



THE ISRAEL-IRAN CONFLICT

A Defining Moment for the Gulf

As hostilities between Israel and Iran escalate into open confrontation, Gulf Cooperation Council (GCC) states are navigating an increasingly complex and volatile geopolitical landscape. What might appear as a bilateral conflict between two regional powers is, for the Gulf, a multidimensional crisis with wide-ranging implications—impacting energy markets, economic stability, military dynamics, and diplomacy.

I. | Energy Stability Remains a Central Concern

With renewed focus on the Strait of Hormuz—a vital corridor through which nearly 30% of the world’s oil is transported—energy markets quickly reacted to fears of disruption & possible closure. Brent crude rose sharply by over 14%, briefly reaching \$78 before settling around \$74. This price movement reflects the market’s sensitivity to geopolitical developments, particularly those involving major energy transit routes.

The situation also places Eastern Mediterranean gas infrastructure —particularly fields like Leviathan and Tamar—under added scrutiny due to their proximity to the tension. In anticipation of market instability, Saudi Arabia increased oil production prior to the escalation, aiming to support market stability and investor confidence.

Saudi Arabia, sensing the storm, preemptively increased oil production ahead of the Israeli strikes. The move was widely interpreted as a strategic hedge to stabilize global energy markets and maintain investor confidence. With Iran threatening to disrupt maritime transit, Gulf states—especially Saudi Arabia and the UAE—must now leverage their production capacity to counterbalance potential supply shocks. Any future OPEC+ decisions will carry amplified weight amid such geopolitical fragility.



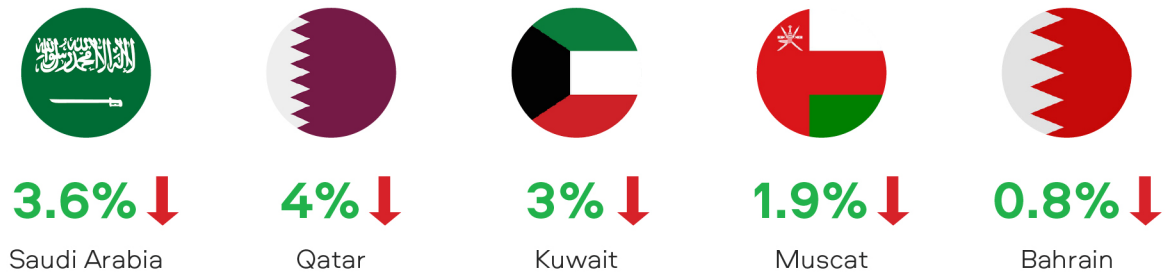
Brent crude rose sharply by over **30%**
Reaching **\$78** before settling around **\$74.**



II. | Market Fallout and Investment Recalibration

The financial impact of the conflict was quickly felt across regional markets. On June 15, major GCC stock markets experienced notable declines: Saudi Arabia’s stock market index dropped by 3.6%, Qatar by 4%, Kuwait by 3%, Muscat by 1.9%, and Bahrain by 0.8%. These movements reflect the region’s interconnectedness with global investor sentiment and the influence of regional developments on market confidence.

Decline in GCC Stock Markets



Considering such volatility, Gulf sovereign wealth funds may reevaluate their global investment strategies. A potential shift toward enhancing domestic resilience through local economic initiatives could emerge—focusing on infrastructure, diversification, and risk management—while still maintaining global engagement.

Meanwhile, the disruption is not limited to capital markets. Flight rerouting over Gulf airspace has forced major carriers to cancel or divert routes, adding logistical burdens to trade and tourism sectors across the region:

- ▶ As of June 13, approximately **1,800 Europe** bound flights were affected, with around **650 cancellations**, while other carriers rerouted across Central Asia and the Mediterranean, adding hours to the journey.
 - ▶ UAE-based airlines—Emirates, Etihad, flydubai, and Air Arabia—delayed, cancelled, or rerouted hundreds of flights to avoid restricted airspace.
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- ▶ Airline shares—including Air Arabia (down 4.1%) and Jazeera Airways (down 10%)—reflected market reactions to operational uncertainty.



