A LEGAL INTELLIGENCE LETTER FOR TRANSITIONAL MARKETS

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Hormuz and Beyond: Supply-Chain Reconfiguration Under Dual Chokepoint Pressure

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BACKGROUND

Our Issue 01 began with three possible trajectories for the renewed U.S.–Iran confrontation: sustained and controlled pressure with a relatively stable energy market; managed de-escalation; or an escalation involving expanded sanctions and maritime restrictions. The month that followed did not settle neatly into one of these scenarios. Instead, the conflict moved through elements of all three.

As predicted in the first issue of *Interregnum Counsel*[1], the initial energy-market reaction remained relatively contained despite the scale of the confrontation. As prices failed to generate the level of economic pressure that Tehran might have expected, the conflict increasingly shifted toward the physical infrastructure through which energy and trade move. This resulted in broader disruption of supply chains.

Moreover, the Islamic Revolutionary Guard Corps (IRGC) has taken a more prominent role more radicalizing Iran's approach both in military actions and negotiations (with Oman). This has led to more disruptive actions against the supply chains. Thus the Houthis in Yemen have again become an active factor in regional maritime security, while tensions surrounding Saudi Arabia have created a second pressure point around the Red Sea and the Bab el-Mandeb Strait.

The current shipping data illustrates the extent of the problem. On August 26, only five commodity vessels transited the Strait of Hormuz, compared with a 10-day average of 15. At the same time, Bab el-Mandeb recorded 31 commodity-vessel transits, roughly in line with its recent average. More than one-fifth of Middle Eastern refining capacity has been offline, while global refinery runs have fallen sharply. In August alone, global refinery runs were estimated to be around 4 million barrels per day below the previous year, contributing to shortages of diesel and other refined products even where crude itself remains available. (This is also in part due to Russia's decision to stop exporting diesel after Ukraine targeted their refineries)

The conflict is forcing global supply chains to reorganize around multiple maritime chokepoints simultaneously. Saudi Arabia has redirected part of its crude exports through its East-West pipeline toward Yanbu and then through the Suez Canal, while the growing Houthi threat around the Red Sea has encouraged tankers to avoid Bab el-Mandeb and take longer routes. By August, Saudi crude shipments from the Red Sea were increasingly being conducted without visible AIS

[1] Available here: https://maddahinasab.com/assets/docs/newsletter/Interregnum Counsel - Issue 1.pdf

tracking, while war-risk insurance and routing decisions were becoming part of the operational cost of maintaining supply.

As predicted in our previous issue, Iran appears to be gradually losing the ability to use the Strait of Hormuz as an exclusive strategic chokepoint as the surrounding infrastructure is adapting. The UAE is expanding the Habshan–Fujairah pipeline, Saudi Arabia is increasingly using its westward pipeline capacity, and new proposals are emerging to connect Middle Eastern production to alternative export routes. TotalEnergies has also announced plans to invest in the Baghdad–Syria pipeline and to support the expansion of the UAE's Fujairah pipeline, potentially doubling its current capacity.

> *The United States is attempting to make Iranian trade more difficult; Iran is attempting to make the global cost of isolating Iran higher.*

The supply shock has nevertheless been historically significant. At the height of the disruption, the International Energy Agency estimated that around 11 million barrels per day of oil supply had been removed from the market—greater than the combined supply losses associated with the 1973 and 1979 oil shocks. China has also begun to absorb part of the shock through lower crude demand. Chinese crude processing fell by almost 16% year-on-year in July, while China's combined June–July crude imports remained substantially below pre-war levels. Ironically, this reduction in demand has helped prevent an even greater crude-price spike.

Meanwhile, the sanctions regime is entering a new phase. On August 24, Washington announced what it described as an “operation economic outcast, D-Day” against Iran, warning countries and companies that continue doing business with Tehran that they could face heavy secondary sanctions.

