Reconnoitre Energies

ENERGY UNWRAPPED

Energy Unravelled

2026 mid-year update

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My end-2025 summary was entitled 'A year of living dangerously'. That title could easily summarise the first 6 months of 2026 too. After only a few days of January, came the USA 'intervention' in Venezuela which holds the world's largest oil reserves, quickly followed in February by an explosive conflict across the Middle East with global energy ramifications, that has dominated news feeds ever since. Meanwhile, the Russia-Ukraine conflict grinds on, impacting oil and gas flows.

The world has had to respond to steep rises in energy prices and a prolonged period of volatility. Oil prices had begun the year around US$ 60–65 per barrel. The closure of the Strait of Hormuz created genuine fears of supply shortages. Fortunately, global oil stocks and product inventories were high, and drawdown of strategic reserves eased many supply shocks. Wild swings in oil price between US$ 75 and 115 per barrel, sometimes US$ 9–12 in a day, were often related to military activity, attacks on ships or social media comments; these swings created economic havoc and stoked inflation, but markets responded well to ensure physical supplies remained available. After an initial LNG price spike to US$ 20/MMBTU in January, on fears of closure of the Strait of Hormuz, spot LNG mostly traded US$ 10–15/MMBTU as northern winter demand faded. Periods of very high refined product prices were short-lived, though some countries saw spikes to record levels. By the end of June, oil prices had settled back to US$ 70–75 per barrel.

Renewable power, electric vehicles, and heat pumps each received a big boost from the Middle East conflict as people sought alternatives to oil and gas. In April, for the first month ever, wind & solar generated more electricity globally than natural gas, although coal remained the largest source of power production. Many European and Asia Pacific countries switched back to coal with demand surging as LNG supply tightened. Solar was the standout performer for new power capacity, together with large battery storage systems (BESS), and the world became smarter at integrating these into electricity grids. Even so, power demand surged for AI/datacentres (large ones often need 100–500 MW), increasing EV use, and continued electrification of industry and domestic heating/cooling. Grid constraints pushed consumers towards more self-generation and hybrid solutions. Notably, small nuclear reactors and geothermal are now attracting significant investor attention.

The Middle East conflict has forced all governments to re-examine the true meaning of energy security, energy independence and energy resilience. (The Russia-Ukraine conflict had already sensitised many countries & consumers). Some countries have quickly adjusted policies seeking to accelerate renewables and nuclear, whilst delaying hikes in fuel duties and increasing subsidies to producers & consumers. But the biggest challenges involve improving energy infrastructure and removing bottlenecks, reducing energy taxes, and speeding up slow approval & permitting processes, as well as easing the massive bureaucracy imposed on investors and companies. Collectively, these challenges prevent projects from quickly breaking ground and becoming commercially viable. For the time being, energy security and the energy transition remain caught up in muddled thinking, U-turns, policy flip-flops, and no global consensus.

Mexico

In Mexico, Pemex continued to put immense financial strain on government budgets. Higher oil prices might benefit Pemex exploration and production, but large price subsidies for gasoline & diesel, and residential price caps on LPG, remove any financial windfall. The stated focus on reclaiming energy sovereignty and increasing refining capacity diverted attention from operational issues — a massive oil spill in February from a ruptured pipeline in the Gulf of Mexico affecting 600 km of coastline, a deadly fire at the new Olmeca (Dos Bocas) refinery in March, acid & fuel oil leaks, a fire at the Salina Cruz refinery in June and continued falls in oil & gas production. Chronic under-investment is simply too large to reset in just a few years; it would need decades. A programme of Pemex 'mixed contracts' designed to bring private investment to oil & gas fields received few bids, and large foreign oil companies stayed on the sidelines. Pemex oil production at around 1.6 million b/d is the lowest for over 45 years and is less than half the peak of 3.4 million b/d in December 2003. Pemex domestic natural gas production peaked during 2015 around 6.4 bcf/d and has now declined to around 3.9 bcf/d. Gas flaring continues to edge upward in recent years, now nearly 1 bcf/d whilst CO , emissions are up year-on-year around 37%, and sulphur emissions around 14%.

