

Economic Dynamics of Oil Price Volatility and Energy Supply Disruptions Under Geopolitical Shockwaves: Evidence from Major Conflicts (1914–2022)

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Abstract:

This research paper aims to analyze the impact of wars and international conflicts on fluctuations in oil prices and global energy supplies, with a focus on the main channels through which this impact is transmitted, particularly disruptions in production and transportation, declines in oil supply, and concerns related to the security of supplies, in addition to changes in energy demand during periods of conflict. The study adopted the historical approach and the descriptive analytical approach, by tracing a number of historical cases that witnessed significant transformations in oil markets, including the October 1973 War, the Second Gulf War (1990–1991), the American war on Iraq (2003), and the Russian-Ukrainian war (2022)

The research results showed that wars and conflicts can lead to disruptions in oil and gas supplies, which is reflected in global markets in the form of noticeable increases and fluctuations in prices, especially when supply disruptions coincide with a high level of geopolitical instability, as the study also demonstrated that changes in energy demand during periods of conflict, whether as a result of military needs or the need to compensate for affected sources of supply, can increase the intensity of fluctuations in the markets. The research concluded that wars and international conflicts represent an important factor in shaping the dynamics of oil and energy markets, which highlights the importance of diversifying sources of supply and strengthening mechanisms of cooperation and stability to reduce the negative economic effects of oil shocks.

Keywords: international wars, oil prices, energy supplies, market fluctuations, geopolitical stability.

JEL Classification : Q43 ; F51 ; E30

Introduction:

Crude oil remains one of the most important commodities in the global economy. Its importance extends beyond its role as a primary source of energy, as changes in oil prices affect production costs, inflation, international trade, government revenues, and economic activity in both exporting and importing countries. For this reason, developments in the oil market are closely connected to broader macroeconomic conditions. When oil supplies are disrupted or expectations about future availability change sharply, the resulting price movements can be transmitted rapidly to other parts of the global economy.

Geopolitical conflicts represent one of the main sources of such disruptions. Wars can affect oil markets through several channels, including damage to production facilities, interruptions in transportation, restrictions on exports, sanctions, and uncertainty about future supplies. However, the economic response to a conflict is not necessarily the same in every episode. The effect on oil prices depends on the amount of production at risk, the importance of the countries involved in world oil supply, available spare production capacity, inventory levels, the elasticity of demand, and the ability of other producers to compensate for lost supplies. In some cases, concerns about supply disruptions can generate a strong increase in prices; in others, a simultaneous decline in global economic activity and oil demand can limit or even reverse the initial price effect.

This relationship can be traced across different periods of modern economic history. The experience of the two World Wars, the 1973–1974 oil crisis, the Iran–Iraq War, the Gulf War, the 2003 Iraq War, and the Russia–Ukraine War illustrates the different ways in which political and military events have interacted with oil-market conditions. These episodes also show that the magnitude and persistence of an oil-price shock depend not only on the conflict itself but also on the structure of the international oil market at the time. Changes in production capacity, international trade patterns, inventories, demand conditions, and the behaviour of major oil-producing countries can substantially modify the economic consequences of a supply shock.

The economic analysis of war and its effects on economic activity has early roots in the literature. F. W. Pethick Lawrence's (1915) *War Economics* was an early contribution to the study of the broader economic consequences of war, including its effects on trade, prices, monetary conditions, public finance, and economic activity. Later research has examined more specifically how geopolitical tensions are transmitted through energy and commodity markets. Ruiz Estrada et al. (2020), for example, analyse the potential impact of a U.S.–Iran conflict on global oil price behaviour, highlighting the sensitivity of international oil markets to geopolitical developments involving major oil-producing regions.

The relationship between oil prices and economic conditions is also relevant from the perspective of oil-producing countries. A rise in oil prices can increase export revenues and fiscal resources in petroleum-dependent economies, while a sharp decline can place considerable pressure on government budgets, external balances, and domestic economic activity. Thomas Friedman's "First Law of Petropolitics" provides an additional perspective on how oil revenues may influence the economic and political behaviour of oil-producing states. Although this proposition should not be regarded as a universal causal law, it draws attention to the relationship between oil-price movements, state revenues, and the incentives facing

governments in petroleum-dependent economies. Accordingly, oil market shocks may have effects that are not limited to prices and supplies alone, but also extend to the economic strategies pursued by major oil-producing countries.

Based on the foregoing, this study examines the economic dynamics of oil price volatility and energy supply disruptions associated with major geopolitical conflicts. Rather than assuming that war automatically leads to higher oil prices, the study investigates the mechanisms through which conflict-related shocks are transmitted to supply, demand, market expectations, and international energy trade. Particular attention is paid to spare production capacity, strategic oil reserves, inventories, demand elasticity, market concentration, producer behaviour, sanctions, and changes in trade flows. The objective is to explain why price and supply responses to similar geopolitical shocks differ according to market conditions.

The study draws on major conflict episodes between 1914 and 2022 to examine how these mechanisms have evolved over time. The analysis considers both the immediate effects of geopolitical shocks on crude oil prices and the wider economic consequences associated with inflation, aggregate demand, international trade, government revenues, and macroeconomic stability. By examining these episodes within a common economic framework, the study seeks to identify the conditions under which geopolitical conflicts generate significant oil-market disruptions and the factors that may moderate or amplify their effects, accordingly the study is guided by the following central research question:

How do geopolitical shocks associated with major conflicts affect oil-price volatility and energy supply conditions, through which economic mechanisms are these effects transmitted, and what are their broader macroeconomic implications?

To address this central question, the study investigates the following sub-questions:

1. What are the main economic mechanisms through which major geopolitical conflicts affect crude oil prices and energy supply conditions?
2. How have oil-market responses, particularly in terms of supply, demand, spare production capacity, inventories, and pricing mechanisms, differed across major conflict episodes between 1914 and 2022?
3. What are the main macroeconomic consequences of conflict-related oil-price shocks for inflation, aggregate demand, international trade, and economic stability?
4. How do oil revenues, producer behaviour, and changes in international energy trade influence the economic consequences of geopolitical shocks for major oil-producing countries?

Research Hypotheses

The research is based on the following hypotheses:

H₁: Major wars and geopolitical conflicts can disrupt oil production, transportation, and international supplies, thereby contributing to significant fluctuations in crude oil prices.

H₂: The magnitude and direction of oil-price responses to geopolitical conflicts vary according to the nature and scale of the conflict, the position of the countries involved in the international energy market, and prevailing global supply and demand conditions.

H₃: Sustained increases in oil prices associated with major geopolitical disruptions can generate inflationary pressures and economic costs for oil-importing countries, with potential implications for global economic activity.

H₄: Changes in oil revenues can affect the economic and financial capacity of major oil-producing countries and may influence their behaviour in international energy markets, consistent with the broader petropolitics literature.

