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How Europe should respond to the Iran gas shock – and how it shouldn't

The European Union should act now to head off growing impacts from the Iran conflict on gas prices and availability

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Compared to other parts of the world, the European Union is somewhat insulated from the disruption to gas supplies caused by the US-Israeli war against Iran and the virtual closure of the Strait of Hormuz[1]. Though 20 percent of global liquefied natural gas (LNG), mainly from Qatar, passes through the Strait[2], only 8 percent of EU LNG imports arrive from Qatar. Consequently, unlike the 2022 energy crisis triggered by Russia's invasion of Ukraine, the EU's gas supply is not in immediate danger.

Nevertheless, problems for the EU lie ahead, especially if the conflict persists. Because the EU is highly dependent on gas imports, its energy import bill may be strongly affected as stiffer competition for the energy supplies not disrupted by the conflict drives up prices[3]. For instance, a doubling of gas prices would add about €100 billion to European gas import costs over the next 12 months[4]. In 2025, the EU spent €117 billion on gas imports[5]. The higher gas price could level off, go higher still or, in a worst-case scenario, threaten the EU's security of supply because of difficulty finding enough supply to meet gas demand. Meanwhile, the tightening of global oil markets, also severely affected by the Iran conflict, could further strain the gas crisis.

The EU must therefore prepare for a prolonged period of higher gas prices and for potential tightening of global LNG supply. A quarter of the EU's gas imports come from the United States and there is a risk that a large share of this will be diverted to Asia if the EU loses an intensified bidding war. With a limited number of gas suppliers, the EU must fall back on domestic policies for short-term preparedness and long-term structural changes to its energy system.

Direct effects on the EU gas supply

Qatar provides only 4 percent of the EU's total gas imports (8 percent of the EU's LNG imports) (Figure 2). Qatar accounted for a third of Italy's LNG imports in 2025, a quarter of Belgium's and almost a fifth of Poland's. Despite Qatar's small share of EU gas imports, the reduction in LNG supply tightens the global market and increases prices for the EU. Prices for most EU gas imports, even under long-term contracts, are indexed to the gas (or oil) spot market and are therefore directly affected.

Asian buyers, who source nearly a third of their LNG from the Gulf, now compete with European buyers for flexible cargoes. Much of this flexibility comes from US LNG, which, so far, has been shipped to Europe, with China absent from the US LNG trade[6]. Since the start of the Iran war, several LNG cargoes have already been diverted from Europe to Asia[7]. The EU gas supply is further constrained by the scheduled phaseout by 2027 of Russian LNG[8].

The disruption to Russian gas supplies in 2022 prompted the EU to diversify. LNG imports have risen significantly since then, including from new sources such as Egypt, Angola and Oman. US LNG has become the largest source, now accounting for two-thirds of EU LNG imports.

With Qatar's capacity offline, there is little room for the EU to diversify its import mix further. New LNG supplies from Australia are limited because they have historically been directed to Asian markets[9]. Additional export capacity, primarily in the US and Canada, is insufficient to replace lost volumes fully[10]. Additional import capacity through pipelines from the EU's neighbours is limited and difficult to access[11].

Impact on electricity prices

While gas prices are rising at similar rates across the EU, the impact on electricity prices varies according to each country's electricity mix. Higher gas prices feed into

electricity prices through marginal pricing: the most expensive plant needed to serve the last consumer sets the market price for all. Countries that rely more on gas for power generation, such as Italy and Ireland, are in principle more affected by surging gas prices (Figure 3). Countries that use less gas and mainly generate their electricity from renewables, nuclear power or other generation and storage options, are less affected by the link between higher gas and electricity prices.

In Spain, for example, rapid wind and solar growth have cut the share of hours in which gas sets the electricity price from 75 percent in 2019 to just 15 percent in 2026, the sharpest reduction among Europe's major gas-reliant power markets (Rosslowe and Petrovich, 2026). While Spain's power prices initially rose quite sharply in response to the Iran shock, they quickly levelled off and have settled substantially below those of other EU countries (Figure 4). Spain's average electricity price for the rest of 2026 is forecast at around €66/MWh, roughly half of Italy's, where gas sets the electricity price 90 percent of the time[12].

