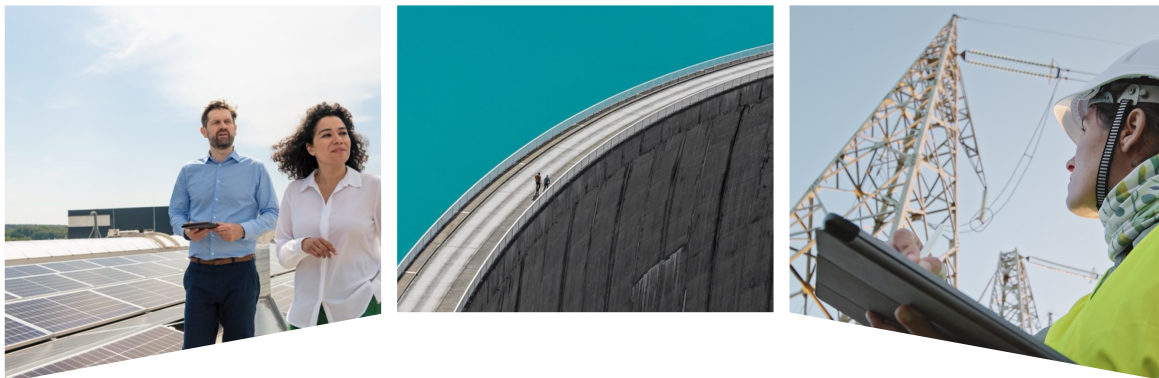




Energy Policy

Hormus Blockade *Drives Up the Cost of Europe's Energy Supply*

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At a glance

- Europe has reduced its dependence on Russian pipeline gas and now relies more heavily on the global LNG market.
- The blockade of the Strait of Hormuz is particularly affecting Qatar's LNG exports, thereby reducing global supply.
- Intensified competition is driving up gas and electricity prices in Switzerland as well.

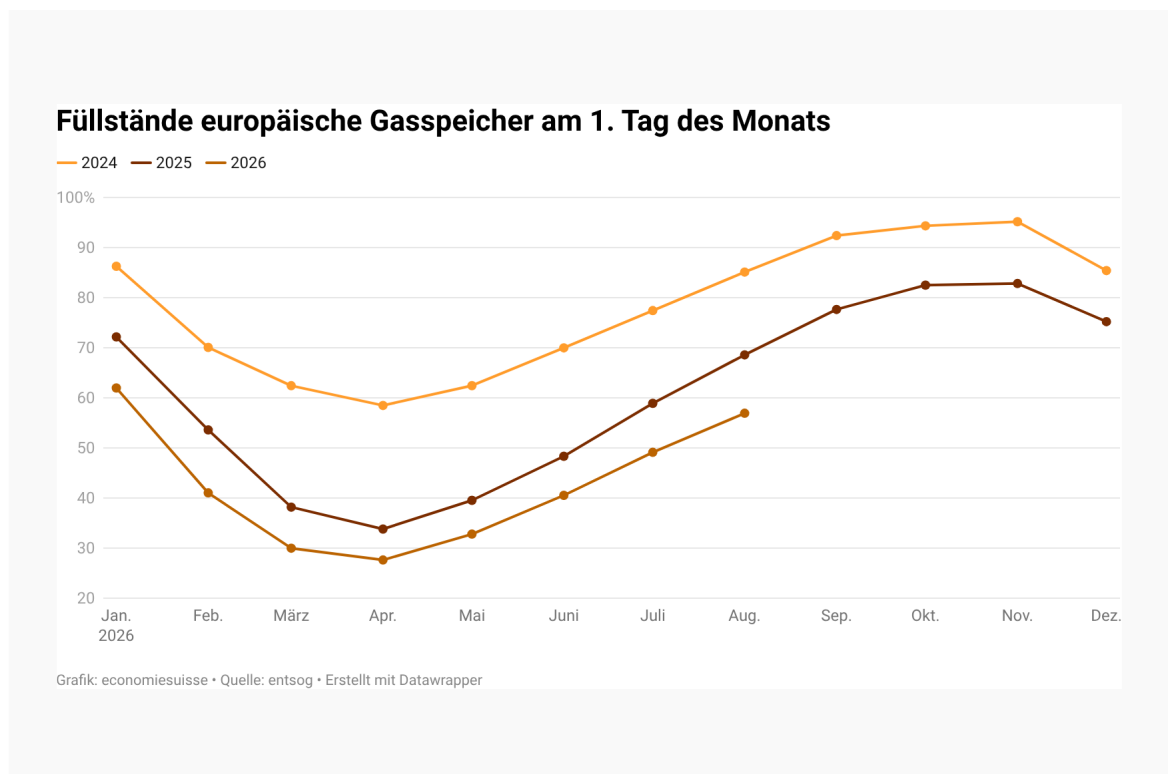
Before the war in Ukraine, Russia was Europe's biggest source of energy dependence. About 40 percent of European gas imports came to Europe via pipelines from Russia. Although liquefied natural gas (LNG) already played a role, it was only a supplement and not the backbone of the supply. Following Russia's invasion of Ukraine, Europe has fundamentally restructured its supply sources. While Norway was able to further expand its role as a major supplier, liquefied natural gas from the U.S., in particular, gained significant importance. Europe has thus reduced its dependence on individual suppliers, but at the same time increased its integration with the global LNG market.

