

ECONOMIC AND REGULATORY IMPLICATIONS OF THE IRAN CONFLICT ON THE NIGERIAN ENERGY MARKET

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Introduction

On 28 February 2026, coordinated U.S.–Israel strikes on Iranian assets triggered a rapid escalation in the Gulf, delivering one of the most severe recent shocks to global energy security. Iran’s retaliation heightened risks around the Strait of Hormuz, a critical energy transit route.

As tanker traffic fell and insurers repriced war risk, oil and gas markets swung sharply: crude prices rose, natural gas prices surged based on fears of sustained supply disruption, and higher freight costs fed inflation. Analysts warned that prolonged instability

could raise the price of crude well above \$100 per barrel, intensify inflationary pressures, and slow global growth, underscoring how quickly disruptions at key chokepoints transmit across global energy markets.¹ Notably, the relationship between geopolitical conflict and oil price volatility is well established.

Historical episodes, including the 1973 Arab oil embargo and the Iran–Iraq War (1980-1988), demonstrated how instability in major oil-producing regions can trigger systemic economic consequences. The 2026 crisis represents a contemporary manifestation of these dynamics, exposing the continued dependence of global energy markets on geographically concentrated and politically sensitive supply routes.

Against this backdrop, we examine the interaction between geopolitical conflict and oil price volatility through the lens of the 2026 Iran crisis. We analyse the strategic importance of the Strait of Hormuz, the transmission channels through which geopolitical shocks affect global energy markets, and the legal frameworks governing maritime passage and energy trade, including international maritime law, contractual risk allocation mechanisms, and sanctions regimes. We further consider the implications and effects of sustained geopolitical tension for oil-producing economies such as Nigeria.

The 2026 Hormuz Disruption: Background and Market Context

The U.S.–Israel operations targeted key Iranian strategic assets, prompting retaliatory strikes across

¹ Reuters, ‘Global economy faces inflation, growth test amid escalating conflict in Iran – Goldman’ (Reuters, 5 March 2026) <<https://www.reuters.com/business/global->

[economy-faces-inflation-growth-test-amid-escalating-conflict-iran-goldman-2026-03-05/](https://www.reuters.com/business/global-economy-faces-inflation-growth-test-amid-escalating-conflict-iran-goldman-2026-03-05/)> accessed 6 May 2026.

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several Gulf states, including Qatar, Bahrain, the United Arab Emirates, Saudi Arabia, Kuwait and Iraq.² By 2 March 2026, major carriers, including A.P. Møller–Maersk, had rerouted vessels around the Cape of Good Hope, significantly lengthening voyage times and increasing freight costs. Vessel-tracking data indicated that tanker traffic through the Strait of Hormuz declined by roughly 70 per cent, effectively creating an “operational closure” of the passage despite the absence of a formal blockade.

This sharp decline was driven by escalating security risks, including missile and drone attacks on vessels, the laying of sea mines, and direct threats by Iranian authorities restricting passage to approved ships. In addition, the withdrawal of war-risk insurance cover and the designation of the Strait as a high-risk zone rendered transit commercially and operationally untenable for most shipowners, compelling widespread rerouting and suspension of voyages.³

The significance of this disruption lies in the strategic role of the Strait of Hormuz within global energy trade. According to the U.S. Energy Information Administration, approximately 20–21 million barrels per day of crude oil and petroleum products transit the corridor, representing about 21 per cent of global oil supply, alongside a substantial share of global LNG exports.⁴ The immobilisation of these volumes has rapidly reshaped market expectations. Reports

indicated that some Gulf producers were forced to reduce output as storage facilities filled, while others, lacking alternative export routes, were unable to move cargoes efficiently to international markets.⁵

It is important to note, however, that not all oil-producing states are equally exposed to disruptions in the Strait of Hormuz. Countries such as Nigeria and Angola export crude directly into the Atlantic Basin and therefore do not depend on the Strait for outbound shipments. By contrast, Gulf producers, including Saudi Arabia, Iraq and Kuwait, rely heavily on the corridor, with the bulk of their exports transiting the Strait to global markets, particularly Asia.

Accordingly, even countries that do not physically utilise the Strait, including Nigeria and other Atlantic producers, remain exposed to its disruption through globally integrated pricing mechanisms. In effect, while the physical chokepoint is regionally concentrated, its economic consequences are global.

