



Beyond Hormuz: Why the Oil Shock Has Been Smaller Than Expected, and What to Watch

The Strait of Hormuz remains one of the world's most consequential energy chokepoints, but 2026 has demonstrated that the global oil system is more adaptable than headline exposure alone would suggest.

Supply has expanded or been diverted through alternate pipelines through Saudi Arabia and the UAE, expanded production from the United States, Brazil, Guyana and other non-Gulf suppliers, strategic and commercial inventory releases, and redirected Atlantic Basin trade.

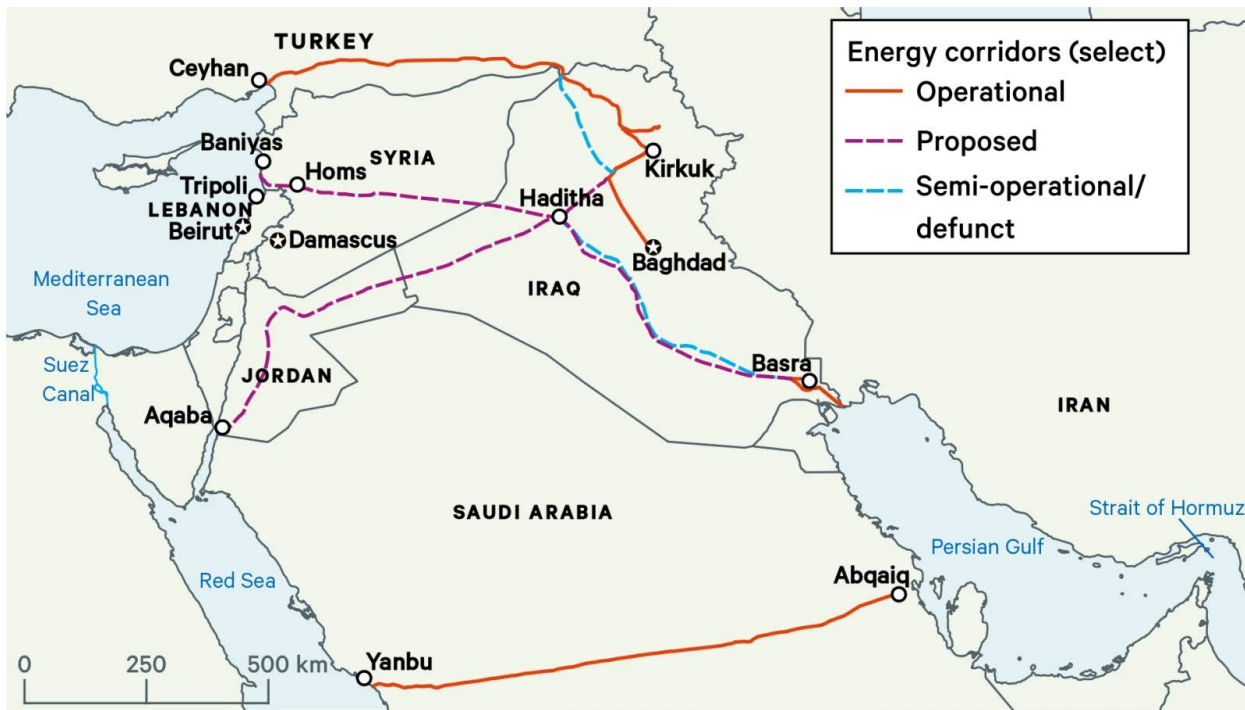
At the same time, demand has been reduced: China and other major Asian importers have sharply reduced crude purchases and refinery runs, while EV adoption, electric and LNG trucking, high-speed rail, fuel switching, logistics rationalization and industrial curtailment have reduced petroleum consumption.

The result is an important lesson for infrastructure boards: resilience is provided by a complex combination of supply substitution, inventory buffers, trade-flow flexibility and demand destruction.