Yet the most important development may be the interaction between these two forms of pressure. The United States is attempting to make Iranian trade more difficult; Iran is attempting to make the global cost of isolating Iran higher.

> *On 30 August, the confrontation returned directly to the maritime infrastructure at the centre of this contest. U.S. forces struck two Iranian launchers on Larak Island, which U.S. officials said were being prepared to deploy rockets and sea mines into the Strait of Hormuz. Iran subsequently launched ballistic missiles at U.S. positions in Jordan, marking the first known direct U.S. strikes on Iran since late July and a renewed cycle of military retaliation. The immediate market reaction was already visible, with Brent crude rising above $90 per barrel.*

LEGAL ANALYSIS

The new sanction regime target a broader ecosystem surrounding Iran's economy, including shipping, aviation, technology, gold and digital assets, with particular pressure on the financial and logistics networks through which Iranian oil revenues continue to move. It designates companies, trustees, vessels and individuals across several jurisdictions. More importantly, the growing reliance on secondary sanctions seeks to make third-country participation in Iran’s economy itself a source of sanctions exposure, particularly for financial institutions, shipping companies and intermediaries.

IRGC’s actions has created a parallel legal risk for commercial shipping. Iran has increasingly sought to regulate, condition and penalize commercial passage. The recent blacklisting of 45 tankers, with threats of fines, detention and cargo confiscation, illustrates the extent to which Iranian authorities are attempting to impose their own regulatory framework on international shipping. Over the past month Iran and Oman have been negotiating a framework for a temporary joint navigation corridor through the Strait of Hormuz, including mine clearance, traffic management, information exchange and navigational services, with the stated objective of eventually establishing a permanent arrangement. Although in our previous issue we predicted a regime of passage similar to Malacca strait will be established, so far the negotiations have not reached a conclusion as Iran continues to deem the main role in determining the conditions under which commercial vessels may transit, and disagreements reportedly remain over matters such as passage fees, security arrangements and the administration of the corridor.

This development raises a number of legal questions under the law of the sea concerning the regulation of commercial navigation through internationally significant straits, including the role of coastal states in establishing security, navigation and access arrangements. The issue is particularly relevant in light of the transit-passage framework reflected in UNCLOS, which addresses the rights and responsibilities of coastal states and vessels navigating through straits used for international navigation. While Iran is not a party to UNCLOS, several of its provisions concerning navigation have also been discussed in the context of customary international maritime law. The ongoing discussions between Iran and Oman therefore provide an important practical context for examining how questions of navigation, maritime security and coastal-state authority may be addressed through bilateral and regional arrangements.

> *Secondary sanctions now reach the intermediaries that make Iranian trade possible.*

COMMERCIAL & INVESTMENT IMPLICATIONS

Supply-chain disruption causes higher commercial costs. Longer routes, vessel shortages, port congestion and rising freight rates are lifting the all-in cost and uncertainty of regional trade. War-risk insurance compounds the effect: premiums have moved from roughly 0.1–0.25 % of hull value pre-crisis into the 3–8 % range (occasionally higher), with stricter deductibles and coverage limits. For many operators, certain routes have become commercially unattractive even when they remain physically open.

The impact extends well beyond shipping. Commodity markets are increasingly differentiating by origin, route and geopolitical exposure, producing distinct risk premia and discounts across crude, refined products, LNG, petrochemicals and fertilizers. At the same time, primary and secondary sanctions—particularly the 24 August expansion covering the shipping sector—are constraining trade finance, correspondent banking and the willingness of intermediaries to clear otherwise viable transactions.

For companies, the economics of resilience are shifting. Alternative suppliers, higher inventories, additional storage and diversified transport routes reduce chokepoint exposure, but they raise working-capital and procurement costs. Pipelines, alternative ports and land corridors are gaining commercial value precisely because the cost of single-route dependence has risen.

For investors, the same dynamics point to a longer-term repricing of infrastructure and geography. Connectivity, redundancy and the ability to bypass vulnerable maritime chokepoints are moving from pure logistics considerations into core investment attributes.