Research Objectives

The research aims to examine the historical relationship between major geopolitical conflicts, oil-price volatility, and energy supply disruptions by analysing selected episodes from the First World War to the Russia–Ukraine War. It seeks to identify the main economic mechanisms through which geopolitical shocks affect oil production, supplies, prices, and international trade.

The study also examines the factors that explain differences in oil-price responses across major conflict episodes, particularly supply and demand conditions, spare production capacity, inventories, market concentration, and producer behaviour. In addition, it considers the broader macroeconomic implications of oil-price shocks for inflation, aggregate demand, international trade, and economic activity.

Research Importance

The importance of the research lies in examining oil-price volatility and energy supply disruptions from an economic perspective while considering the geopolitical factors that generate or amplify such shocks. The historical approach helps explain why similar conflicts may produce different effects depending on the structure of the international oil market and prevailing economic conditions.

The study also highlights the broader economic consequences of oil-price shocks for both exporting and importing countries, particularly in terms of inflation, production costs, external balances, government revenues, and economic activity.

Research Methodology

The research adopts a historical approach to examine major wars and geopolitical conflicts associated with significant changes in international oil markets between 1914 and 2022. It also employs a descriptive-analytical approach to examine the relationships between geopolitical shocks, oil production, energy supplies, prices, and macroeconomic conditions.

The study draws on economic literature, historical studies, previous empirical research, and specialised energy-market reports and data. It also makes selective use of political-economy and geo-economic perspectives, including the petropolitics literature, to interpret the behaviour of major oil-producing countries.

Given the historical and descriptive-analytical nature of the study, the hypotheses are assessed through the comparison and interpretation of evidence from major conflict episodes rather than through econometric testing.

Research Structure

To achieve the objectives of the research, it was divided into three sections. The first section addresses oil as a strategic commodity and its relationship with wars and international conflicts, while explaining the development of its position in the international economy and politics. The

second section is devoted to studying the historical impact of wars and conflicts on oil prices and energy supplies, by examining a number of prominent historical cases since the First World War. The third section addresses the economic and political effects of fluctuations in oil prices during wars and conflicts, with a focus on the relationship between supply disruptions and price movements and their repercussions on the global economy.

I. Oil Wealth and the Conflict of States:

The connection of oil-producing countries to the complex geopolitical environment is inseparable from their vital role as a major provider of global energy security; in this regard a study by (Colgan, 2010, p. 661) indicates that the higher rates of engagement in international interactions within the geopolitical arena among producing countries (with an average of 0.69 compared with 0.44 for non-oil countries) essentially reflect the nature of the strategic security challenges faced by these countries by virtue of the concentration of vital resources within their territories, which necessitates interpreting these indicators in light of the requirements of national defense and the protection of vital interests and the stability of global markets against external shocks.

In the same context the increase in prices and the economic value of oil resources enhances the active and diplomatic role of producing countries in managing international balances; as the financial abundance resulting from higher prices provides broader institutional capacities and resources to support efforts for regional peace and stability and protect the infrastructure of the national economy, which confirms that oil wealth represents a fundamental pillar for strengthening economic and diplomatic resilience in facing international crises. (Hendrix, 2017, pp. 575–576)

1.1. Oil Wealth in the Middle East and North Africa Region:

The Middle East and North Africa (MENA) region is considered one of the most prominent oil-producing regions in the world, due to its large oil resources and important position within the international energy system, and according to the definition used in the literature under study, the region includes a number of Arab countries in West Asia and North Africa in addition to Iran, and these characteristics have contributed to giving the region continuous economic and strategic importance, given its role in providing an important part of global oil supplies, and the economic, commercial and security interests associated with this.

According to the data reported by Khatib (2014), global proven oil reserves amounted to approximately 1,653 billion barrels in 2012. Venezuela ranked first among countries in terms of the volume of proven reserves, which is largely related to the inclusion of very heavy oil reserves in the Orinoco region. Some estimates also included Canadian oil sands reserves, which were estimated at approximately 175.2 billion barrels, while oil reserves in the Middle East amounted to approximately 795 billion barrels, whereas North Africa's reserves were estimated at approximately 65 billion barrels, bringing their combined total to approximately 860 billion barrels, equivalent to nearly 52% of total global proven oil reserves. This percentage rises to approximately 56% when very heavy oil in Venezuela's Orinoco region is excluded. However, Khatib points out that these figures should be treated with some caution, given the differences in reserve estimation methodologies and the way some types of oil resources are classified (Khatib, 2014, p. 72).

The importance of this comparison becomes clearer when distinguishing between conventional oil, which characterizes large parts of the Middle East and North Africa region, and some unconventional oil resources, particularly very heavy oil in Venezuela and oil sands in Canada, as these resources differ in their geological and technical characteristics from conventional oil, and their exploitation also requires, in many cases, more complex technologies and higher production costs, in addition to additional requirements related to energy, processing and transportation. Therefore, the comparison of reserve volumes does not necessarily reflect the economic value or ease of exploitation to the same extent, unless the nature of the resource, its production costs and its technical characteristics are taken into consideration (Khatib, 2014, p. 73).

From this perspective, Saudi Arabia has an important position in the global oil market, not only in view of the size of its reserves, but also because of the nature of a large part of its conventional oil resources and their relative suitability for production operations, in addition to their low extraction costs compared with a number of unconventional oil resources. Many types of conventional oil in the Middle East are also characterized by favorable production and economic characteristics, which enhances their importance in meeting global energy demand (Khatib, 2014, p. 73).

Therefore, the abundance of oil resources should not be interpreted as a direct cause of instability or conflicts in the region, but rather can be viewed as one of the factors that contributed to enhancing the economic and strategic importance of the Middle East and North Africa and increased its connection with the global energy market. From this perspective, the region's important position in the system of oil production and supplies helps to understand part of the economic and strategic environment in which various regional and international developments interacted, and whose effects, to varying degrees, were reflected on oil production, supplies and prices.

1.2. International Conflicts:

There has long been an interaction between oil resources and developments related to international conflicts, but this relationship does not follow a single pattern and is influenced by a range of economic, political and institutional factors, including the level of oil prices, the volume of revenues available to exporting countries and their position in the international energy market, as high oil prices may be associated with an increased ability of some exporting countries to expand their economic and strategic room for maneuver, which may in some cases be reflected in their foreign behavior, and this relationship is explained by the increase in oil revenues and the fiscal space they provide, which can support public, investment and defense spending, in addition to enhancing the ability to deal with regional and international changes, and the economic importance of oil in global trade and energy makes the stability of its production, transportation and exports a matter of broad concern for various countries, which gives developments affecting oil markets repercussions that extend beyond the borders of producing countries. Therefore, oil should not be viewed as a direct cause of conflicts, but rather as one of the economic factors that can influence balances of capabilities and incentives, depending on the circumstances surrounding each case (Hendrix, 2017).

