown in Figures 15 & 16, Table 2, and summarized below.

- **Baseline scenario:** Oil and gas budget revenues would have reached $62 bn—a 40% decline compared to 2025 and 40–50% less than assumed in Russia's budget for this year (₽8.9 trillion).
- **Optimistic scenario:** Revenues would more than double in March–May—reaching $12 bn per month on average—before declining towards the baseline by the end of the year while still remaining considerably above the baseline. Altogether, Russia would earn $106 bn from oil and gas—$45 bn (1.8% of GDP) more than in the baseline scenario. Budget financing challenges would be less severe than in recent months and pressure to cut spending and raise taxes smaller.
- **Central scenario:** Revenues would rise much more and for a longer period, reaching $20 bn per month in April-May, before declining relatively quickly. However, they would remain markedly above the baseline for the entire year. Altogether, Russia would earn $159 bn from oil and gas—$97 bn (3.9% of GDP) more than in the baseline. The increase would be close to Russia's consolidated budget deficit in 2025 (of ~$102 bn). As a result, Russia would not have any fiscal challenges this year. In addition, high oil prices would also lead to growth of the sovereign wealth fund (NWF), expanding future policy space.
- **Pessimistic scenario:** Revenues would continue to grow until reaching $26 bn per month in May–July. While declining markedly by year end, the overall impact would be dramatic. Altogether, Russia would earn $213 bn from oil and gas—$151 bn (6.0% of GDP) more than in the baseline. In such a scenario, Russia would almost certainly record a substantial budget surplus in 2026—thereby enabling it to step up war spending further without creating any pressure to cut other expenditures. The NWF's liquid assets would also be replenished, ensuring capacity to finance budget deficits in the coming years.

6. Medium-term Geopolitical Implications: An Irreversible Shift

Even if the US and Iran reach a negotiated solution, the region is likely to remain troubled for years to come, with implications for energy prices and global shipping, given the elevated risk of future disruptions in the Strait of Hormuz. In previous confrontations, neither the US nor Israel crossed certain red lines with Iran—and Iran, for its part, had long threatened but never previously acted on closing the Strait. In this newest iteration of the conflict, both sides have escalated, while Iran has blocked the Strait of Hormuz and directly attacked its Gulf neighbors for the first time. In addition, the interests of the US and Israel do not seem to be fully aligned, in spite of their unprecedented military coordination. Even if the US were to agree to stand down, Israel might wish to continue its previous strategy of "mowing the lawn," i.e., attacking Iran at regular intervals to maintain dominance over it, which could prove unpredictably escalatory in this new environment.

The situation has moved largely beyond US control. Even if Trump were to declare victory, reopening the Strait ultimately depends on Iran. Iranian authorities have been explicit that the Strait "is open and only closed to enemies", that is the US and its allies. However, this selective approach is dubious in practice. While some Indian and Chinese ships have been able to pass through, neither country will be spared from higher energy prices, soaring shipping costs, and even product shortages. Both will favor a settlement and a reopening of the Strait. However, while energy exports are a lifeline for Iran's economy, the current regime led by Mojtaba Khamenei, son of Ayatollah Ali Khamenei who was killed by the American-Israeli strikes, might be even more driven by ideology and the logic of existential deterrence than his father.

Russia might get a marginal advantage with China, but that should not be overstated. China's practice in recent years has been to purchase energy at discounted prices from US adversaries (Iran, Russia, and Venezuela) while avoiding any overt breach of US sanctions' red lines. China imports approximately 13% of its crude oil from Iran—up from just 4% in 2020—with 90% of Iranian oil flowing to China after rerouting through Malaysia and, increasingly, Indonesia. With Iranian supply now disrupted, Russia stands to fill part of that gap, as Chinese "teapot refineries" have been receiving Russian and Venezuelan oil alongside Iranian crude. Russia has already become China's largest single crude oil supplier (something that Chinese authorities always like to keep in check), accounting for 20% of Chinese imports in 2024 (though Russia's exports to China were down marginally in 2025). Yet, the dependence is deeply asymmetric: China accounts for approximately nearly half of Russia's total fossil fuel exports. China's precautionary stockpiling since late 2025 means it has roughly three to four months of crude oil reserves. Finally, China's growing domestic electric vehicle economy and clean energy investments reduce its structural dependence on oil imports over the medium term, while its reliance on coal helps shield the economy from oil and gas price hikes in the short term.