> *The cost of depending on a single chokepoint is now being priced into every barrel, every voyage and every investment decision.*

SCENARIO ANALYSIS

Base Case — Intermittent Escalation, Persistent Cost of Resilience.

The conflict settles into recurring but contained military exchanges alongside increasingly aggressive U.S. economic pressure. Iran continues to threaten maritime access while avoiding a complete and sustained shutdown of Hormuz, and negotiations with Oman produce, at best, limited practical arrangements rather than a durable settlement. Alternative pipelines, rerouting, larger inventories and supplier substitution keep goods moving, but war-risk insurance, freight deviation, inventory financing and secondary-sanctions compliance become standing costs rather than temporary crisis expenses. Supply chains adapt, but they do not normalize.

Upside — Negotiated Maritime Stabilization, Without a Return to the Old Normal.

Renewed mediation produces a workable Hormuz navigation arrangement and reduces direct U.S.–Iran military exchanges. Shipping traffic gradually recovers, pressure around Bab el-Mandeb eases. Yet companies and governments do not simply abandon the alternatives developed during the crisis: bypass pipelines, diversified suppliers and alternative corridors remain as strategic redundancy. Stabilization therefore restores flows, but not the pre-war assumption that the cheapest route should also be the dominant one.

Downside — Infrastructure War and Accelerated Supply-Chain Fragmentation.

The latest exchange develops into sustained attacks on the infrastructure that moves energy and trade: tankers, terminals, refineries, pipelines, ports and alternative export routes. Washington intensifies weekly secondary sanctions while Iran and aligned actors widen pressure across Hormuz and Bab el-Mandeb. The result; higher freight and insurance costs, repeated loss of capacity, tighter refined-product markets, deeper commodity dislocations and accelerated withdrawal by banks, insurers and logistics providers. Under this scenario, emergency rerouting hardens into structural fragmentation, and regional connectivity itself becomes a strategic risk asset.

DECISION MATRIX

Stakeholder	Immediate Priority
Shipping & Logistics Companies	Reassess routing, vessel exposure, war-risk coverage, and contractual allocation of deviation and delay costs before committing to affected corridors.
Energy & Commodity Traders	Diversify sourcing and delivery routes; reassess commodity discounts, sanctions exposure, and counterparty risk across alternative supply channels.
Contractors	Review force majeure, sanctions, delay, insurance and change-in-law provisions where projects depend on vulnerable transport routes or regional suppliers.
Political-Risk Insurers	Reprice exposure across the combined maritime, sanctions and supply-chain risk environment; distinguish temporary disruption from structurally impaired routes.
Banks & Trade Finance Providers	Strengthen screening of counterparties, cargo origin, beneficial ownership, payment routes and intermediary exposure as secondary-sanctions risk expands.
Infrastructure Investors & Investment Committees	Reassess the strategic value of alternative pipelines, ports, storage and land corridors; prioritize projects that reduce single-route dependency before making irreversible commitments.

MTRIS™ INTELLIGENCE INDEX

MTRIS-2026-02: *Each issue receives a unique MTRIS™ Assessment ID. This identifies the qualitative MTRIS™ assessment published in each Issue. Updated assessments in later issues receive their own identifiers while remaining linked through the Intelligence Index. Every reference code is permanent and may be cited in future issues, Quarterly Review editions, client memoranda, or academic publications.*

