

A New Energy Reality: Higher Prices, Longer Disruption, Harder Choices

I just had an intense weekend of dialogue with Maurice Berns, chair of [BCG's Center for Energy Impact](#), and Pattabi Seshadri, global leader of our Energy practice. Both had returned from CERAWeek, the annual conference for the energy industry, where they had candid conversations with a range of industry leaders. This will be a longer Weekly Brief than usual, but it's essential for business leaders to understand how the conflict in the Middle East is reshaping the global energy—and economic—landscape.

The scale of disruption is unprecedented in its combination of physical reach and destruction of infrastructure. The IEA has compared what's happening now to the 1973 oil shock and the 2022 European gas crisis combined. The shakeup has already caused implications extending far beyond energy markets into trade, industry, and the broader economy.

Here are four insights, followed by implications for business leaders:

From Surplus to Shortage. At the start of the year, energy markets were broadly in equilibrium—and moderately oversupplied across crude, LNG, and refined products. That has reversed sharply. More than 40 energy assets across nine countries have been severely damaged, and the Strait of Hormuz—through which roughly 20% of global oil and 17% of LNG flows—is nearly closed.

Brent crude has surged from approximately \$72 to more than \$110 in just one month.

The disruption is systemwide. A large share of global refining capacity is configured for the medium and heavy sour grades the Middle East produces, making substitution costly. Cascading effects are now reaching diesel, jet fuel, fertilizer production, and chemical value chains. Even semiconductor manufacturing, which depends on helium sourced from Middle Eastern gas processing, is feeling the impact.

There's a striking gap between current market prices, which assume a relatively swift resolution, and the physical disruption now unfolding. The shortages building up across refined products, LNG, and petrochemical feedstocks suggest that prices may rise sharply in the months ahead.

Highly Uneven Exposure. Roughly 86% of affected oil and 90% of affected gas flows to Asia, making import-dependent economies there far more exposed than those with domestic supply. India is among the hardest hit: approximately 45% of its crude, 60% of its natural gas, and more than 90% of its LPG imports originate from the Middle East. Businesses across India are already facing physical LPG shortages, forcing some to close. China has ceased exporting refined products, compounding strain on every other regional buyer. The WTO estimates sustained high energy prices could drag trade growth down by a full percentage point in the most exposed regions.

The most visible near-term backstop is coal. According to BCG's analysis, India's coal plant utilization has surged from approximately 68% to above 80% within weeks. South Korea has lifted its cap on coal-fired generation, and Thailand has restarted decommissioned units.

The LNG Challenge. Qatar, which supplies roughly one-fifth of global LNG, remains offline under force majeure, and Asian spot prices have surged more than 40%. The impact extends well beyond power generation; across Asia, LNG is the primary fuel for city gas networks, industrial heat, and residential use. In India, 30 of 32 urea plants rely on natural gas as feedstock, approximately 80% of

which comes from LNG imports—a direct hit to fertilizer production and agricultural supply chains.

This is not just a short-cycle disruption, even if no more assets are damaged. For example, two liquefaction trains that sustained damage represent roughly 15% of Qatar's total export capacity and are estimated to take three to five years to rebuild. Over the next year, price-sensitive importers will switch to coal and oil products, flex production and storage, and curtail demand.

Reshaped Competitiveness and Transition Tailwinds. The entire competitive landscape for energy is being reset. On the conventional side, upstream resources in relatively stable jurisdictions (Australia, Brazil, Canada, Norway, the US) have been repriced upward, and that repricing is likely to persist. The economics of gas-to-power are being reassessed wherever security and affordability of supply can no longer be taken for granted. And over the medium term, the ongoing electrification of transport will continue to reshape demand for liquid fuels.

The case for accelerating renewable energy and storage has also been strengthened. Solar and storage can reach operation in 12 to 24 months, far faster than new gas infrastructure. Elevated hydrocarbon prices will likely increase their cost competitiveness. And diversifying and localizing the energy system reduce exposure to any single chokepoint or geopolitical shock.