The US' unilateral and increasingly unpredictable interventionism has exposed Russia as a weak power but it has fueled Russian propaganda that it is the US, not Russia, that disregards international law—as Europe cynically watches on. Putin issued a condolence letter after the assassination of Iran's Supreme Leader and condemned the killing as a violation of international law. With autocrats from Venezuela to Iran (and now Cuba) under threat, Putin and the Russian elite are watching carefully what this means for Russia. Its renewed signaling around nuclear weapons is likely a strategic reminder that Russia is categorically different from the other cases as a nuclear power. Most of Russia's recent harsh rhetoric has carefully avoided direct criticism of Trump himself. Putin likely remains hopeful that Trump will continue to side with Russia, at least rhetorically, in its war against Ukraine—as the recent sanctions relief granted by the US Treasury suggests. The fact that the US has not publicly responded to a meaningful escalation by Russia—providing Iran with satellite imagery and intelligence on the location and movements of American troops, ships and aircraft—from Putin's perspective validates his carefully calibrated approach. At the same time, a more unilateralist US, increasingly consumed by the Middle East, may free up Russia to consolidate its sphere of influence closer to home—including pursuing maximalist demands in Ukraine. Finally, additional energy revenues will give Russia the financial means to open new fronts in Europe, whether hybrid or otherwise.

7. Policy Recommendations

To prevent Russia benefiting from the current situation, maintain the credibility of the sanctions regime, and insulate Western countries as much as possible from the current crisis, we propose the following measures.

- As our analysis documents, the most important question is the duration and severity of the disruption to flows of oil and gas through the Strait of Hormuz. Thus, **it is imperative to bring the current crisis to an end as soon as possible**. An extensive period of market disruption and, in turn, significantly elevated energy prices will benefit Russia's war of aggression against Ukraine while imposing heavy costs on the global economy and driving up inflation. A conflict that lasts for several months will dramatically set back efforts by the sanctions coalition to weaken Russia's ability to pay for the war. Whether a solution to the crisis takes the form of more expansive military action or focuses on diplomacy is up to policymakers, most importantly in Washington.
- It must be emphasized that **any further easing of sanctions on Russian oil will not meaningfully reduce current supply challenges, as Russia has already been producing close to its capacity**. Until very recently, sanctions have been primarily aimed at reducing the value Russia gets for its exports, not the total volume it exports or produces. Easing sanctions will, however, fundamentally

undermine the credibility and effectiveness of the sanctions regime and jeopardize European security for years to come. Any suggestions that a return to Russian oil and gas would alleviate pressure are not based on the facts. Sanctions on Russian oil—and the EU's gradual exit from Russian fossil fuels—have not changed supply to the global market. In fact, Russian oil export volumes had remained remarkably stable for four years until dropping meaningfully for the first time in February. Thus, easing restrictions will not increase volumes to a degree that would make any difference for the global market. As far as gas is concerned, Vladimir Putin's recent suggestion that flows to Europe could be cut off serves as a reminder that such a decision would simply reinstate highly problematic dependencies.

- We acknowledge that **right now is not the time to impose additional measures that restrict the supply of Russian oil and gas to the global market or reduce demand for them**. However, such measures—including a ban on the provision of maritime services for the transport of Russian oil as originally proposed by the European Commission for the EU's 20th sanctions package—should be back on the table when market conditions normalize again. In addition, **any temporary easing currently undertaken should be immediately and fully reversed once the crisis ends**. Most importantly, this includes the US' waiver on purchases of certain quantities of Russian oil.
- While the crisis continues, **governments should undertake a concerted effort to increase oil and gas supply** in countries that are not reliant on transport through the Strait of Hormuz, most importantly in the Americas, while following through with the decision to release large quantities of oil from strategic reserves. In Europe, we urge the Dutch government to tap the 15 bcm Norg gas reserve, which can provide an additional 10 bcm by next winter and significantly reduce the challenge in filling European gas storage before the 2026–27 heating season. This would ease potential pressure to relax the RePowerEU timeline for phasing out European purchases of Russian oil and gas.
- While the war and elevated energy prices persist, **policymakers should take steps—wherever feasible—to replace oil and gas,** including: a) replacing them with other fuels such as biofuels and coal; b) deploying alternative energy technologies, in particular electric heating and transport technologies (e.g., as heat pumps and electric EVs); c) supporting the transition of power systems away from oil and gas, in particular through solar, wind, and batteries—which are relatively fast to install.