The implication is clear: countries that have replaced gas generation with renewable energy are less exposed to fossil-fuel price shocks. For the EU as a whole, an integrated electricity grid is vital to the efficient distribution of (cheap renewable) electricity across EU countries. However, electricity market integration can also lead to high domestic prices in countries with high shares of renewable energy[13]. Hence, coordinated planning of Europe's electricity grid and coordinated deployment of generation capacity are needed to reduce prices for all countries (Roth *et al*, 2026).

What not to do

The temptation in a price shock is to suppress prices – as seen during the 2022-23 energy crisis. This would be a mistake. Capping wholesale gas prices (Corbeau *et al*, 2023), subsidising gas inputs to the electricity market, splitting the wholesale market into fossil and renewable segments or trying to collect windfall profits from renewables would all weaken price signals that drive efficiency, demand reduction and clean-energy investment.

Similarly, weakening the EU's emissions trading system would lead to more fossil-fuel use and would also reduce the revenues from auctioning of emissions allowances that countries use to fund industrial transition. This would send the wrong signal to clean energy investors[14]. Untargeted energy subsidies would compound the problem: they are fiscally expensive, benefit higher-income households the most and do nothing to

reduce the fossil-fuel dependence that makes countries vulnerable to shocks such as that over Iran.

Nor should the question of Russian gas be reopened. Reverting to Russian pipeline gas or LNG would recreate the dependency Europe spent three years and substantial political effort to dismantle, while restoring Moscow's influence over gas supplies. This would allow Russia to manipulate prices, divide the EU politically and threaten the bloc's long-term energy security. Any uncertainty about the return of Russian gas could also undermine clean-energy investment.

What to do

European policymakers should enact a number of short- and mid-term policies to prepare for a possible further tightening of gas supplies.

Preparing for winter gas demand

European demand for natural gas is split approximately evenly between buildings (mainly households), industrial users (such as large chemical plants) and the power sector. While industrial and power demand are broadly flat all year, building demand is heavily skewed towards winter when heating needs are high. Traders use underground storage facilities to shift supply from the summer to winter (Figure 5).

Left alone, natural gas prices will strike a balance between these competing demands. Policy intervention now could be justified by the need to ensure that the balance provides adequate supply for heating of buildings in winter 2026/27. This can be done by ensuring that gas storage facilities are filled and by adopting measures to encourage a structural reduction in natural gas demand.

Gas storage filling

Since 2022, EU governments have been required to ensure that domestic storage sites are 80 percent to 90 percent full by winter. Exactly how much gas to store and when to do so is a domestic distributional question that influences how summer demand will be crowded out.

EU storage levels on 1 March 2026 were below previous years. Reaching the 80 percent target by November will be harder to achieve than in recent years (Figure 6) and will be relatively costly, depending on the evolution of the Iran conflict (Table 1). If

gas prices rise to €60/MWh (higher than at time of writing), total refilling costs would amount to €35 billion, disregarding possible revenues from gas sales in winter. As a sizeable part of gas demand in summer is explained by refilling (Figure 6), rapid refilling in the next few months could push prices higher. Helpfully, European natural gas demand has fallen by one-fifth since 2021, meaning the same volume of storage lasts longer.

Table 1: gas storage refilling costs, different price scenarios

Gas price €/MWh	Cost of refilling (€bn)	Cost vs 2025 refill season
45	26	~20% higher
60	35	~55% higher
75	44	~95% higher

Source: Bruegel based on ECB. Note: Storage level assumed at 1,140 TWh; storage filling target by November at 80%; storage starting point at 30% of capacity, average 2025 refilling cost of €35/MWh.

Fuel switching

The power sector offers significant flexibility, with gas demand already falling in March, partly because coal-fired power plants have been ramped up. As gas prices rise, generating electricity with coal becomes more attractive[15]. The EU's coal power plants had unused generation potential of 568 TWh in 2024, which, if tapped, could reduce gas consumption (Figure 7). However, as countries in Asia and Europe – including Germany, Poland, the Netherlands and the Czech Republic – turn to coal as an alternative amid the gas crisis, increased demand will drive up coal prices[16].