Legal Framework Governing the Strait of Hormuz

The disruption in the Strait of Hormuz raises important legal questions concerning the regulation of maritime navigation, contractual risk allocation in energy transportation, and the operation of international sanctions regimes. These legal frameworks play a critical role in shaping how states,

² Priyanka Shankar and Reuters, ‘How US-Israel attacks on Iran threaten the Strait of Hormuz, oil markets’ Al Jazeera (1 March 2026) <<https://www.aljazeera.com/news/2026/3/1/how-us-israel-attacks-on-iran-threaten-the-strait-of-hormuz-oil-markets?>> accessed 13 March 2026.

³ Reuters, ‘Iran war: See how tanker traffic collapsed in the Strait of Hormuz’ (6 March 2026) <<https://www.reuters.com/world/middle-east/iran-war-see-how-tanker-traffic-collapsed-Strait-hormuz-2026-03-06/>> accessed 27 April 2026

⁴ U.S. Energy Information Administration, ‘Amid regional

conflict, the Strait of Hormuz remains critical oil chokepoint’ (Today in Energy, 16 June 2025) <<https://www.eia.gov/todayinenergy/detail.php?id=65504>> accessed 23 March 2026.

⁵ Nadim Kawach, ‘Arab oil capacity dented as Iran war forces output cuts’ (Arabian Gulf Business Insight (AGBI), March 2026) <<https://www.agbi.com/analysis/oil-and-gas/2026/03/gulf-oil-capacity-dented-as-iran-war-forces-output-cuts/>> accessed 6 May 2026.

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shipping companies, insurers, and energy traders respond to geopolitical instability in key energy transit corridors.

The Strait of Hormuz is not merely a geographic passage; it is a legally significant maritime Strait governed by principles of international law. Under Articles 37 to 44 of the United Nations Convention on the Law of the Sea (UNCLOS), straits used for international navigation are subject to the regime of transit passage.⁶ This means that such straits are governed by a specialised legal framework under which ships and aircraft may pass through or over them as a matter of right, provided such movement is continuous, expeditious, and undertaken solely for the purpose of transit between one part of the high seas or an exclusive economic zone and another. This principle ensures that vessels and aircraft of all nations enjoy the right to continuous and expeditious transit, with ships navigating through the strait and aircraft exercising the right of overflight above it. In practical terms, this means that coastal states bordering the strait, most prominently Iran and Oman, may regulate aspects of navigation relating to safety or environmental protection but cannot suspend the right of transit passage altogether.⁷

Iran restricted passage through the Strait to a limited number of “approved vessels” that required prior permission or use safe paths that the Islamic Revolutionary Guard Corps controls. While this amounted to a de facto blockade in practice, no formal legal blockade was ever declared under international

law.⁸ Iran’s subsequent warnings that it would completely close the Strait in the event of U.S. strikes on its power infrastructure further challenged the UNCLOS framework, which explicitly prohibits the suspension of transit passage even during periods of armed conflict. This divergence between treaty obligations and state conduct illustrates the inherent limitations of international maritime law when national security imperatives override established navigation rights, a reality made evident by contemporaneous reporting on the crisis.

The question of legality under UNCLOS becomes even more pronounced when Iran’s actions are examined in light of Article 44, which obliges states bordering international Straits not to hamper passage and to provide adequate publicity concerning navigational dangers. Iran’s 2026 declarations discouraging or forbidding navigation through the Strait of Hormuz brought maritime traffic to a standstill.

The resulting disruption was described as the most significant shock to global energy supply since the 1970s, raising serious doubts about Iran’s adherence to its duties under international law. Furthermore, Iranian officials asserted that the Strait remained open only to “non-enemy traffic,” a position incompatible with the non-discriminatory nature of transit passage. Although Iran is not a party to UNCLOS, the rules governing international Straits are widely regarded as reflecting customary international law and are therefore binding on all states irrespective of

⁶ United Nations Convention on the Law of the Sea (adopted 10 December 1982, entered into force 16 November 1994) 1833 UNTS 3, arts 37–44.

⁷ Abhishek G Bhaya, ‘Who controls the Strait of Hormuz? Iran’s toll plan could reshape global maritime order’ TRT World (10 March 2026) <<https://www.trtworld.com/article/a632f8f6753c>>

accessed 6 May 2026.

