

Lessons from the Closure of the Strait of Hormuz

-An Urgent Need to Reshape Japan's Energy Procurement-

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This is an English version of the Japanese report “ホルムズ海峡閉鎖が示した課題：エネルギー調達構造の抜本的な転換が急務”

■ The impact of the “Reiwa oil shock” remains limited for now

The closure of the Strait of Hormuz disrupted crude oil and LNG supplies from the Middle East on an unprecedented scale. Given the volume and duration, this is the largest supply shocks since the emergence of the modern oil industry. Transport constraints have shaken energy markets and affected a wide range of industries, including petrochemicals, fertilizers, aluminum, aviation, and shipping.

Even so, the rise in crude oil prices has been modest relative to the scale of the crisis. Producers secured alternative routes, demand weakened, and governments released reserves and drew down inventories. China, in particular, cut imports more than expected as domestic demand fell and inventories were used. This eased pressure on other importers and helped soften the global supply-demand imbalance.

However, the main reason prices have not surged is the release of reserves and the drawdown of inventories. These measures have temporary effects. If the closure or military conflict in the Middle East persists or widens, the problem may shift from high prices to outright supply shortages. China acted as a “swing importer,” supported by ample inventories and some domestic production. Yet this also exposed a new risk: China's behavior can strongly affect the global oil balance. Further shortages of downstream products are also possible, following Japan's summer naphtha shortage and the recent diesel shortage in the United States. Europe uses LNG for winter heating, but inventories are not ample. A severe winter could bring LNG shortages, heating constraints, and a higher risk of cold-related deaths. The economic and social risks from oil and gas shortages remain serious. Preparedness must therefore remain a priority.

■ Five pillars for stronger energy security

Japan must strengthen energy security on several fronts. The core principle is diversity. As Churchill observed, “Safety and certainty in oil lie in variety and variety alone.” Based on this principle, Japan should pursue five policy pillars. It must also ensure that these measures work effectively when a crisis occurs.

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First, Japan should diversify supply regions. It should gradually reduce its dependence on the Middle East for crude oil and LNG, while maintaining and strengthening long-term ties with the United States, Canada, Southeast Asia, and Australia. Once a crisis begins, ships, port capacity, and contract volumes cannot be secured quickly. Japan should therefore preserve diverse procurement routes in normal times. Since many domestic refineries are designed mainly for Middle Eastern crude, the government should also support capacity to process a wider range of crude grades.

Second, Japan should diversify inventories. Stockpiling policy should extend beyond upstream crude oil to downstream petroleum products. The crisis exposed shortages not only of crude oil but also of naphtha, diesel, and other products. It also highlighted bottleneck risk: a shortage of one product can halt an entire supply chain. As refining crude into usable products takes time, petroleum-product inventories should become a key pillar of stockpiling policy.

Third, Japan should further diversify its power mix. It needs a balanced combination of safer nuclear power, decarbonized thermal power, renewables, storage, and energy efficiency. Overdependence on any one source should be avoided. Excessive reliance on renewables also carries risks. Rather than treating renewables simply as a substitute for existing power sources, Japan should add them as another supply option. This would create a sound energy portfolio and balance cost and risk.

Fourth, Japan needs broad-based energy diplomacy with a global perspective. In addition to stronger ties with resource-producing countries, it should work with like-minded partners on joint procurement, secure sea lanes, and joint resource development. These efforts should be pursued as an integrated energy-security strategy.

Fifth, Japan should establish emergency legislation and related frameworks for energy crises. It needs mechanisms to curb demand and rules to allocate scarce resources first to the areas of greatest need. Critical functions tied to minimum living standards and national security should be identified in advance. Effective response systems should be prepared in normal times.

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