Additional Sources of, and Routes for, Oil Supply

1. The Red Sea & Arabian Sea Pipeline Corridors

Rather than relying on tankers navigating the narrow 21-meter channel of the Strait, land-based pipelines have become the primary arteries of Middle East crude:ⁱ



- a) **Saudi Arabia's East-West Pipeline (Petroline):** Moving at maximum capacity, this 1,200-km pipeline shunts roughly 7 million bpd of crude directly from eastern oil fields across the desert to the Red Sea port of Yanbu. Despite facing constant regional drone and missile threats, it remains the world's most critical relief valve.ⁱⁱ
- b) **UAE's Abu Dhabi Crude Oil Pipeline (ADCOP):** This pipeline successfully redirects 1.8 million bpd of Abu Dhabi's onshore crude straight to the port of Fujairah on the Gulf of Oman, bypassing the chokepoint entirely.
- c) **The Iraq-Turkey Northern Escape:** Iraq has heavily prioritized pushing its southern oil via northern pipelines, pumping roughly 250,000 bpd up into Turkey via the Kirkuk-Ceyhan pipeline.ⁱⁱⁱ
- d) **SUMED:** Egypt's SUMED pipeline has approximately **2.5 mb/d capacity** between Ain Sukhna on the Red Sea and Sidi Kerir on the Mediterranean. In conjunction with Saudi Petroline/Yanbu it provides another route into Mediterranean/European markets without requiring a Cape of Good Hope voyage.^{iv}

2. The Trans-African Rerouting ("Going Around the Horn") and SUMED

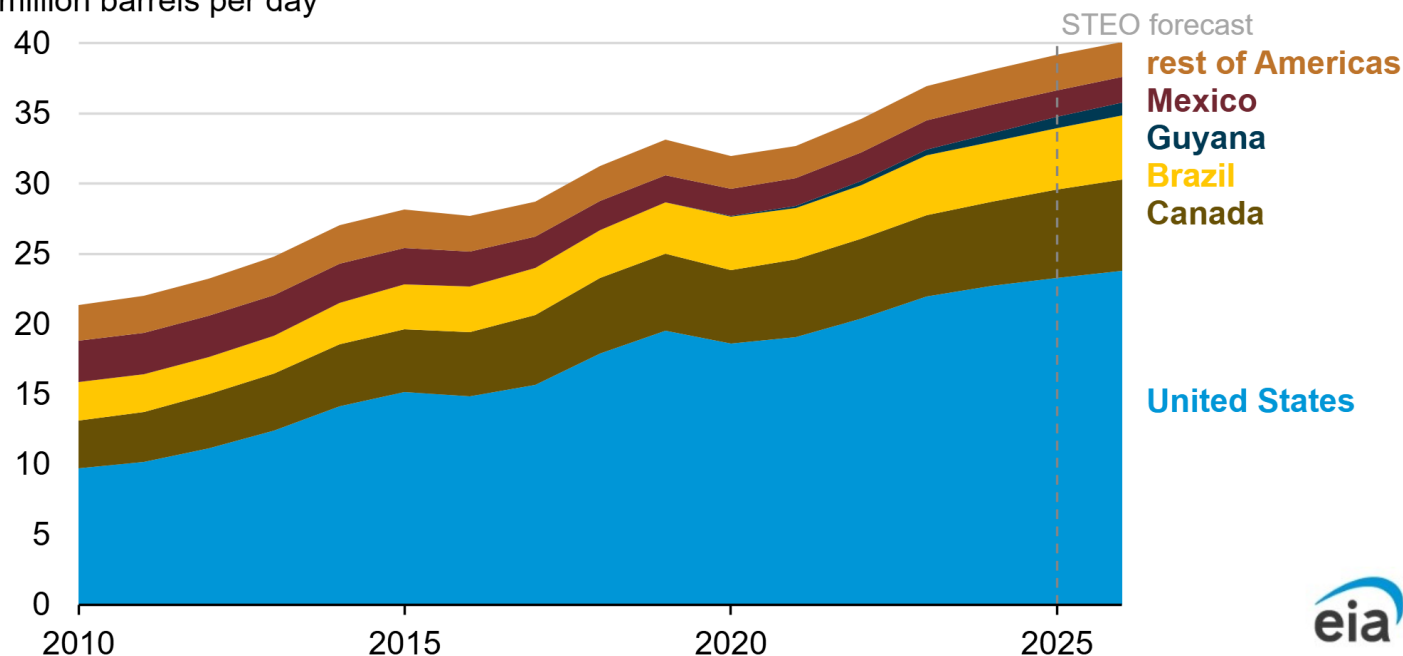
For the oil that *does* manage to make it past the Strait via secret, dark, or heavily escorted transits, the normal trading routes are broken. Because the Bab el-Mandeb strait and Suez Canal are highly volatile due to Houthi drone activity, a vast portion of Asian and European supertankers are taking the long route around the Cape of Good Hope (Africa). This has permanently added 10 to 14 days to global shipping times, locking up tanker capacity and driving freight rates to record premiums.^v