⁸ Julian Lee and Alex Longley, ‘How Iran Has Effectively Closed the Strait of Hormuz’ (Bloomberg, 23 March 2026) <<https://www.bloomberg.com/news/articles/2026-03-23/Strait-of-hormuz-how-iran-is-blocking-route-as-trump-extends-deadline-to-reopen>> accessed 23 March 2026.

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ratification. For that reason, Iran's effective suspension of navigation and its associated threats or use of force likely constitute violations of customary maritime obligations.⁹

The crisis illustrated the inability of international law to fully insulate global trade from geopolitical coercion. Within days of the escalation, tanker traffic through the Strait of Hormuz fell by roughly 70 per cent as insurers withdrew war-risk cover and shipowners refused to transit despite having a recognised legal right to passage. Many shipping companies rerouted their vessels around the Cape of Good Hope, incurring higher costs and longer transit times rather than risk passage through the Strait.

Meanwhile, the few vessels that continued to traverse the waterway, mostly those flagged to China, Pakistan and India, were allowed to proceed only after providing extensive cargo and ownership documentation to Iranian authorities. This dynamic underscores that in practice, the legal framework governing navigation cannot prevent a de facto closure when a coastal state possesses both the military capability and the strategic motivation to disrupt transit.

Understanding these legal dynamics is essential when analysing the broader implications of the 2026 crisis for global energy governance and for Nigeria. The events demonstrate that critical chokepoints in the global energy supply chain can be rendered inoperable without a formally declared blockade under the law of armed conflict. Instead, it is sufficient for coastal states to create security

conditions that make commercial transit untenable. In the case of Iran, these actions constituted a de facto blockade and represented a breach of the UNCLOS framework, which explicitly prohibits suspension of transit passage even during periods of armed conflict.

This divergence between treaty obligations and state conduct illustrates the inherent limitations of international maritime law when national security imperatives override established navigation rights. While legal rights to navigation remain intact on paper, market reality is ultimately shaped by contractual and insurance mechanisms such as war risk clauses, deviation allowances, and force majeure provisions. However, the overriding determinant remains the international crude oil price, which is largely influenced by global supply dynamics rather than domestic legal or regulatory safeguards.

In this regard, measures such as strengthening supply chain resilience, enhancing domestic refining capacity, and ensuring regulatory predictability under the Petroleum Industry Act 2021, though important, are not in themselves sufficient to shield Nigeria from external shocks. In practical terms, the stabilisation of the Nigerian energy market is contingent on increased crude oil production both domestically and across other Organization of the Petroleum Exporting Countries (OPEC) member states, to moderate price volatility in the international market. Without a corresponding expansion in output, domestic interventions will have limited impact, as Nigeria remains a price-taker in a globally integrated oil market. Accordingly, any comprehensive policy response must prioritise production growth alongside

⁹ Ravi Hari, 'Iran warns of "complete closure" of Strait of Hormuz if US targets its power plants' (LiveMint, 22 March 2026) <<https://www.livemint.com/news/us-news/iran-warns-of-complete-closure-of-Strait-of-hormuz-if-us->

[targets-its-power-plants-11774206458346.html](https://www.livemint.com/news/us-news/iran-warns-of-complete-closure-of-Strait-of-hormuz-if-us-targets-its-power-plants-11774206458346.html)> accessed 23 March 2026.

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internal reforms, recognising that legal protections and contractual safeguards cannot, in isolation, counteract disruptions driven by global pricing pressures.

Implications for Global Energy Markets

The disruption in the Strait of Hormuz has significantly affected the global energy landscape in the following ways.

1. Physical Supply Risk

Iran has adopted a retaliatory strategy characterised by attacks on commercial shipping and issuing threats to vessels navigating through the Strait.¹⁰ While physical passage remained theoretically possible, escalating security risks and the withdrawal of war-risk insurance rendered transit commercially unviable for most operators, effectively reducing available supply. This combination of logistical disruption and market uncertainty has intensified price volatility, as even the perception of constrained supply continues to drive rapid fluctuations in global oil prices.