At the domestic level the impact of oil on economic and social stability is largely related to how revenues are distributed and to the geographical and institutional characteristics of oil resources, Lujala (2010) demonstrated that the location of resources and the nature of access to them represent two important factors in explaining the relationship between natural resources and armed conflicts; resources located within areas affected by conflict may be more closely associated with its continuation when they become the subject of economic competition among different parties, and easy access to some resources and the infrastructure associated with them may also increase the possibility of exploiting them or disrupting their production and transportation. From an economic perspective, the importance of managing and distributing oil revenues in a balanced manner also emerges, because high dependence on a single resource may increase the economy's sensitivity to external price fluctuations and affect the state's ability to maintain levels of spending and development when prices decline. Therefore, oil in itself does not represent a determining factor of internal instability but rather its effects are determined to a greater extent according to resource management efficiency, economic diversification, institutional quality, and revenue distribution mechanisms (Lujala, 2010).

II. The Impact of Wars and International Competition on Oil Prices

The effects of international conflicts on oil markets are not limited to direct military wars, but also extend to other forms of competition among producing countries, particularly when they concern maintaining market shares or influencing production and price levels. While military wars usually lead to supply disruptions and increased uncertainty in markets, production and price competition among producers may lead to increased supply and lower prices, even if it is not accompanied by any physical disruption in supplies. Hence, analyzing the relationship between conflicts and oil prices requires distinguishing between the effects resulting from supply disruptions due to military conflicts, and the effects resulting from competition among producers over shares and markets.

2.1. Price Competition over Market Shares and Its Impact on Oil Prices

The oil market has witnessed several stages of price and production competition among producers since the 1980s, an important part of which was associated with attempts to maintain market shares amid changes in global demand and the emergence of new sources of production. The year 1986 is considered one of the most prominent examples of this, when Saudi Arabia shifted from a policy of reducing production to maintain a certain price level to a policy more closely associated with regaining its market share, amid increasing production by countries outside OPEC and declining demand for OPEC oil. This shift led to an increase in oil supply and a sharp decline in prices; the price of oil fell to less than 10 dollars per barrel during 1986, compared with approximately 28 dollars per barrel in December 1985 (Okogu, 2003).

This development was associated with structural changes witnessed by the global oil market during the first half of the 1980s, as the increase in prices during the previous years encouraged production outside OPEC, at a time when the growth of global demand slowed. As a result Saudi Arabia increasingly bore the burden of reducing production in order to support prices, which was reflected in its market share, with the shift toward defending market share, supply and demand forces became more influential in determining prices, and the period ended with a significant decline in prices during 1986 (Painter, 2014).

Accordingly, what became known as the 1986 oil price crisis should not be interpreted as merely a single decision to increase production, but rather as the result of the interaction of a group of factors, represented by declining demand, increased production outside OPEC, a change in Saudi Arabia's strategy, and OPEC's limited ability to maintain previous price levels, this development demonstrated that competition over market share can be a direct factor in causing sharp declines in oil prices.

2.2. Oil Competition during the 1998 Crisis

Manifestations of price competition in the oil market were repeated during the late 1990s, although the circumstances surrounding them differed from the 1986 crisis. Oil prices began to decline at the end of 1997, then deepened during 1998 amid increasing global supply, weak demand, and the repercussions of the Asian financial crisis, in addition to incomplete compliance with the production quotas agreed upon within OPEC, Mabro (1998) pointed out that oil prices began to decline from the end of November 1997, and then continued to fall sharply during 1998.

In this regard, negotiations between Saudi Arabia, Venezuela and Mexico emerged in an attempt to contain the decline in prices through coordinating production cuts. Historical sources indicate that the meeting among the three countries was held in Riyadh in March 1998, and negotiations continued during the year with the aim of limiting the supply surplus and supporting prices. Brent crude prices declined from an average of approximately 19.30 dollars per barrel during the period from January to November 1997 to much lower levels during 1998, with the price reaching 11.05 dollars on March 17, and then 9.91 dollars in December of the same year (Lajous, 2015).

These developments indicate that the decline in oil prices in 1998 was not the result of competition between only two countries, but rather resulted from the interaction of excess supply with weak global demand and economic disturbances in Asia, in addition to difficulties in coordination among producers. Therefore, competition among producers was one of the elements of the crisis, but it was not the only factor explaining it. Later studies concluded that the 1998 crisis was one of the most prominent stages of fluctuations resulting from oil competition among producers, along with the 2014–2016 round and Saudi-Russian competition in 2020 (Khan et al., 2023).

2.3. Oil Competition Associated with the Expansion of U.S. Shale Oil Production

The significant expansion of shale oil production in the United States represented a structural transformation in the global oil market, because it led to an increase in U.S. production and a relative reduction in dependence on imports, and also intensified competition among producers over market shares. This transformation is clearly evident in the development of U.S. crude oil production, which has followed a strong upward trend since around 2010, after many years of decline.

Figure (02): Development of Crude Oil Production in the United States during the Period 1989–2023

Source: U.S. Energy Information Administration (EIA). (2023). U.S. Field Production of Crude Oil (Monthly Data 1982–2023). Petroleum & Other Liquids Statistics.

The figure (02) shows that U.S. production, which had experienced a downward trend during a large part of the previous period, entered a clear expansion phase from the beginning of the second decade of the twenty-first century, coinciding with the rapid development of horizontal drilling and hydraulic fracturing technologies. This contributed to reshaping the balances of global oil markets, by adding increasing quantities of U.S. production to the market, thereby increasing competitive pressures on traditional producers.

This transformation was clearly reflected during the period 2014–2016, when the expansion of U.S. production coincided with the decision of Saudi Arabia and other OPEC members not to continue bearing the largest burden of production cuts, and instead to defend their market shares. The interaction between increased supply and slowing global demand growth led to a significant decline in oil prices, as prices moved from high levels exceeding 100 dollars per barrel in mid-2014 to levels approaching 30 dollars at the beginning of 2016. This period represented one of the most prominent rounds of oil competition between traditional producers and new U.S. producers, although the reasons for the decline in prices were more complex than the shale oil factor alone (Khan et al., 2023).

Thus, shale oil was not merely an additional source of supplies, but rather became an influential element in oil market dynamics, because it changed the ability of traditional producers to control supply levels and prices. This transformation led to a reconsideration of production policies within OPEC, followed by the emergence of a broader framework for coordination between OPEC and a number of producers outside it.

2.4. Price and Production Competition between Saudi Arabia and Russia in 2020

The year 2020 marked an exceptional turning point in the relationship between Saudi Arabia and Russia within the global oil market. The cooperation established between the two parties under the "OPEC+" framework since 2016 transitioned into intense price and production competition in March 2020. This occurred at a time when the oil market was simultaneously facing a severe shock in global demand due to the outbreak of the COVID-19 pandemic, which amplified the impact of the dispute between producers on prices and supplies (Ruchuan Ma, Tao, & Yukun, 2021; U.S. Energy Information Administration [EIA], 2020a).