Competitiveness is being rapidly reshaped along supply lines, and Europe illustrates the pressure. Gas prices are up approximately 60%. Storage levels sit at roughly 30% heading into the summer refill season—the lowest since 2022. And because gas-fired generation sets the marginal electricity price across much of Europe, wholesale electricity prices are already up by 15% to 50% in European markets and likely to climb further as forward hedges unwind. Germany and Italy have seen the steepest increases, to above €113/MWh and €141/MWh, respectively, while France's nuclear-heavy grid and Spain's renewables-led system have kept price rises far more contained. The ECB has revised Eurozone inflation projections upward by 0.7 points for 2026. Compounding this, EU member states are legally required to refill storage to 90% before winter, making Europe a formidable competitor for the same

cargoes that price-sensitive Asian importers desperately need.

The broader strategic lesson is that systematic diversification across fuels, sources, and end uses measurably reduces vulnerability.

Countries that have invested in that diversification over years are better positioned today. China, for example, has electrified 28% of its economy (compared with 21% for Europe), shifting transport, industrial heat, and buildings onto domestically generated power—both coal and renewables—thereby reducing (but not eliminating) its vulnerability.

Implications for Business Leaders

Energy costs are now more likely to be structurally higher for years, not quarters. Business plans that assumed a return to pre-2022 energy price levels should be revisited.

- Resource-rich, wealthy nations have the widest options. For those in the conflict zone, the long-term case will remain strong once stability returns.
- Resource-constrained but wealthy economies like Japan and Europe will accelerate diversification while absorbing higher costs.
- Resource-rich but capital-constrained countries, including India and Indonesia, will likely expand both conventional (e.g., coal) and low-carbon energy in parallel.
- Resource-poor, capital-constrained nations face the most acute exposure.

Knowing where your markets, supply chains, and operations sit in that landscape is the starting point for any strategic response.

Business leaders will be best positioned if they treat this as a pivotal moment to revisit their strategy and investments. That means:

- Mapping exposure to refining feedstocks, petrochemical feedstocks, transport fuels, and gas-linked electricity and building optionality

- Reassessing infrastructure through a security and resilience lens, favoring diversified over concentrated, domestic over imported, and resilient over merely efficient
- Identifying opportunities to reduce energy intensity across operations—industrial process optimization, logistics, building systems—to structurally lower exposure regardless of where prices settle
- Evaluating the shifting investment landscape for hydrocarbons and renewables, as upstream assets in geopolitically stable jurisdictions have been repriced upward and the relative competitiveness of renewables improves—situations likely to persist
- Stress-testing scenarios for the next crisis, since recurring patterns of energy shocks may be here for a while

The 1973 oil embargo prompted France to build 52 nuclear reactors over the following two decades, ultimately generating 75% of its electricity. The oil price spike to \$147 in 2008 sped up massive investment in renewable energy and battery storage—particularly in Germany and China, where there was substantial policy support—reshaping the cost curve for renewables everywhere. The 2011 Fukushima disaster prompted Japan to transform itself into the world’s largest LNG importer almost overnight, shifting gas markets for a generation.

Each of those shocks produced a structural shift that outlasted it by decades. We expect the same here. The leaders who recognize that—and act early rather than wait for certainty—will be better placed to compete no matter what comes next.

Until next time,

A handwritten signature in black ink that reads "Rich". The signature is stylized and cursive.

Rich Lesser
Global Chair

Further Insights



How High Performers in Cyclical Sectors Navigate Turbulence

By embedding long-term thinking into how they make decisions, manage debt, and allocate capital, executives can secure resilient value creation.

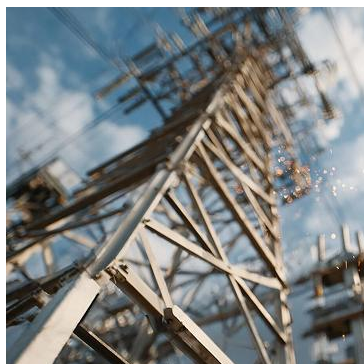
NAVIGATE THE CYCLE



The Energy Transition's Next Chapter

The energy transition has entered a new phase—and a number of shifts, including an increased focus on energy security and affordability, are reshaping the path ahead.

UNDERSTAND THE SHIFT



Powering More with Less: How Energy Networks Can Transform Their Productivity

Three imperatives—do the right work, use the right resources, and do the work right—hold the key to better productivity for grid companies.

TRANSFORM GRID PERFORMANCE
