



## The Iran-Israel conflict and the fog of war

By Angelo Katsoras

Despite the intense conflict between Iran and Israel, oil prices have not spiked to catastrophic levels because deliveries have not yet been disrupted. There are two primary reasons for this:

- Israel has not yet targeted Iran's oil production and export facilities
- Iran has never acted on its threats to close the Strait of Hormuz. This 50-kilometre-wide chokepoint is a vital passageway for 30% of global seaborne crude oil and 20% of liquefied natural gas shipments.<sup>1</sup> Iran also relies on the strait for nearly all of its crude oil exports.

However, the longer the war continues, the greater the risk that energy supplies will be targeted—either deliberately, following a devastating attack on key sites such as energy infrastructure or water treatment plants in Israel—or unintentionally amid the fog of war.

Israel has so far restricted its attacks to energy targets intended for domestic use. It has bombed oil and fuel depots and natural gas processing plants. This has put significant pressure on Iran's already strained energy sector. Even before the conflict, Iran was struggling with power outages and fuel shortages despite its vast oil and gas reserves. Iran, for its part, hit one of Israel's refineries, damaging pipelines and forcing a partial shutdown.

Israel has not yet targeted Iran's key oil export and production facilities, such as the massive Kharg Island terminal, which handles approximately 90% of the country's crude oil exports. However, if Israel is unable to dismantle the nuclear program to its satisfaction, it may try to bankrupt Iran by targeting its main source of revenue.

If Iran were unable to export oil through the Strait of Hormuz, it could retaliate by making it extremely difficult—if not impossible—for other nations to do so. Retaliation could include targeting commercial vessels, launching missile or drone strikes on oil infrastructure of nearby countries, and attempting to block the strait with sea mines or sunken ships.

While many nations would deploy naval forces to protect shipping lanes, clear mines, and assist stranded vessels, these operations would be costly and time-consuming.

Although Iran has reportedly expressed strong interest in a ceasefire, it has not yet agreed to the Trump administration's earlier demand to stop enriching uranium, let alone the president's more recent demands to dismantle its entire nuclear program and surrender.

Meanwhile, with Israeli jets operating freely over Tehran, there appears to be little incentive for Israel to stop targeting Iran's nuclear capabilities and further weakening the government.

**Bottom line: While the United States and Israel hope that Iran will agree to negotiate a ceasefire that includes dismantling its nuclear program, such clean-cut outcomes are rare in conflicts.**

**A more pessimistic scenario is that preventing Iran from developing nuclear weapons could require direct U.S. involvement through military strikes, coupled with efforts to destabilize or overthrow the regime. This would be an extremely complex and risky undertaking that could further entangle the United States in the conflict and jeopardize much of the Trump administration's agenda.**

<sup>1</sup> "What an Israel-Iran war means for oil prices," The Economist, June 13, 2025.



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