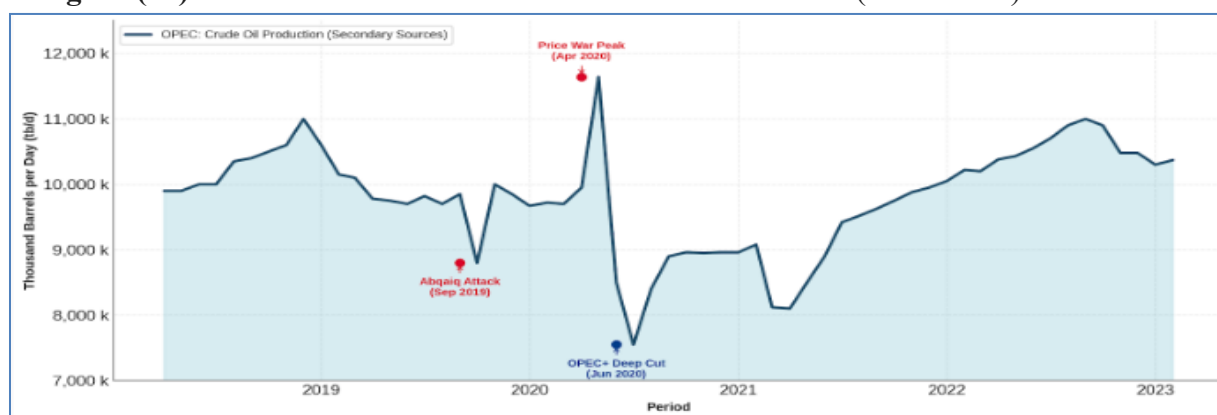
The confrontation began on March 5, 2020, when OPEC proposed an additional production cut of 1.5 million barrels per day during the second quarter of the year to address the accelerating decline in oil demand. The success of this proposal required the participation of Russia and other non-OPEC producers within the "OPEC+" framework. However, the ministerial meeting on March 6 failed to reach an agreement on the additional cuts, bringing previous production-reduction arrangements to an end and ushering in a new phase of competition among producers (OPEC, 2020a).

Following this, Saudi Arabia took decisive pricing and production measures. On March 8, it announced cuts to its official selling prices for customers in several markets, and subsequently announced an increase in its target production level starting in April to 12.3 million barrels per day. In response, Russia declared its readiness to boost production by approximately 300,000 barrels per day, reflecting a shift in bilateral relations from coordination on output curbs to competition over market share and production levels (Ruchuan Ma, Tao, & Yukun, 2021, p. 3).

This competition coincided with a rapid collapse in global oil demand driven by lockdown measures and the widespread halt of transportation and economic activity. Consequently, the surge in supply resulting from the Saudi-Russian rivalry did not occur in a stable market, but rather in one already grappling with an extraordinary demand shock. The U.S. Energy Information Administration (EIA) points out that oil prices plunged sharply at the beginning of 2020 due to the pandemic-related economic contraction, with volatility escalating further following the sudden supply surge after the suspension of production cuts (EIA, 2020a). On March 9, futures prices for Brent and West Texas Intermediate (WTI) plummeted by roughly 24% and 25%, respectively, according to EIA data (EIA, 2020b).

The impact of this competition is clearly reflected in the trajectory of Saudi production. According to EIA data, Saudi crude oil production reached approximately 11.6 million barrels per day in April 2020—a record high for that period—before dropping sharply to around 7.7 million barrels per day in June as OPEC+ cuts and an additional voluntary Saudi reduction were implemented (EIA, 2021). Figure (03) provides a clear illustration of this shift in the Kingdom's production policy during the study period.

Figure (03): Evolution of Saudi Arabia's Crude Oil Production (2018–2023)



Source: Prepared by the authors based on data from the OPEC Monthly Oil Market Report.

Figure (03) reveals a distinct transformation in Saudi production behavior during the 2020 crisis. The sharp spike in production in April—following the collapse of production-cut

arrangements—exemplifies the phase of production rivalry between Saudi Arabia and Russia. This was followed by a steep drop in output during May and June, aligning with the return to coordinated policies within "OPEC+". EIA data confirm that Saudi crude oil production fell to about 7.7 million barrels per day in June 2020, down from its peak in April (EIA, 2021). Accordingly, the movement depicted in the figure represents not merely ordinary production volatility, but a strategic shift in supply management in response to changing market conditions.

From an economic perspective, this development can be interpreted through the transition of producers between two distinct strategies. The first phase relied on increasing production and competing for market shares amid the breakdown of coordination mechanisms, whereas the second phase focused on collective production cuts aimed at curbing excess supply and restoring market balance. This transition is particularly significant because the production surge in March and April did not occur in the face of rising demand; rather, it coincided with a severe collapse in global consumption, leading to a bloated oil surplus, soaring inventories, and intense downward pressure on prices (EIA, 2020a; EIA, 2020c).

Market pressures reached an extraordinary level in April, when the price of the WTI front-month futures contract dropped into negative territory on April 20. This phenomenon was driven by collapsing demand, surging inventories, and severe storage constraints, compounded by the specific maturity mechanics of the futures contract; thus, it should not be construed as a generalized shift of all oil prices into negative values (EIA, 2021). This event underscores how the combination of oversupply, plummeting demand, and storage limitations magnified the impact of production competition on the market.

Facing these developments, Saudi Arabia and Russia transitioned once again from competition to coordination. During the extraordinary meetings held by OPEC and participating producers in April 2020, an agreement was reached to slash total production by approximately 9.7 million barrels per day during May and June, followed by tapered cuts in subsequent stages. This agreement marked a clear pivot from a supply-expansion policy to a collective strategy aimed at rebalancing the market (OPEC, 2020b). Saudi Arabia and Russia played pivotal roles in this accord, thereby reviving bilateral cooperation within "OPEC+".

Thus, the 2020 crisis demonstrates that while the Saudi-Russian rivalry significantly shaped developments in the oil market, it cannot be isolated from the global economic context in which it unfolded. The demand collapse triggered by the COVID-19 pandemic generated a massive market surplus, and the subsequent production rivalry among top producers exacerbated the pressure on prices and inventories. Ultimately, shifting from competition to coordination and production cuts mitigated the oversupply and laid the groundwork for restoring a degree of market equilibrium (EIA, 2020a; OPEC, 2020b).

Consequently, the experience of 2020 serves as a clear illustration that producers' decisions regarding output and pricing can powerfully influence the oil market, yet the magnitude and direction of this impact depend heavily on prevailing economic conditions—particularly global demand, inventory levels, and storage capacity. Furthermore, this case demonstrates that the relationship between producer competition and oil prices is not mechanical; production rivalry deepened the price slump in March 2020 because it coincided with a demand collapse, whereas subsequent cooperation and output cuts curbed excess supply. From this standpoint, the 2020

Saudi-Russian crisis constitutes a vital case study for understanding how producer strategies interact with supply and demand forces in determining the trajectory of oil prices.