Dimension	Rating	Trajectory	Action	Assessment
Institutional	High	↑↑ Rapidly Deteriorating	Hold Capital Commitment	The sanctions environment is shifting from targeted restrictions toward a broader enforcement architecture covering shipping networks, financial intermediaries and third-country facilitators. The U.S. has signalled that continued financial dealings with Iran may expose foreign actors to secondary sanctions, while temporary relief mechanisms have proved reversible. The resulting regulatory environment remains highly contingent on geopolitical developments, making long-term investment assumptions difficult to anchor.
Transactional	High	↑ Deteriorating	Restructure Transaction	Cross-border transactions with Iran now face overlapping sanctions, payment, shipping, insurance and counterparty risks. The expansion of sanctions into shipping and financial intermediaries increases the importance of beneficial-ownership checks, payment-route verification, contractual sanctions protections and termination rights. Maritime uncertainty further complicates performance where contracts depend on predictable freight, insurance or access to regional ports.
Operational	High	↑↑ Rapidly Deteriorating	Increase Operational Controls	Supply-chain disruption is becoming geographically broader rather than remaining confined to Hormuz. Reduced traffic through Hormuz is now occurring alongside renewed disruption around Bab el-Mandeb, forcing longer routes, higher freight costs and tighter insurance conditions. Alternative routes and diversified sourcing can absorb part of the shock, but simultaneous pressure on two maritime chokepoints reduces redundancy and increases the cost of maintaining reliable supply.

Methodological note: *MTRIS™ (Maddahinasab Transitional Risk Intelligence System™) is a proprietary framework evaluating transitional-market exposure across Institutional, Transactional, and Operational dimensions, combining current ratings with directional trend analysis and decision-oriented action codes. The assessment above is a general schematic;* ***our specialized mandates receive deeper, deliverable-supported analysis***.

PREDICTIVE WATCH LIST

Every forecast published in Interregnum Counsel receives a permanent reference code. These codes allow readers to track individual forecasts across future issues and Quarterly Review editions, where each prediction is revisited and its outcome assessed.

Reference Format Example: IC-2026-02-W02

IC = Interregnum Counsel_ 2026= Year of publication_ 02 = Issue number_ W= Watch List forecast_ 02 = Forecast number within that issue

Accordingly, IC-2026-02-W02 refers to the second forecast published in Issue No. 2 (2026) of Interregnum Counsel. Every reference code is permanent and may be cited in future issues, Quarterly Review editions, client memoranda, or academic publications.

Ref. Code	Forward Indicator	Probability	Time Horizon	Current Status	Assessment
IC-2026-02-W01	Permanent Diversification of Maritime Routes	High	6–12 months	Active	The disruption of both the Strait of Hormuz and Bab el-Mandeb is likely to accelerate a structural shift toward alternative routes, pipeline capacity, and Red Sea export infrastructure. Even if maritime traffic normalizes, governments and major energy buyers are unlikely to return fully to pre-crisis dependence on a single chokepoint. Saudi and UAE pipeline expansion already indicates that diversification is moving from contingency planning toward infrastructure policy.
IC-2026-02-W02	Fragmentation of Regional Shipping Corridors	High	3–6 months	Active	A partial reopening of Hormuz is unlikely to restore a single normalised regional shipping system. Divergence between Hormuz, Bab el-Mandeb, Red Sea and alternative land-based routes will increasingly determine freight, insurance and delivery risk. The continued weakness of Hormuz traffic alongside renewed Bab el-Mandeb insecurity suggests that carriers will price routes according to multiple overlapping chokepoint risks rather than one regional risk premium.
IC-2026-02-W03	Commercialisation of Maritime Governance	Low-Medium	3–6 months	Emerging	The Oman–Iran discussions may produce more than a temporary navigation arrangement. If a workable framework emerges around vessel passage, notification, security coordination or related charges, elements of it could become a recurring feature of Persian Gulf navigation. The immediate feasibility of the proposed arrangements remains uncertain, but the fact that maritime governance has entered the diplomatic agenda is itself a structural development.

ABOUT THE AUTHOR

Dr. Mostapha Maddahinasab is the founder of Maddahinasab Legal Advisory, a boutique legal advisory focused on foreign investment, international trade, and legal risk in transitional markets. He is the creator of the MTRIS™ framework referenced throughout this publication. For further information see www.maddahinasab.com

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