III. | Reassessing Security Measures

The situation has led to a reevaluation of security measures across the Gulf, especially as maritime routes and infrastructure remain under observation. The risk of escalation in areas such as the Red Sea adds a layer of complexity to regional logistics and trade.

For countries hosting international military facilities—such as Al Udeid Base in Qatar and Al Dhafra in the UAE—continued monitoring and coordination are vital to ensuring safety and stability. There may also be renewed interest in strengthening early-warning systems, missile defense networks, and regional coordination mechanisms. Technological partnerships, including emerging discussions around integrating Gulf airspace surveillance and regional defense capabilities, may gain traction. While any such initiatives would be approached cautiously, advancements in this domain could enhance collective security preparedness.

IV. | Diplomacy in a Divided Region

GCC states have publicly called for restraint and the de-escalation of tensions, emphasizing the importance of regional stability. Countries such as Saudi Arabia and the UAE have expressed a clear interest in avoiding direct involvement in the conflict. At the same time, the broader security context remains a point of strategic consideration for Gulf leadership, particularly in light of long-standing regional dynamics involving actors across Iraq, Syria, Lebanon, and Yemen.

This carefully balanced approach reflects the Gulf’s evolving diplomatic role. Nations like Saudi Arabia, the UAE, and Qatar are increasingly positioned as potential mediators, maintaining constructive ties with a range of international partners—including the U.S., China, and Iran—while contributing to efforts to promote regional dialogue and security. The temporary closure of some diplomatic missions, including Israeli embassies in the Gulf, may reflect a precautionary stance, but backchannel communications and mediation channels remain active.

V. | Long-Term Strategic Trajectories

The conflict may ultimately serve as a catalyst for strategic transformation across the Gulf. Several trajectories are already emerging:



Economic Diversification as National Security

As the Israel–Iran conflict intensifies, Gulf states are reaffirming economic diversification efforts against volatility. Gulf economies are already forecasted to grow slower than expected, prompting policymakers to accelerate investment in non-oil sectors, including logistics, renewables, and healthcare, to strengthen economic resilience.



Geopolitical Realignment

While maintaining strong ties with traditional allies, Gulf states are increasingly pursuing a balanced engagement strategy with a broader set of global partners. This multi-vector diplomacy is emerging as a key pillar of the region’s foreign policy, reflecting a pragmatic approach to managing geopolitical risk.