III. The Impact of Military Wars on Oil Prices

The early beginnings of the study of the economic effects of wars can be traced back to early attempts aimed at analyzing the economic repercussions of armed conflicts, among the most notable of which is the article by F. W. Pethick Lawrence entitled *War Economics*, published in 1915, which addressed the general economic repercussions of armed conflicts and their effects on economic activity, trade, costs, and prices (Pethick Lawrence, 1915). With the development of the global economy and the increasing strategic importance of oil, scholarly interest expanded to examine the repercussions of armed conflicts and geopolitical disturbances on energy markets, given that wars, particularly in oil-producing or oil-exporting regions, may affect the continuity of supplies and increase market uncertainty, thereby influencing oil price levels and volatility. Recent studies have directly examined this relationship, including the study by Ruiz Estrada et al. (2020), which investigated, through the simulation of different scenarios, the potential impact of a possible war between the United States and Iran on the behavior of global oil prices.

Accordingly, the relationship between wars and oil prices can be traced through the major conflicts and geopolitical crises that have affected the global economy, some of which have been associated with notable changes in price levels and volatility. Below, we can mention the most important wars that affected fluctuations in oil prices:

3.1. Events before 1945

Before 1945, the oil market was still in its formative stage, and therefore the effects of wars on prices were not comparable to those observed during subsequent oil crises. Nevertheless, some conflicts reveal the early relationship between political and military disturbances and oil production, trade, and prices. The historical study by Noguera-Santaella (2016), which covers oil prices since 1859, shows that a number of geopolitical events were associated with notable changes in prices and their volatility.

The American Civil War (1861–1865)

The American Civil War broke out shortly after the beginning of commercial oil production in Pennsylvania, and therefore coincided with the early stage of the emergence of the American oil market. The war caused disruptions in transportation and trade, at a time when demand for petroleum products, particularly kerosene, was increasing. At the same time, U.S. production continued to expand during this period, making the impact of the war on the market a result of the interaction between trade disruptions and the growth of production and demand, rather than simply a decline in supply (Noguera-Santaella, 2016, pp. 301–302).

The importance of this case lies in the fact that it illustrates that war does not necessarily lead to a decline in production and a direct increase in prices; rather, its impact depends on market conditions and the ability of producers to respond to disruptions.

The Russo-Japanese War and the Baku Disturbances (1904–1905)

This case is clearer in terms of the supply channel, as Baku was one of the world's major oil-producing centers at the beginning of the twentieth century. The disturbances accompanying the Russo-Japanese War, particularly the events of 1905, disrupted production, refining, and

transportation in the region, which affected Russian oil exports and the markets dependent on them (Noguera-Santaella, 2016).

This illustrates one of the most important economic effects of war in the oil market, namely the transmission of the conflict from the political sphere to the market through a reduction in the supplies available for trade. When the affected production represents a significant share of the market and sufficient capacity to compensate for it is unavailable, supply disruption can lead to increases in prices and their volatility.

The First and Second World Wars (1914–1945)

The First World War enhanced the economic and strategic importance of oil as a result of the expanding use of vehicles, aircraft, and ships dependent on liquid fuel. Securing oil sources and transportation routes became an important element in maintaining military and economic activity, while the war also led to a redistribution of production and trade among producing and consuming countries (Atabaki, 2015; Noguera-Santaella, 2016).

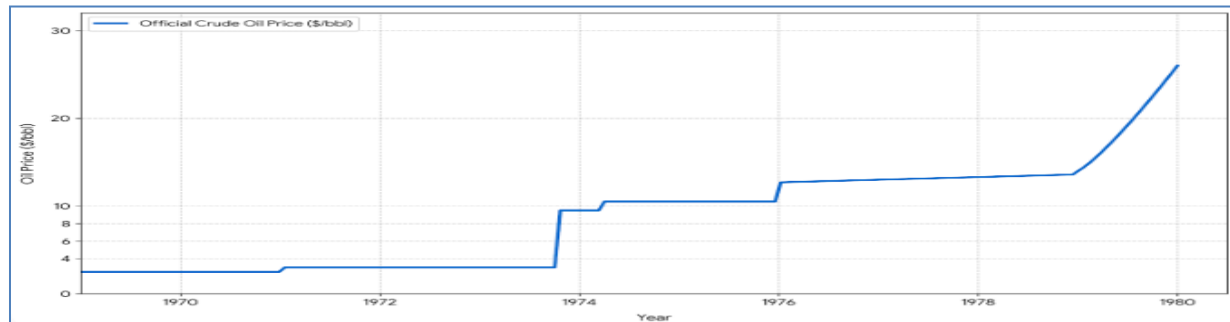
This trend became even more pronounced during the Second World War, when oil became one of the essential resources of warfare. Japan faced increasing difficulties in obtaining oil as a result of restrictions imposed on its imports, while Germany sought to secure alternative oil sources, and targeting oil facilities and transportation routes became part of military operations. Consequently, oil was no longer merely a traded commodity, but became an element directly linked to the security of supplies and the economic and military capabilities of states (Yergin, 1991).

However, measuring the impact of the Second World War through official prices alone requires caution, because oil markets during the war were subject to extensive government control, price regulation, and consumption rationing. Therefore, the clearest impact was reflected in disruptions to supplies and trade and in increased military demand, rather than in a free and sustained increase in prices (Evans, 1982; Mills & Rockoff, 2008).

3.2. The Arab Oil Embargo

The global economy witnessed an important transformation in the oil market in the early 1970s, reaching its peak with the 1973 oil shock. Following the October 1973 War, the Arab countries that were members of the Organization of Arab Petroleum Exporting Countries (OAPEC) announced reductions in oil production and imposed an embargo on their exports to the United States and some Western countries, in protest against their position supporting Israel. This resulted in a significant disruption in global oil supplies at a time when industrialized countries were becoming increasingly dependent on imported oil.

As a result of the embargo, alongside the reduction in supplies and the repricing of oil by producing countries, nominal prices rose sharply; the average price of a barrel of oil increased from \$4.75 in 1973 to \$9.35 in 1974, representing an increase of approximately 96.8%, nearly doubling the price within a single year (Estrada et al., 2020, p. 3). Figure (04) shows that prices continued their upward trend during the subsequent years, reaching \$12.21 in 1975, \$13.10 in 1976, \$14.40 in 1977, and \$14.95 in 1978, before recording a new jump to \$25.10 in 1979 and \$37.42 in 1980. These developments reveal that the oil shock was not limited to the increase recorded during 1973–1974, but also contributed to the transition of oil prices to higher levels than before, while the market was exposed to a new price shock at the end of the 1970s.

Figure (04): Crude Oil Prices During the Arab Oil Embargo Period

Source: Prepared by the authors based on data from Macrotrends (2026).