Buyer coordination

While government interventions to fill storage will redistribute domestic demand, European countries will continue to compete for gas deliveries with other LNG buyers globally. The EU should coordinate with other major LNG importers to avoid a bidding war and an even steeper price shock. For instance, the EU, Japan and South Korea

account for 60 percent of global LNG demand, and joint gas-saving measures agreed between them could avoid the most extreme price peaks.

Electrification

The focus on reducing heating demand for the upcoming winter should include alternative energy sources and efficiency measures. As ratio of gas to electricity prices rose in 2022 and 2023, so did heat pump sales across Europe, reaching three million units annually (Figure 8) before momentum slowed in 2024 and 2025 with sales closer to 2.5 million units (Bruegel Dataset, 2025). Policy attention waned, with the European Commission shelving a heat pump action plan[17]. We estimate that the 11 million heat pumps installed between 2022 and 2025 cut European gas demand by roughly between 30 and 60 terawatt hours each year, or 3 percent to 6 percent of household gas demand[18].

The 2022 energy crisis also accelerated renewable energy deployment in the EU. Installation of solar power plants rose significantly, as high gas prices made new facilities very profitable. Notwithstanding the difficulties posed by the Iran-related gas crisis, policymakers should seize the opportunity to deploy renewable energies and electrification technologies even faster. An 'electrification action plan'[19] from the European Commission, planned for publication in early 2026, would aim to increase the share of electricity in the EU's final energy consumption and could be such an opportunity.

Financial relief done right

Policymakers should avoid costly, untargeted relief measures that might even increase gas consumption. Instead, financial relief should target the most vulnerable groups, keep savings incentives intact and push for investment into future-proof electrification technologies. Instead of lowering gas taxes, cutting electricity taxes would help reduce household energy bills. This would also make electrification technologies, such as heat pumps and electric cars, cheaper. Meanwhile, incentives to reduce gas consumption would be maintained. Relief measures could take the form of lump-sum payments, which should be independent of consumption and larger for poorer households relative to their income[20].

Conclusion

While refilling gas storage is essential to create a buffer for next winter, in responding to the energy price shock caused by the Iran conflict, the EU should focus on reducing gas demand. This will lower refilling costs, diminish competition for LNG and help make Europe's more energy independent over the longer term. Temporary efficiency measures and, where feasible, fuel switching should be promoted immediately. Scaling up non-fossil generation and thereby reducing the share of hours when gas sets the electricity price is the only structural approach to decouple Europe's electricity prices from fossil prices and future shocks. Relief measures should ensure that saving incentives remain in place, while offering support to the most vulnerable and enabling investment in electrification.

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Endnotes

1 For the impact on China and Asia more broadly, see García-Herrero (2026).

2 In addition, approximately 25 percent of global seaborne crude oil passes through the Strait.

3 Most EU gas imports follow global price benchmarks (such as TTF).

4 Calculated as the difference between an assumed average pre-crisis price of €30 per megawatt hour and a post-crisis price of €60/MWh – slightly above current price levels – multiplied by total yearly EU gas imports. In addition, a sustained increase in oil prices from $60 to $100 per barrel would add roughly another €100 billion to the 2026 European oil import bill.

5 See Eurostat news of 25 March 2026, 'EU imports of energy products decreased again in 2025', https://ec.europa.eu/eurostat/web/products-eurostat-news/w/ddn-20260325-3.

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13 A country that in a specific hour generates most of its electricity from renewables with almost-zero marginal costs, might still have a high wholesale electricity price if it imports electricity from a neighbouring country with a high electricity price.

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18 Typical annual household energy demand is 11,000 kWh. When replacing a gas boiler, we assume that a heat pump displaces the entire demand. We assume that 30 percent of the electricity to power the heat pump comes from gas power plants and that installed heat pumps replaced either 40 percent or 80 percent of gas boilers – thus the range in the reduction of demand.

19 See European Commission, 'Electrification', undated, https://energy.ec.europa.eu/topics/eus-energy-system/electrification_en.

20 Such measures would also facilitate the introduction of EU emissions trading for domestic buildings and transportation, scheduled for 2028 and expected to increase fossil-fuel prices for mobility and heating. Relief measures could help

households make the necessary investments in electrification and prepare for these price increases.

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