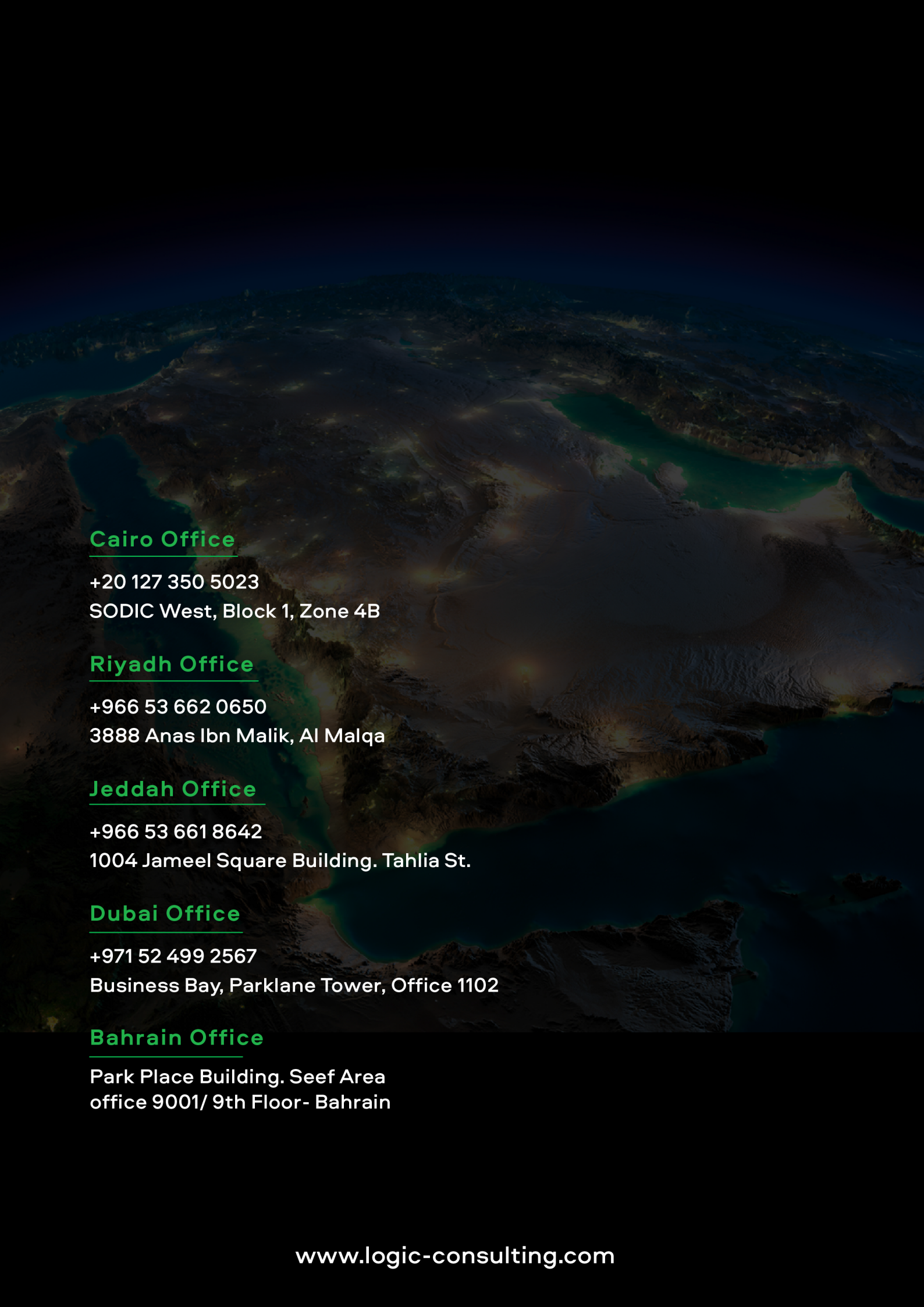


Proactive Diplomacy

Since the conflict erupted, Gulf states have shifted from regional observers to active diplomatic intermediaries. On June 14, U.S.–Iran nuclear talks in Muscat were paused due to the Israeli airstrikes, a development Oman partially mediated. Germany, France, and the UK also publicly emphasized talks to de-escalate, reflecting the GCC’s expanding role as a diplomatic bridge.

Conclusion

The ongoing tensions between Israel and Iran represent a pivotal moment for the GCC. While the risks to regional stability are significant, this period also offers an important opportunity for the GCC to reinforce its role in shaping regional security and diplomacy. By strengthening energy resilience, accelerating economic diversification, and engaging proactively in dialogue, Gulf states can navigate this challenge with greater confidence and potentially emerge with enhanced strategic influence.



Cairo Office

+20 127 350 5023

SODIC West, Block 1, Zone 4B

Riyadh Office

+966 53 662 0650

3888 Anas Ibn Malik, Al Malqa

Jeddah Office

+966 53 661 8642

1004 Jameel Square Building. Tahlia St.

Dubai Office

+971 52 499 2567

Business Bay, Parklane Tower, Office 1102

Bahrain Office

Park Place Building. Seef Area
office 9001/ 9th Floor- Bahrain