Table 2: Assumptions and Results

	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	2026
Baseline scenario													
Global prices													
Crude oil, $/bbl	64.7	69.4	62.0	59.0	57.0	56.0	56.0	55.0	55.0	54.0	54.0	54.0	**58.0**
LNG, $/mmbtu	11.8	11.2	10.7	10.9	10.8	10.6	10.4	10.4	10.8	10.8	11.0	11.2	**10.9**
Russian prices													
Crude oil, $/bbl	45.6	50.0	39.7	39.7	39.4	39.2	39.2	38.2	38.2	37.2	37.2	37.2	**40.1**
Oil products, $/bbl	49.7	53.9	42.0	39.0	37.0	36.0	36.0	35.0	35.0	34.0	34.0	34.0	**38.8**
Pipeline gas, $/mmbtu	5.3	5.4	5.3	5.3	5.2	5.1	5.1	5.0	5.0	5.0	4.9	4.9	**5.1**
LNG, $/mmbtu	10.2	10.2	9.2	9.2	9.2	9.2	9.2	9.2	9.2	9.2	9.2	9.2	**9.3**
Russian volumes													
Crude oil, mb	144.0	118.0	129.0	130.0	134.0	135.0	140.0	140.0	135.0	140.0	135.0	140.0	**1,620.0**
Oil products, mb	89.0	67.0	74.0	72.0	74.0	72.0	74.0	74.0	72.0	74.0	72.0	74.0	**888.0**
Pipeline gas, bcm	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	**107.8**
LNG, bcm	4.4	3.9	3.8	3.8	3.8	3.8	3.8	3.8	3.8	3.8	3.8	3.8	**46.3**
Export earnings													
Total, $ bn	14.3	12.6	11.1	10.9	10.9	10.7	11.0	10.8	10.5	10.5	10.3	10.5	**134.1**
Oil, $ bn	11.0	9.5	8.2	8.0	8.0	7.9	8.2	7.9	7.7	7.7	7.5	7.7	**99.3**
Gas, $ bn	3.3	3.1	2.9	2.9	2.9	2.9	2.8	2.8	2.8	2.8	2.8	2.8	**34.9**
Budget revenues													
Total, $ bn	5.1	5.6	5.3	5.1	5.2	5.1	5.2	5.1	5.0	5.0	4.9	5.0	**61.5**
Optimistic scenario													
Global prices													
Crude oil, $/bbl	64.7	69.4	99.0	97.0	91.0	84.0	79.0	75.0	72.0	70.0	70.0	70.0	**78.4**
LNG, $/mmbtu	11.8	11.2	23.0	25.0	20.0	19.0	18.0	17.0	16.0	15.0	14.0	12.0	**16.8**
Russian prices													
Crude oil, $/bbl	45.6	50.0	78.8	78.9	74.3	68.6	64.0	60.0	56.9	55.0	53.8	53.8	**61.6**
Oil products, $/bbl	49.7	53.9	84.0	82.0	76.0	69.0	64.0	60.0	57.0	55.0	50.0	50.0	**62.5**
Pipeline gas, $/mmbtu	5.3	5.4	8.3	8.6	7.4	7.1	6.8	6.5	6.2	5.9	5.6	5.2	**6.5**
LNG, $/mmbtu	10.2	10.2	20.4	21.4	17.3	16.3	15.3	14.3	14.3	13.3	12.2	10.2	**14.6**
Russian volumes													
Crude oil, mb	144.0	118.0	146.0	147.0	152.0	147.0	152.0	152.0	147.0	152.0	140.0	143.0	**1,740.0**
Oil products, mb	89.0	67.0	81.0	81.0	84.0	81.0	84.0	84.0	81.0	84.0	80.0	79.0	**975.0**
Pipeline gas, bcm	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	**107.8**
LNG, bcm	4.4	3.9	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	**48.3**
Export earnings													
Total, $ bn	14.3	12.6	23.8	24.0	22.5	20.2	19.4	18.2	17.0	16.7	15.0	14.7	**218.5**
Oil, $ bn	11.0	9.5	18.3	18.2	17.7	15.7	15.1	14.2	13.0	13.0	11.5	11.7	**168.8**
Gas, $ bn	3.3	3.1	5.5	5.7	4.8	4.5	4.3	4.1	4.0	3.7	3.5	3.1	**49.7**
Budget revenues													
Total, $ bn	5.1	5.6	12.3	12.3	11.6	10.4	10.0	8.7	8.1	8.0	7.2	7.1	**106.4**