The substantial increase in oil prices led to the transmission of the shock from the energy market to the macroeconomy of importing countries through higher energy, production, and transportation costs, resulting in inflationary pressures and a slowdown in economic activity. The simultaneous occurrence of rising inflation, weak growth, and increased unemployment contributed to the emergence of the phenomenon of stagflation, which characterized a significant part of the economies of industrialized countries during the 1970s. The increase in the value of oil imports also increased the external burdens of importing countries and exacerbated imbalances in their balances of payments.

The repercussions of the oil shock extended to developing non-oil-producing countries, which simultaneously faced higher costs of energy and manufactured-goods imports and declining external demand for their exports as a result of the slowdown in the global economy. With the increase in oil revenues of exporting countries, large financial surpluses accumulated, part of which was reinvested in the international banking system, in what became known as the recycling of “petrodollars.” This provided developing countries with extensive external financing, as they resorted to borrowing to cover the increased costs of imports and external deficits. With international interest rates rising sharply beginning in the late 1970s, debt-servicing burdens increased, while the accumulation of indebtedness and imbalances in external conditions contributed to creating the circumstances that intensified the developing-country debt crisis during the 1980s (Painter, 2014, p. 194).

3.3. The Iran-Iraq War (September 1980–August 1988)

The disturbances and revolution that Iran witnessed in 1979, which resulted in the Shah leaving in January 1979 and the rise of a new government, led to severe disruption in Iranian oil exports; which contributed to the outbreak of the second oil shock. As a result, real crude oil prices (adjusted for inflation) jumped from approximately 56 dollars per barrel to more than 125 dollars per barrel (Kolakowski, 2021).

The Iran-Iraq War (September 1980–August 1988) then broke out, and during this war, oil facilities, refineries and oil tankers were subjected to mutual destruction and targeting, which resulted in a decline in the two countries’ export capacity; as exports fell at their lowest levels by 4.5 million barrels per day (Noguera-Santaella, 2016, p. 302).

This supply shock deepened the state of stagflation in the global economy, and the Iranian Revolution and the subsequent outbreak of the war caused a sharp jump in current oil prices from 14.95 dollars per barrel in 1978 to 37.42 dollars per barrel in 1980, before prices began to

undergo a sharp and continuous decline in the following years, reaching the price collapse in 1986. (Estrada, Donghyun, Alam, & Muhammad, 2020, p. 3)

3.4. The Second Gulf War (August 2, 1990–February 28, 1991)

Figure (05): Development of Global Oil Prices during the Second Gulf War



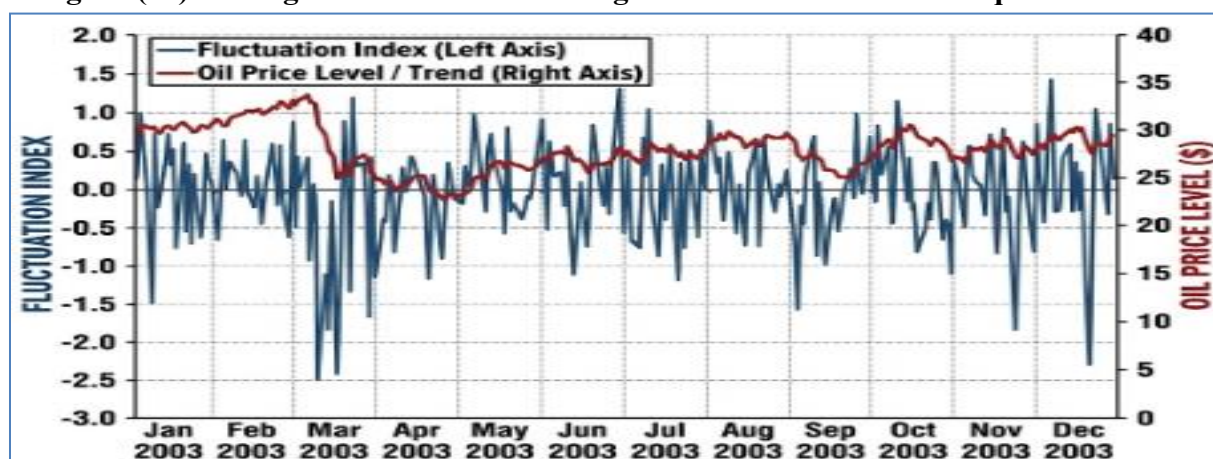
Source: Prepared by the authors based on World Bank statistics.

Global oil prices steadily increased from 14.87 dollars per barrel in 1988 to 23.19 dollars per barrel in 1990, as Iraq was indebted to many countries, including Kuwait, while Iraq also claimed that Kuwait and Saudi Arabia were producing oil in excess quantities, which made it difficult to maintain oil prices at high levels, and when Iraq attacked Kuwait in 1990, this led to significant disruption in the oil market and an increase in prices. The price of oil rose from approximately 34 dollars to around 77 dollars per barrel, and after the U.S.-led military coalition succeeded in driving Iraqi forces out of Kuwait at the beginning of 1991, the price of oil fell to approximately 37.3 dollars per barrel. (Sun, 2022, pp. 167–168)

After the Gulf War, between 1990 and 1994, global oil prices steadily declined by approximately one-third, with global oil prices subsequently regaining their balance from a price of 15.66 dollars per barrel in 1994 to 20.46 dollars per barrel in 1996.

3.5. The American War on Iraq (March 2003–May 2003)

Figure (06): Change in the Oil Price during the American War on Iraq



Source: Prepared by authors based on World Bank statistics.

The graphical representation shows the trajectory of oil prices and the daily volatility index during 2003; where oil prices (represented by the red curve on the right axis) recorded levels ranging at around 25 dollars per barrel at the beginning of the year, to gradually rise, reaching

their highest peak near 35 dollars in March 2003 with the beginning of the military operations of the Iraq War.

Following the attainment of this peak, prices experienced a sharp and rapid decline in late March and April 2003 to stabilize in the medium range between 22 and 28 dollars per barrel, while the volatility index (represented by the blue line on the left axis) shows sharp and wide-ranging daily fluctuations coinciding with the geopolitical shock in March (recording strong declines approaching -2.5 points), after which the index took a more stable and horizontally fluctuating path throughout the second half of the year (from June to December 2003), noting that the overall effect of the Iraq War on oil prices remained less severe compared with the major historical shock of the First Gulf War (Sun, 2022, p. 168).

At the economic and financial level, Iraq bore the greatest losses as a result of the destruction of military equipment and infrastructure, which required billions of dollars and a long period of time for reconstruction, while Kuwait and Saudi Arabia also suffered infrastructure losses, with the cost of cleaning oil spills and the environmental effects of oil amounting to approximately 700 million dollars, which are considered among the most prominent economic repercussions of those wars. Nevertheless, Kuwait was able, thanks to the recovery of the oil industry and the rise in its prices in the post-war period, to compensate for a large part of its economic losses (Sun, 2022, p. 168).