The blockade in the Middle East is also affecting liquefied natural gas

One consequence of this development is that geopolitical tensions in the Middle East are now having a more immediate impact on European energy markets. The ongoing blockade of the Strait of Hormuz is therefore not only reflected in higher gasoline prices, but increasingly in natural gas prices as well. Qatar plays a key role in this context. Although the largest volumes of LNG for Europe come from the U.S., Qatar is, however, one of the world's most important producers and is indispensable for the balance of the global LNG market. Since virtually all of the country's LNG exports must pass through the Strait of Hormuz, any disruption to this route has a direct impact on global supply.

Europe must fill its storage facilities at high prices

The blockade comes at a particularly inopportune moment for Europe. European gas storage facilities are unusually low for this time of year and must be significantly replenished before the coming winter. Consequently, European energy suppliers have a high demand for additional LNG supplies. At the same time, Europe still has painful memories of the winter of 2022/2023. Back then, the EU mandated a minimum fill level for gas storage facilities, thereby signaling to the market that it was willing to accept price spikes. The EU is currently trying to prevent this scenario from recurring. At the same time, numerous Asian countries are seeking alternatives to the lost supplies from Qatar. Europe and Asia are thus competing for the same volumes from the U.S., Australia, and Africa. The result is intensified competition for an increasingly scarce supply. When it comes to price trends, whether Europe directly purchases large volumes from Qatar is less of a deciding factor. What matters far more is that the global market is facing a significant shortage of LNG. If global supply declines, prices rise for all buyers. The effects are therefore clearly felt in Europe as well.



Rising natural gas prices are putting pressure on the electricity market

The consequences are not limited to the gas market. In many European countries, gas-fired power plants determine the price of electricity on the power exchanges, especially in winter. Even if gas accounts for only a limited share of electricity generation, the most expensive power plants still in use often set the market price for all suppliers. Renewable energy sources and French nuclear power plants are currently unable to sufficiently meet pan-European electricity demand in the winter. Rising gas prices therefore often drive up electricity prices directly and disproportionately. The longer the blockade lasts and the more difficult it becomes to fill storage facilities, the greater the risk of additional electricity price increases this coming winter.

As part of the European energy market, Switzerland would not be spared either. Even in the regulated basic supply sector, about two-thirds of the electricity consumed is procured on the market. Low water levels in domestic reservoirs are exacerbating the problem. Higher gas and electricity prices are driving up the costs of production, transportation, and numerous intermediate inputs. The conflict with Iran thus reminds us once again of how strongly geopolitical conflicts can affect Europe and Switzerland through the energy markets.



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