Mexico's natural gas consumption keeps growing, reaching over 9 bcf/d. Since 2000, it has tripled from 3 bcf/d using new pipeline links fed by the US shale gas boom. Natural gas pipeline imports are now around 70% of consumption (6.5–7.5 bcf/d), raising major energy security and dependency issues. The ongoing USMCA review might add extra complexity if cross-border energy trade gets drawn into negotiations with Mexico favouring Pemex and CFE over private investors. Mexican shale could reduce dependency on US gas. In April, the government launched a scientific committee to review Mexico's unconventional natural gas resources and extraction techniques. At the centre of this would be a U-turn, overturning a ban on fracking introduced by the previous government in 2018. Even so, it would take some years to deliver meaningful shale gas production. Meanwhile, CFE reasserted its control over the electricity sector. New supply capacity is being boosted by an accelerated programme of renewables 'mixed investment' contracts backed by PPAs from CFE. Notably, large-scale solar projects (totalling over 7,000 MW) have proved popular with foreign investors. In June, the government announced that 70% of all new power generation would come from renewables.

Australia

In Australia, its vulnerability to oil and refined fuel imports coming through the Strait of Hormuz was immediately exposed. Fuel reserves dropped to below 30 days with many shipments cancelled. The consequences of closure of many Australian refineries over the last 20 years — going from eight to just two — was suddenly in the spotlight. Its energy independence is compromised. Part of the response was to reduce fuel quality standards, and source oil and fuels from elsewhere, particularly the USA. In May, strikes by energy sector workers complicated the situation threatening both east coast domestic gas supply and west coast LNG exports. Australia remains locked into fossil fuel dependence, fuel imports, low fuel stocks, and a slow pace of transport electrification. With the east coast facing a natural gas supply crunch, use of coal may be extended.

New Zealand

In New Zealand, a country heavily reliant on fuel imports, prices rose strongly in response to the Middle East supply shock. Airlines are facing huge losses, and minimum fuel stockpile rules were introduced. New Zealand's last oil refinery (Marsden Point) closed in 2022 and was converted to a fuel import terminal. Today, 100% of gasoline, diesel and jet fuel are imported, mostly from South Korea, Singapore & Japan. Ironically, small volumes of domestic oil production are exported, despite being high quality. With domestic natural gas production halving over the last decade, power production is fragile and methanol and paper production were halted. Hydro and geothermal are increasingly relied upon in today's power generation mix. Rebuilding natural gas production and reserves remains challenging. To solve shortages, the first LNG import terminal is in an advanced stage of procurement, but it is yet to reach FID. A ban on new oil & gas exploration introduced in 2018 caused investment and investor interest to quickly dwindle. The current government lifted that ban in 2025, and exploration bids are being received but new permits are yet to be issued.

About the Author

Chris writes an occasional series of topical articles on energy for ANZMEX. Between 2019 and 2024 he authored a series of 50 widely read ANZMEX 'Energy Matters' op-eds that tackled big energy issues using real-life personal experiences, and extensive research. Chris runs an award-winning advisory service, Reconnoitre Energies, offering insights to inform, shape a decision, policy & regulation, and guide the next steps for energy ventures; he is also a non-resident fellow at the Institute of Americas. Chris has worked in over 40 countries and published extensively over five decades.

Chris has an energy career of over 40 years, living in Mexico (2001–2018), Russia, Vietnam, Mongolia, China & UK. His contributions to the energy and education sectors have been recognised by the UK Government with both an MBE and CBE, and also the Aztec Eagle from the Mexican Government — the first foreigner in the energy sector to achieve this award. Chris' articles for ANZMEX reflect his experience and enthusiasm and are often also later published to a global audience in the USA, UK and Singapore. They are not paid for in any way.

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