2. Insurance and Shipping Costs

The increase in insurance and shipping costs has rendered voyages commercially unviable. Maritime insurers rapidly increased war-risk premiums, significantly raising the cost of tanker transit through the Gulf. Premiums have surged from approximately 0.25% of vessel value to

around 3%, implying an increase from about \$625,000 to \$7.5 million per voyage for a typical tanker, with some estimates indicating even higher spikes under extreme risk conditions.¹¹ In parallel, premiums were reassessed on a voyage-by-voyage basis, reflecting heightened exposure to concentrated losses and uncertainty in the conflict zone. Although insurance cover remained technically available, the sharp escalation in costs, coupled with operational risks and delays, has negatively impacted voyages commercially.

3. Logistical Disruption

Shipping companies rerouted cargoes around southern Africa via the Cape of Good Hope, significantly increasing transit times and freight costs. The diversion adds approximately 3,500–4,000 nautical miles to typical voyages and extends delivery timelines by about 10–15 days, depending on the route and vessel speed.¹² Oil producers have scrambled to redirect their crude flows to pipelines and storage facilities, but as their pipes and stockpiles reach the brim, the only option remaining is to turn off the taps. The threat to the Middle East's oilfields is now considered the main driver for the upward march of market prices.¹³

4. Price Transmission

Oil prices surged above \$100 per barrel for the first time since 2022, with analysts warning that sustained disruptions could produce

¹⁰ Ibid 8

¹¹ Noor Zainab Hussain and Manya Saini, 'Maritime insurance premiums surge as Iran conflict widens' Reuters (6 March 2026) <<https://www.reuters.com/world/middle-east/maritime-insurance-premiums-surge-iran-conflict-widens-2026-03-06/>> accessed 27 April 2026.

¹² Alex Naumov, 'Global shipping disruption: how the Iran conflict is reshaping routes' (West Coast Shipping, 12

March 2026) <https://www.wcshipping.com/blog/global-shipping-disruption-how-the-iran-conflict-is-reshaping-routes> accessed 27 April 2026.

¹³ Jillian Ambrose "Beyond the Strait: why attacks on Kharg Island could keep oil prices high" (The Guardian 15 March 2026) <[Beyond the Strait: why attacks on Kharg Island could keep oil prices high | Oil | The Guardian](https://www.theguardian.com/energy/2026/mar/15/beyond-the-strait-why-attacks-on-kharg-island-could-keep-oil-prices-high)> accessed 16 March 2026.

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stagflationary pressures across major economies.¹⁴ Goldman Sachs estimates that rising energy prices will increase global headline inflation by roughly 0.5 to 0.6 percentage points, with a smaller boost to core inflation of about 0.1 to 0.2 percentage points.¹⁵ The reality is that the world's largest oil producers may be compelled to shut down numerous fields entirely, leading to persistently high prices for households and businesses.

5. Declining Coordination Among Oil Producers

A further systemic effect of the crisis has been the declining coordination among major oil-producing states, exemplified by the withdrawal of the United Arab Emirates from OPEC in May 2026. As one of OPEC's largest producers, contributing approximately 3% of global crude supply, the UAE's departure represents a loss of coordinated production capacity and reflects increasing divergence among oil-producing states.¹⁶ The reduction in OPEC's share of global output and control over supply decisions may diminish the effectiveness of traditional market-balancing mechanisms, increasing the risk of uncoordinated production and amplifying price volatility in an already unstable market.

Economic and Regulatory Implications for Nigeria

¹⁴ Ogaga Ariemu, 'Again, crude oil prices surge above \$100 per barrel' (Daily Post Nigeria, 13 March 2026) <<https://dailypost.ng/2026/03/13/again-crude-oil-prices-surge-above-100-per-barrel/>> accessed 23 March 2026.

¹⁵ Tanay Dhumal "Oil spike may trim global GDP by 0.3%, push inflation higher: Goldman" (Investing.com 15 March 2026) <[Oil spike may trim global GDP by 0.3%, push inflation higher: Goldman by Investing.com](https://www.investing.com/news/energy/oil-spike-may-trim-global-gdp-by-0.3%,-push-inflation-higher-goldman-by-investing-com)> accessed 16 March 2026.

The ongoing crisis has far-reaching global implications; however, its effects are particularly pronounced for oil-producing economies, such as Nigeria. Fluctuations in international oil prices and disruptions in global supply chains significantly impact fiscal stability, domestic fuel markets, and regulatory policies within these nations.