3. Surge from the Americas

The deficit left by Middle Eastern infrastructure bottlenecks has been heavily supplanted by non-Gulf nations, including the Americas. The United States, Canada, Argentina, Brazil and Guyana have capitalized on near-triple-digit oil prices, maximizing fracking and offshore deepwater extraction to pump a combined 2.3 million bpd of new supply into the global marketplace. For example, the U.S. has tacitly loosened enforcement on domestic environmental and drilling caps, and U.S. independent producers have pushed the boundaries of infrastructure capacity, engaging in a form of legal domestic "overproduction" to feed the global supply crunch, pushing Western hemisphere output up by millions of barrels to capture record-high margins.^{vi} The U.S. Energy Information Administration (EIA) forecasts that the three Latin American countries will add >750,000 barrels per day (kbd) due to new fields and transport (Brazil, +400kbd), discoveries and transport (Guyana, +250kbd) and hydraulic fracturing (Argentina - +70 kbd).^{vii}

Annual Americas petroleum and other liquids production (2010–2026)

million barrels per day



In addition, U.S. refined-product exports are an important second-order supply response. The disruption is not merely about crude. International buyers turned to alternative sources of gasoline, diesel and other products, raising U.S. refinery utilization, margins, production and exports. By July, the IEA reported U.S. product exports running approximately 700,000 b/d higher year over year, partly offsetting severe reductions in exports from Russia, the Middle East and Asia.^{viii}

4. Strategic and commercial inventory drawdowns

The International Energy Agency (IEA) reports steep U.S. Strategic Petroleum Reserve (SPR) releases and, separately, the U.S. Energy Information Administration estimates a reduction in SPR inventories from 413 to 321 million barrels from year-end 2025 to mid-year 2026.^{ix} Similar inventory reductions are occurring elsewhere over the same time period, including in Japan, from 263 to 187 million barrels. China's ~1.49 billion barrels of strategic inventories (2Q26) serve as a potential source of supply. The IEA also reports increases to Atlantic Basin crude exports to markets east of Suez (by 3.5 mb/d).

5. Surge in Shadow Fleet

Before the 2026 war, the shadow fleet (or "dark fleet") was primarily a network of aging, poorly maintained tankers used by Iran, Russia, and Venezuela to sneak oil past Western sanctions. Today, the crisis has completely inverted and expanded this dynamic.