3.6. The Russian-Ukrainian War

Russia is a primary supplier of fossil fuels to Europe; in 2020, Russian energy imports accounted for approximately 24.4% of the European Union's total energy demand. Despite this integration, relations between Russia and several European nations have been marked by recurring tensions, with the relationship with Ukraine standing out as a focal point. This deep economic interdependence rendered Europe highly vulnerable to potential disruptions in Russian energy flows, particularly given Russia's substantial weight in global oil, gas, and coal markets prior to the outbreak of the war (Shuxian Zheng, 2022, p. 518).

The systemic significance of Russia and Ukraine extends beyond energy markets, encompassing a wide array of vital commodities critical to the global economy. Before the conflict, Russia was the world's largest wheat exporter, commanding an 18% share of global exports, while Ukraine supplied an additional 7%. Furthermore, Russia represented the leading global exporter of natural gas with a share near 25%, alongside serving as a principal producer of palladium, nickel, fertilizers, coal, platinum, crude oil, and refined aluminum. Specifically, Russia's share of global exports stood at 18% for coal, 14% for platinum, 11% for crude oil, and 10% for refined aluminum. Conversely, Ukraine acted as a major supplier of oilseeds and corn, while providing a significant share of the neon gas utilized in semiconductor manufacturing. Consequently, the war did not merely trigger a shock within the energy sector; its repercussions rippled across multiple commodity markets and international supply chains (Guénette, Kenworthy, & Wheeler, 2022, p. 8).

The oil market proved to be among the most reactive sectors during the initial weeks of the conflict. Crude oil prices surged to roughly \$130 per barrel by early March 2022, reaching a decadal high driven by escalating apprehensions regarding potential disruptions to Russian supplies stemming from the war, sanctions, and ensuing commercial and logistical bottlenecks.

Concurrently, prices escalated by approximately 60% for coal, over 30% for European natural gas, and nearly 40% for wheat, illustrating the broad scope of the supply shock hitting primary commodity markets (Guénette, Kenworthy, & Wheeler, 2022, p. 11).

From an economic standpoint, the sharp escalation in oil prices at the onset of the conflict must be interpreted as a market response to a combination of realized and anticipated supply risks. The upward price pressure was not solely tied to an immediate contraction in global output; rather, it was amplified by traders' expectations regarding potential interruptions to Russian petroleum exports—expectations that rapidly permeate spot prices, futures contracts, and inventory management decisions. This transmission mechanism holds particular prominence in the oil market due to the limited capacity of alternative producers to offset substantial supply shortfalls over a short horizon, coupled with the critical role of inventories and spare production capacity in buffering shocks.

The degree of exposure among importing nations becomes evident upon examining their volumes of Russian energy imports. Germany imported roughly 30.8 million metric tons of crude oil from Russia against a consumption level near 96.2 million tons, whereas the Netherlands recorded imports of roughly 21.7 million tons against a consumption of 35.2 million tons, and Poland imported approximately 19.2 million tons against a consumption of 29.4 million tons. Data likewise highlights varying degrees of exposure to Russian natural gas across Italy, Germany, Slovakia, Japan, and the Czech Republic, whereas South Korea, Japan, Germany, and Poland emerged as key importers of Russian coal (Shuxian Zheng, 2022, p. 524).

These figures demonstrate that exposure to Russian supplies was heterogeneous across countries. Caution is warranted when interpreting import-to-consumption ratios exceeding 100%; such metrics do not necessarily imply that the economy in question relies on Russia for more than its total domestic consumption, but rather reflect trade architecture, re-export dynamics, discrepancies in definitions of imports versus consumption, and variations in measurement timeframes. Consequently, these indicators are more accurately deployed to gauge trade exposure to Russian supplies rather than serving as independent, direct measures of energy security.

This structural exposure compelled European nations to aggressively pursue alternative energy sources. Within this context, the United States escalated its liquefied natural gas (LNG) exports to the 27 EU member states and the United Kingdom from 3.4 billion cubic feet per day in November 2021 to 6.5 billion cubic feet per day in January 2022, marking a record monthly high at the time. This evolution indicates that the realignment of energy trade predated the full-scale invasion of Ukraine, catalyzed by depleted European storage inventories and elevated gas prices, before gaining heightened momentum post-conflict (Zaretskaya, Peterson, & Wilczewski, 2022).

Concurrently, Russia initiated a redirection of export volumes toward markets outside Europe, with China emerging as a principal destination. The share of Russian crude oil in China's total imports climbed from roughly 8% in 2011 to approximately 16% in 2021, subsequently reaching nearly 21% by August 2022, when Chinese imports of Russian crude touched roughly two million barrels per day. This shift underscores the capacity of international

petroleum trade to redistribute flows dynamically in response to shifting market conditions or trade restrictions (EIA, 2022).

This transition does not imply that Russian crude directly substituted for all supplies previously sourced by China from other nations; import shifts were similarly shaped by pricing dynamics, Chinese demand trajectories, and global market conditions. Nevertheless, the discount on Russian crude relative to competing grades provided Asian buyers with a clear economic incentive to expand purchases. The U.S. Energy Information Administration noted that Western sanctions induced a contraction in Russian crude consumption across several nations—particularly in Europe—which contributed to higher Brent prices, deep price discounts for Russian barrels, and an expansion of Chinese purchasing (EIA, 2022).

From another perspective, Russian energy exports exhibited a high degree of pre-war geographic concentration. Data indicates that Russian crude oil, natural gas, and coal exports directed toward jurisdictions classified as "unfriendly countries" represented approximately 53.9%, 71.6%, and 51.9% of total Russian exports in these respective categories. Furthermore, Russia held the global rank of second largest crude oil exporter, primary natural gas exporter, and third largest coal exporter prior to the conflict, which accounts for the systemic scale of economic fallout triggered by the disruption of its commercial relations (Shuxian Zheng, 2022, p. 522).

Sanctions and trade restrictions structurally altered international energy trade architecture. Rather than resulting in the complete expulsion of Russian supplies from the global market, falling European demand prompted a gradual trade diversion toward alternative markets, predominantly in Asia. Conversely, European economies were compelled to diversify supply origins by expanding imports from alternative producers, including LNG suppliers. Consequently, the shock transcended a mere contraction in globally available oil and gas volumes, manifesting equally as a disruption in trade routing, transport costs, and pricing spreads.

Macroscopically, the ramifications of the war extended beyond energy markets to encompass broader commodity markets, trade flows, financial transactions, and investor sentiment. Disruptions associated with Russia and Ukraine fueled price surges across multiple primary goods, including energy, wheat, fertilizers, and select industrial metals. Furthermore, elevated energy and transportation costs, compounded by fractured supply chains, exacerbated inflationary pressures across numerous economies. This underscores that transmission channels of the conflict operated through multi-faceted macroeconomic conduits rather than solely through the petroleum market (Saâdaoui, Ben Jabeur, & Goodell, 2022, p. 1).