1. Fiscal Exposure

Higher oil prices can significantly enhance government revenues, presenting an opportunity for economic growth in Nigeria. However, Nigeria often faces challenges that limit its fiscal gains, including production shortfalls and operational inefficiencies within the oil sector.

2. Downstream Vulnerability

Nigeria remains heavily dependent on imported refined petroleum products, making domestic fuel prices highly sensitive to global supply disruptions. While recent developments, particularly the emergence of large-scale facilities such as the Dangote Petroleum Refinery, have reduced reliance on refined product imports, this has not eliminated exposure to external shocks. In practice, the refinery still imports a significant portion of its crude feedstock due to domestic supply constraints, with reports indicating that more than 60% of its crude requirements are sourced internationally.¹⁷

¹⁶ Reuters, Dmitry Zhannikov, Alex Lawler and Ahmad Ghaddar, 'UAE exit weakens OPEC+ power over oil market but group to stay together, sources say' (28 April 2026) <<https://www.reuters.com/business/energy/uae-exit-weakens-opec-power-over-oil-market-group-stay-together-sources-say-2026-04-28/>> accessed 27 April 2026.

¹⁷ Cynthia Egboboh, 'Dangote refinery still imports over 60% crude feedstock' (BusinessDay, 15 September 2025) <<https://businessday.ng/news/article/dangote-refinery-still->

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Moreover, even domestically supplied crude is priced at international benchmark rates, meaning that local refining does not disconnect Nigeria from global crude price dynamics. Accordingly, domestic refining expansion alone cannot fully shield the economy from global crude price volatility, particularly in the absence of increased domestic production and improved crude supply allocation.

3. Inflation and Supply Chain Risk:

Nigeria is already vulnerable to inflationary shocks, so the Iran crisis magnifies existing economic pressures. This translates to higher domestic inflation, more expensive imports across sectors, costlier logistics, manufacturing and power generation (given diesel dependence).

4. Increased Pressure on Nigeria's Regulators

The PIA assigns key regulatory responsibilities to the Nigerian Midstream and Downstream Petroleum Regulatory Authority (NMDPRA) and the Nigerian Upstream Petroleum Regulatory Commission (NUPRC). However, during global disruptions, these regulators face acute pressure to balance competing mandates.

The NUPRC is required to increase production and enforce domestic crude supply obligations, yet Nigeria continues to face output constraints and supply shortfalls to local refineries.¹⁸ The NMDPRA, on its part, must stabilise domestic

fuel supply, alternating between restricting imports to support local refining and issuing import licences to address shortages and rising prices.¹⁹ Accordingly, the pressure lies not in the absence of a framework, but in operationalising it amid production deficits, price volatility, and conflicting market demands.

Conclusion

The 2026 Iran–Hormuz crisis illustrates how geopolitical conflict can rapidly escalate into a systemic energy shock. By disrupting maritime security in one of the world's most critical oil transit corridors, through which roughly 20% of global oil supply and about a quarter of seaborne trade passes, the conflict triggered substantial price volatility and renewed concerns about global energy supply resilience.

While higher oil prices may offer temporary fiscal benefits for petroleum-exporting states, prolonged instability introduces broader economic and regulatory risks. For Nigeria, the article underscores that, notwithstanding its Atlantic export position and ongoing domestic refining expansion, the country remains exposed to global price shocks in an interconnected market.

Accordingly, the central policy priority must extend beyond refining and regulatory reforms to include sustained increases in crude oil

[imports-over-60-crude-feedstock/](#)> accessed 27 April 2026.

¹⁸ Isaac Anyaogu, 'Dangote refinery says Nigeria must enforce crude supply for local refiners' (Reuters, 10 August 2024) <<https://www.reuters.com/markets/commodities/dangote-refinery-says-nigeria-must-enforce-crude-supply-local-refiners-2024-08-10/>> accessed 27 April 2026.

¹⁹ Bunmi Aduloju, 'Report: NMDPRA issues petrol import licences to bridge shortfall amid Middle East crisis' (TheCable, 25 March 2026) <<https://www.thecable.ng/report-nmdpra-issues-petrol-import-licences-to-bridge-shortfall-amid-middle-east-conflict/>> accessed 27 April 2026.

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production domestically across major producing states. Ultimately, as global oil prices remain driven by aggregate supply conditions, the effective management of geopolitical risk and the stabilisation of international crude output will remain decisive in ensuring long-term energy market stability.

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