- a) **Global Takeover of "Dark Transits":** Of the crude oil that still physically crosses the Strait of Hormuz, more than 70% now changes tankers offshore via blind ship-to-ship (STS) transfers.^x
 - **The Routine:** Mainstream, fully insured commercial tankers refuse to enter the Persian Gulf. Instead, a massive fleet of shadow tankers—operating with deactivated transponders ("going dark"), falsified GPS locations, and flags of convenience—sails into the Gulf, loads the oil, and brings it out to the Gulf of Oman or the Arabian Sea.^{xi}
 - **The Swap:** In the open ocean, the oil is pumped directly into standard commercial tankers waiting outside the war zone. This allows legitimate oil from Saudi Arabia, Iraq, or Kuwait to bypass the maritime insurance blockades holding back global shipping.^{xii}
- b) **Russian Sovereign Absorption:** As European and U.S. naval forces step up physical interdictions and seizures of false-flagged vessels, Russia has capitalized on the crisis by formally "nationalizing" a massive segment of the world's dark fleet. Between early 2025 and mid-2026, Russia absorbed over 107 major shadow vessels into its own domestic flag registry. By placing these ships under the formal protection of the Russian state, Moscow has made it significantly riskier for Western blockades to interdict them, ensuring their oil continues to move unimpeded to Asian markets.^{xiii}
- c) **Iran's Selective Exemptions and Geopolitical Games:** Due to the heavy U.S. maritime blockade and military strikes, official Iranian oil exports plummeted to historic lows during peak escalation. However, Iran has weaponized its selective control over the waterway:^{xiv}
 - **The Chinese Pass:** Iran has selectively allowed Chinese-affiliated shadow tankers safe passage through the chokepoint.
 - **Teaming with Iraq:** In an effort to keep regional revenues flowing, Iran has granted permission for specialized Iraqi tankers to transit the strait. This has triggered localized spikes of unrecorded production moving through a dedicated "dark shuttle" directly to independent "teapot" refineries in China, completely hidden from Western financial tracking.^{xv}

Demand Curtailment: How Fuel Use Has Been Reduced

The International Energy Agency (IEA) reports that instead of growing by nearly 1 million bpd as originally projected for 2026, global oil demand is collapsing by 2.5 million bpd due to extreme prices and forced conservation.^{xvi}

1. Reductions in Chinese Demand

- a) **Reduced crude, natural gas and LNG demand, and refinery-run reductions:** IEA reports that Chinese seaborne crude imports fell approximately 3.6 mb/d between February and April 2026, natural-gas demand declined about **4% year over year during March–June 2026**, and LNG imports fell **12%**, aided by increased domestic gas production. By June, crude imports into China and Japan were each down roughly 40%, nearly 6 mb/d combined. Meanwhile, Asian and other refinery runs fell by more than 5 mb/d year over year.^{xvii}
- b) **Structural oil-demand substitution underway:** Electrification, natural-gas trucks and high-speed rail had already caused Chinese transport oil consumption to flatten despite roughly 20% cumulative GDP growth from 2021–2025. Accordingly, the Hormuz shock hit a Chinese transport market whose petroleum intensity was already declining.^{xviii}
- c) **EVs - a material oil-market variable:** China's EV fleet displaced about **1 mb/d of oil consumption in 2025**, equivalent to roughly 15% of the road-fuel demand that otherwise would have occurred. IEA projects that figure reaching approximately **2.7 mb/d by 2030**. More than half of China's new cars sold in 2025 were electric.^{xix}
- d) **Heavy trucking shifting from diesel to EV and LNG:** 25% of trucks sold in China in 2025 was electric, with LNG trucks accounting for another substantial share. China is addressing petroleum demand in precisely the heavy-duty segment that historically has been one of diesel's strongest sources of growth.^{xx}
- e) **High-speed rail substitution:** Rapid expansion of high-speed rail substitutes electricity for petroleum-intensive road and short-haul air transportation. Rising high-speed-rail ridership is an important element of the plateauing of Chinese transport fuel consumption (which no longer tracks GDP growth).^{xxi}

2. Accelerated Electric Vehicle (EV) Adoption

High oil prices have fundamentally changed consumer habits, turning a gradual energy transition into an emergency escape hatch. In highly price-sensitive emerging markets (such as Southeast Asia, India, and parts of Latin America), **EV sales have nearly doubled**. Consumers and commercial fleet operators are ditching internal combustion engines far ahead of historical projections to avoid volatile fuel costs.^{xxii}