From a broader economic vantage point, surging oil prices drive an income redistribution between energy-importing and energy-exporting nations. Exporters capture valuation gains and improved external revenues, whereas importers face escalating energy import bills, higher production costs, and inflated transportation expenses—pressures that ultimately transmit to domestic inflation, trade balances, and economic activity. The World Bank observed that the conflict exacerbated commodity price volatility, intensified supply bottlenecks, and amplified inflationary headwinds, thereby dampening global growth prospects (Guénette, Kenworthy, & Wheeler, 2022).

Ultimately, the Russia-Ukraine conflict highlights the complex interplay linking geopolitical shocks to petroleum markets. The initial phase of the war inflated risk premia and oil prices, subsequent sanctions and trade restrictions forced a reorganization of Russian trade routes, and price differentials alongside international trade flexibility facilitated the redirection of exports toward Asian markets. Meanwhile, Europe accelerated its diversification strategy, scaling up reliance on LNG and alternative vectors. These developments demonstrate that the magnitude of a conflict's impact on oil markets is governed not merely by the volume of supply exposed to disruption, but equally by demand elasticity, inventory buffers, spare production capacity, geographic trade structures, and the adaptive capacity of market participants.

Accordingly, the Russia-Ukraine conflict did not eradicate Russian oil from the global marketplace; rather, it induced a profound geographic and economic redistribution of petroleum flows, accompanied by elevated risk premia, price dispersion, and rising trade and energy costs. This interaction among supply shocks, market expectations, trade realignment, and price differentials constitutes a core economic mechanism explaining the ramifications of the war on global energy markets.

Conclusion

The tracking of the evolution of the oil market during the period extending from the beginnings of the modern oil industry to the Russian-Ukrainian war showed that the relationship between geopolitical conflicts and the oil market is more complex than merely rising prices at the outbreak of wars, as oil is affected by geopolitical events by virtue of its position in the global energy system, but the degree of impact and its direction differ according to the nature of the conflict, the volume of supplies at risk, demand conditions, inventory levels, spare production capacity, and the ability of producers and markets to adapt. It became clear from the historical cases covered by the study that the first shock is often associated with a high level of uncertainty regarding future supplies, which may be reflected quickly in prices, yet this impact does not necessarily persist with the same intensity, as other factors intervene over time, such as changes in production, the use of inventories, declining demand, changing trade routes, and the response of producers and consumers, therefore the movement of oil prices during geopolitical crises cannot be explained by a single factor only, but rather should be viewed as the result of the interaction of a set of economic and market variables.

First: Results of the Study

The study concluded that military conflicts do not produce a uniform pattern of response in the oil market, so in cases where production, transportation, or international supplies are at risk, concerns regarding supply shortages can lead to a tangible rise in prices, but when the conflict or geopolitical tension coincides with a surplus in production or weakness in demand in this case its price impact may be more limited. The importance of distinguishing between the shock resulting from supply threats and the shocks associated with competition among producers over production levels and market shares comes to the fore here, as happened in the crises of 1986, 1998, and 2020. The studied cases also revealed that the oil market possesses a remarkable ability to adapt to disruptions, as changes in transportation routes, the redistribution of purchases among countries, and the adjustment of production levels and inventories are all mechanisms that can limit the persistence of the initial shock, and here the Russian-Ukrainian

war stands out clearly in this aspect; for the restrictions imposed on certain trade flows led to the reorganization of an important part of global oil trade, with a portion of Russian exports heading towards Asian markets, especially the Chinese one. This does not necessarily mean the disappearance of production from the global market, but rather reflects a change in trade directions and in the market shares of various suppliers. The study showed that oil market disruptions can transmit to all areas of the economy through energy, transportation, and production costs, and their effects may appear in inflation, aggregate demand, foreign trade, external balances, and economic activity. Perhaps the experience of the 1970s stands as a clear example of the possibility of high energy prices interacting with other economic conditions to increase inflationary pressures and affect growth, and at the same time these effects differ among countries; energy-importing economies usually face a rise in the import bill when prices rise, while exporting countries can benefit from the improvement of their external revenues and public finances, with the size of this effect remaining linked to the structure of the economy and the level of dependence on oil revenues. The study showed that the rise in oil revenues for producing countries provides, under appropriate circumstances, greater financial resources that can be directed to public spending, investment, and supporting economic stability, yet the rise in revenues does not automatically lead to the same results in all countries, because benefiting from them also depends on the nature of the financial and economic policies applied previously, and on the economy's ability to manage periods of high prices and periods of low prices, and from here one can benefit from the literature of the political economy of oil, including Friedman's thesis on the relationship between oil prices and political behavior, and Colgan's works, as attempts to explain some aspects of the relationship between oil revenues and the economic capacity of producing countries, rather than as general rules that apply to all cases.

Second: Recommendations of the Study

The research results show the importance of dealing with oil market fluctuations as part of the economic risks that must be prepared for, whether for importing countries or producing countries. For energy-importing countries, diversifying import sources and transportation routes, alongside developing strategic storage capacities, remains among the means that help limit the impact of sudden disruptions. Improving energy efficiency and diversifying its mix can also reduce the degree of the economy's exposure to oil and gas price fluctuations. As for oil-producing countries, the results of the study indicate the importance of managing oil revenues in a way that takes into account the cyclical nature of energy prices, as careful financial planning and building financial buffers during periods of improving prices and investing in other productive sectors can help enhance the economy's ability to face periods of declining oil revenues, and this matter is not only linked to the level of prices but to the economy's ability to transform available resources into investments with a sustainable impact. At the international level, maintaining the stability of global energy trade and reducing the risks of the interruption of transportation and supply routes appear to be important issues for various market parties, and continued cooperation in the field of energy infrastructure security and developing mechanisms to deal with temporary disruptions can limit the transmission of local shocks to global markets. The transition process in the energy sector remains another factor that will affect the future of the oil market, for investing in renewable energies, technology, and energy efficiency does not

necessarily mean the elimination of oil from the energy mix in the short term, but rather can gradually contribute to diversifying energy sources and reducing economies' exposure to price fluctuations. The size of this transition and its speed will remain linked to technological development, energy costs, and the economic needs of different countries. Finally, the experiences covered by the research do not indicate the existence of a fixed relationship between geopolitical conflict and rising oil prices, for conflict may be a source of a shock on the supply side but it interacts at the same time with demand, production, inventories, spare capacity, producer behavior, and international trade movement, and therefore the results of shocks differ from one case to another, and their impact may be short-term in some cases while extending to a longer period when trade patterns change, productive capacity is affected, or the state of uncertainty persists. The importance of this result lies in the fact that understanding the oil market during crises does not require focusing on the conflict itself, but rather on the economic mechanisms through which its effects are transmitted to the market, and consequently the ability of markets and countries to adapt remains a fundamental element in determining the magnitude of the final impact of geopolitical shocks on oil prices, energy supplies, and the global economy in general.

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