Table 2: Assumptions and Results (continued)

	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	2026
Central scenario													
Global prices													
Crude oil, $/bbl	64.7	69.4	120.0	140.0	140.0	120.0	100.0	96.0	92.0	88.0	84.0	80.0	**99.5**
LNG, $/mmbtu	11.8	11.2	25.0	30.0	30.0	30.0	25.0	20.0	18.0	16.0	15.5	15.0	**20.6**
Russian prices													
Crude oil, $/bbl	45.6	50.0	99.8	121.9	123.3	104.6	86.3	83.6	81.0	77.3	73.3	69.3	**84.7**
Oil products, $/bbl	49.7	53.9	105.0	126.0	127.0	108.0	89.0	86.0	82.0	78.0	74.0	70.0	**87.4**
Pipeline gas, $/mmbtu	5.3	5.4	9.1	10.5	10.5	9.8	8.4	7.6	7.1	6.7	6.5	6.3	**7.8**
LNG, $/mmbtu	10.2	10.2	21.4	26.5	26.5	26.5	21.4	17.3	15.3	14.3	13.3	13.3	**18.0**
Russian volumes													
Crude oil, mb	144.0	118.0	146.0	147.0	152.0	147.0	152.0	152.0	147.0	152.0	147.0	152.3	**1,756.3**
Oil products, mb	89.0	67.0	81.0	81.0	84.0	81.0	84.0	84.0	81.0	84.0	78.0	78.0	**972.0**
Pipeline gas, bcm	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	**107.8**
LNG, bcm	4.4	3.9	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	**48.3**
Export earnings													
Total, $ bn	14.3	12.6	29.0	35.2	36.5	31.0	26.3	24.8	23.0	22.5	20.5	19.9	**295.4**
Oil, $ bn	11.0	9.5	23.1	28.1	29.4	24.1	20.6	19.9	18.5	18.3	16.5	16.0	**235.2**
Gas, $ bn	3.3	3.1	5.9	7.1	7.1	6.8	5.7	4.8	4.4	4.1	3.9	3.9	**60.2**
Budget revenues													
Total, $ bn	5.1	5.6	16.2	19.7	20.5	17.2	14.6	13.9	12.9	11.7	10.7	10.4	**158.5**
Pessimistic scenario													
Global prices													
Crude oil, $/bbl	64.7	69.4	120.0	150.0	175.0	175.0	175.0	150.0	120.0	110.0	100.0	90.0	**124.9**
LNG, $/mmbtu	11.8	11.2	25.0	30.0	35.0	40.0	40.0	40.0	30.0	25.0	20.0	18.0	**27.2**
Russian prices													
Crude oil, $/bbl	45.6	50.0	99.8	131.9	158.6	161.3	163.0	139.3	110.7	101.0	91.0	81.0	**111.1**
Oil products, $/bbl	49.7	53.9	105.0	137.0	164.0	166.0	168.0	143.0	113.0	103.0	93.0	83.0	**114.9**
Pipeline gas, $/mmbtu	5.3	5.4	9.1	10.8	12.4	13.1	13.1	12.2	9.8	8.7	7.7	7.1	**9.6**
LNG, $/mmbtu	10.2	10.2	21.4	26.5	30.6	34.7	34.7	34.7	26.5	21.4	17.3	15.3	**23.6**
Russian volumes													
Crude oil, mb	144.0	118.0	146.0	147.0	152.0	147.0	152.0	152.0	147.0	152.0	147.0	152.3	**1,756.3**
Oil products, mb	89.0	67.0	81.0	81.0	84.0	81.0	84.0	84.0	81.0	84.0	78.0	78.0	**972.0**
Pipeline gas, bcm	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	**107.8**
LNG, bcm	4.4	3.9	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	**48.3**
Export earnings													
Total, $ bn	14.3	12.6	29.0	37.7	46.1	46.2	47.9	41.9	32.3	29.8	25.5	23.2	**386.5**
Oil, $ bn	11.0	9.5	23.1	30.5	37.9	37.2	38.9	33.2	25.4	24.0	20.6	18.8	**310.0**
Gas, $ bn	3.3	3.1	5.9	7.2	8.2	9.0	9.0	8.8	6.8	5.8	4.9	4.4	**76.5**
Budget revenues													
Total, $ bn	5.1	5.6	16.2	21.2	26.0	25.9	26.9	23.4	18.0	16.7	14.3	13.0	**212.5**