3. Mass Fuel Switching to Coal and Nuclear

Faced with skyrocketing diesel, jet fuel, and natural gas prices, the power and industrial sectors have pivoted back to cheaper, dirtier domestic baseloads:

- **Coal Resurgence:** Global coal demand has jumped **1.2%**, as major Asian industrial hubs—most notably China, South Korea, and India—have halted plans to convert coal plants to liquid gas or oil, choosing instead to maximize their domestic coal infrastructure.^{xxiii}
- **Nuclear Restarts:** Countries like Japan have rapidly accelerated the recommissioning of idled nuclear reactors to lower the baseline grid reliance on imported fuel.^{xxiv}

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4. Severe Industrial and Logistics "Demand Destruction"

In the West and heavily reliant Asian economies, the shock of \$6+ per gallon diesel and high jet fuel prices has triggered forced economic slowdowns.^{xxv}

- **Logistics Rationalization:** Major shipping and trucking networks have consolidated routes, lowered transit speeds (slow-steaming), and cut discretionary freight runs.
- **Petrochemical Shutdowns:** The severe deficit in refined oil products has forced heavy chemical plants, fertilizer manufacturers, and plastics processors to curb production or shut down operations entirely.^{xxvi}

Summary

For boards of integrated infrastructure companies, the answer to “Why aren't oil prices higher?” is the market’s five-part clearing mechanism: Hormuz supply loss → bypass infrastructure + non-Gulf production + inventory releases + redirected Atlantic Basin trade + demand destruction.

That said, the key question is how long the global energy system can continue absorbing a prolonged disruption without exhausting its buffers. Alternative pipelines and incremental Western Hemisphere production provide useful redundancy, yet their capacity is limited; strategic inventories can bridge temporary shortages, but cannot substitute indefinitely for disrupted production; and demand destruction can stabilize markets only by imposing economic costs on transportation, manufacturing, petrochemicals and consumers. This last component is critical: in August, the IEA estimated that world oil consumption during 2026 would be about 1.6 mb/d below 2025, explicitly attributing the contraction to high prices, constrained availability and government measures, particularly in Asia.^{xxvii}

That creates an important board-level conclusion: the Hormuz crisis is revealing greater short-run elasticity and substitution capacity in the global petroleum system than a simple “20 mb/d chokepoint” analysis would imply. This resilience comes from inventory depletion and economically painful demand destruction, as well as structural shifts in production (Americas), supply rerouting (Middle East and Africa) and energy sources (most notably China, but also Europe).

Boards should therefore stress-test energy-security assumptions across multiple scenarios, including prolonged chokepoint disruption, depletion of strategic inventories, refinery and shipping constraints, renewed price spikes and simultaneous LNG shortages. Particular attention should be paid to China, where electrification, domestic energy substitution and lower petroleum intensity could permanently reshape global oil-demand growth. The strategic implication is that energy security increasingly depends on diversified supply, flexible infrastructure, adequate inventories and accelerating demand-side substitution.

4) LinkedIn hook

Why aren't oil prices even higher after a major Strait of Hormuz disruption?

The answer is revealing an intricate, complex and adaptable global energy system: Saudi and UAE bypass pipelines, rising U.S., Brazilian and Guyanese production, strategic inventory releases and redirected Atlantic Basin trade are increasing supply flexibility, while China and other major Asian economies are cutting crude imports, refinery runs and petroleum consumption through EVs, electric trucks, high-speed rail, fuel switching and industrial conservation.

For boards, the critical issue is whether these mechanisms represent durable resilience—or merely temporary buffers that become progressively less effective as inventories decline and demand destruction damages economic activity. The next phase of the Hormuz story may therefore be less about the chokepoint itself and more about the limits of global energy-system adaptability.

#EnergySecurity #StraitOfHormuz #OilMarkets #Infrastructure #EnergyTransition #China #EVs #SupplyChain #Geopolitics #BoardGovernance #RiskManagement #Resilience

ⁱ <https://www.chathamhouse.org/2026/09/new-energy-and-trade-routes-could-bypass-hormuz-and-change-middle-east-major-challenges>

ⁱⁱ <https://energynow.com/2026/04/alternative-routes-for-middle-east-oil-and-gas-due-to-hormuz-disruption/>

ⁱⁱⁱ <https://www.reuters.com/business/energy/alternative-routes-middle-east-oil-gas-due-hormuz-disruption-2026-04-21/>

^{iv} https://www.eia.gov/outlooks/steo/pdf/steo_full

^v <https://www.newarab.com/news/saudi-aramco-eyes-new-oil-routes-bypass-strait-hormuz>

^{vi} <https://pipexch.com/iea-warns-hormuz-disruptions-will-cut-global-oil-supply-by-4-3-million-bpd-in-2026-dragging-down-demand/>

^{vii} https://www.eia.gov/outlooks/steo/pdf/steo_full and <https://www.eia.gov/todayinenergy/detail.php>

^{viii} <https://www.eia.gov/Todayinenergy/detail.php> and https://www.eia.gov/outlooks/steo/pdf/steo_full

^{ix} <https://www.iea.org/reports/oil-market-report-june-2026> and

<https://www.eia.gov/outlooks/steo/report/energysecurity/article.php>

^x <https://fortune.com/2026/10/04/persian-gulf-oil-flows-prewar-levels-iran-scorched-earth-campaign-us-aircraft-carrier-marines/>

^{xi} <https://www.dallasfed.org/research/economics/2026/0320>

^{xii} <https://fortune.com/2026/10/04/persian-gulf-oil-flows-prewar-levels-iran-scorched-earth-campaign-us-aircraft-carrier-marines/>

^{xiii} <https://www.chathamhouse.org/publications/the-world-today/2026-09/will-oil-tanker-shadow-fleet-ever-be-brought-back-line>

^{xiv} <https://thunderbird.asu.edu/thought-leadership/insights/strait-hormuz-disruption-and-implications-risk-continuity-and-strategic>

^{xv} <https://www.facebook.com/reel/1320907300027756>

^{xvi} <https://yaleclimateconnections.org/newsletter/good-news-climate-pollution-is-falling/>

^{xvii} <https://www.iea.org/reports/oil-market-report-june-2026>

^{xviii} <https://www.iea.org/reports/global-energy-review-2026/oil>

^{xix} <https://www.iea.org/reports/global-ev-outlook-2026/outlook-for-electric-mobility-chap-9-11>

^{xx} <https://www.iea.org/reports/global-ev-outlook-2026/executive-summary> and <https://www.iea.org/reports/global-ev-outlook-2026/trends-in-other-ev-modes>

^{xxi} <https://www.iea.org/commentaries/oil-demand-for-fuels-in-china-has-reached-a-plateau>

^{xxii} <https://www.weforum.org/stories/economic-growth/oil-hormuz-demand-destruction-war-iran-green-energy/> and

<https://www.forbes.com/sites/sverrealvik/2026/08/27/are-we-misreading-the-oil-demand-shock-from-hormuz/>

^{xxiii} <https://www.carbonbrief.org/analysis-global-fossil-fuel-emissions-set-to-fall-in-2026-amid-hormuz-crisis>

^{xxiv} <https://reneweconomy.com.au/nuclear-powers-quarter-century-of-stagnation-has-no-end-in-sight-and-has-been-overtaken-by-solar-pv/> and <https://www.world-nuclear-news.org/articles/nuclear-power-is-making-a-comeback-says-iea>

^{xxv} <https://www.cnn.com/2026/09/29/economy/oil-strait-of-hormuz-iran>

^{xxvi} <https://www.weforum.org/stories/supply-chains-and-transportation/beyond-oil-lng-commodities-impacted-closure-hormuz-strait/>

^{xxvii} <https://www.iea.org/reports/oil-market-report-august-2026>