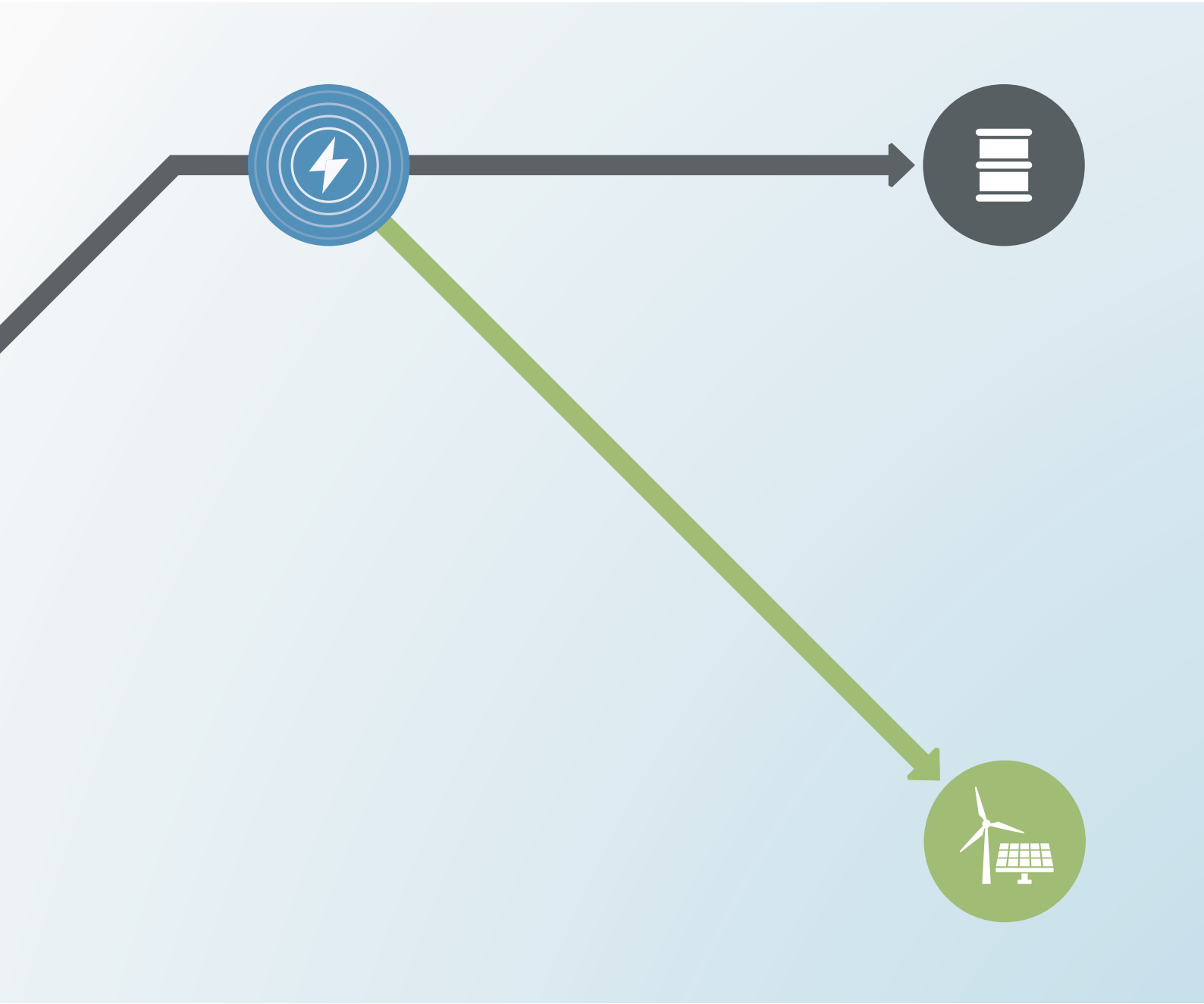
Climate Action Tracker



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Never let an energy crisis go to waste: government responses to the US-Israel war on Iran

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CLIMATE ANALYTICS

NEW CLIMATE INSTITUTE

Executive Summary

The current energy crisis triggered by the US–Israel war on Iran has once again placed energy security at the centre of geopolitical tensions. It marks the third major shock to the global energy system since 2020, highlighting the inherent vulnerabilities of fossil fuel-based energy systems.

The way governments respond to energy crises determines whether these shocks delay the transition or accelerate structural change in the energy system. We showed that in the two earlier crises since 2020 (the COVID-19 pandemic and the Russia-Ukraine war), simultaneous support for renewables and fossil fuels largely cancelled each other out, stabilising emissions but failing to deliver net structural progress.

Government reaction to this latest energy crisis has been mixed. While the world and its energy system has changed forever as governments increasingly recognise that reliance on fossil fuels poses persistent risks to energy security and economic development, they have largely yet to take the appropriate action. As noted by the IEA Executive Director Fatih Birol, these shocks are not anomalies but features of a system built on volatile fossil fuel markets.

The current crisis unfolds under markedly different conditions. Clean energy technologies have matured, electrification is accelerating, and renewables are scaling at exponential rates, while fossil fuel expansion is linear and constrained. This alters the strategic context in which policy choices are made.

In this briefing, we first look at what responses work toward an energy transition, a decarbonisation of the global economy, and then analyse which of the 40 countries we cover in the Climate Action Tracker have taken steps toward this, and which has not.

Governments now face a narrowing window of choice: either entrench fossil fuel lock-ins through short-term relief and supply expansion, or decisively tip the system toward a cleaner, more resilient equilibrium. In this context, the Transitioning Away from Fossil Fuels (TAFF) process and the associated transition roadmaps become critical governance instruments, as they can help align immediate crisis responses with longer-term decarbonisation objectives.

The policies through these frameworks adopted in response to this crisis will determine which of these paths prevails and whether this moment becomes another missed opportunity or the final push toward a sustainable energy system.

We have found:

> **Short-term crisis responses seem to go broadly in the wrong direction.** Broad fuel subsidies, tax cuts and price caps are often chosen as they ease immediate social pressure. But they weaken price signals, entrench fossil fuel dependence and raise fiscal costs.

> **Targeted support for vulnerable households and critical sectors**, combined with maintaining high fossil fuel prices and lowering the cost of clean electricity, **has so far been chosen by a minority of governments.** It would preserve incentives for efficiency and substitution while protecting social cohesion. Measures to address windfall profits and encourage behavioural change would also be available, but are chosen only in selected cases.

> **Crises can serve as catalysts for structural reform** if governments choose to act accordingly. Examples from **Egypt**, the **European Union**, and several advanced and emerging economies show that accelerating renewables, electrification, and grid expansion can be an intentional response to crisis conditions rather than a secondary objective. Countries that pursued this strategy are now demonstrably more resilient to price shocks and supply disruptions.

> **Structural crisis responses matter far more for long-term resilience than short-term relief measures.** Immediate support is essential for households and businesses facing acute price shocks, but short-term measures cannot replace the deeper reforms needed to reduce exposure to future crises. Some positive examples include **Chile** and **Spain**.

> **Better off** are countries such as **China** and **Pakistan**, that doubled down on renewables and electrification; they are now more resilient to price and supply shocks, although Pakistan still faces grid and transmission issues.

It is in the hands of governments to make this crisis a tipping point toward a cleaner, more secure energy system or reinforce fossil lock-ins.

The Global Stocktake (GST-1) goals provide the strongest available framework for aligning immediate crisis responses with long-term energy security, as they link short-term policy choices to the structural reforms required to transition away from fossil fuels.

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1 Will this energy crisis be a turning point for the global transition?

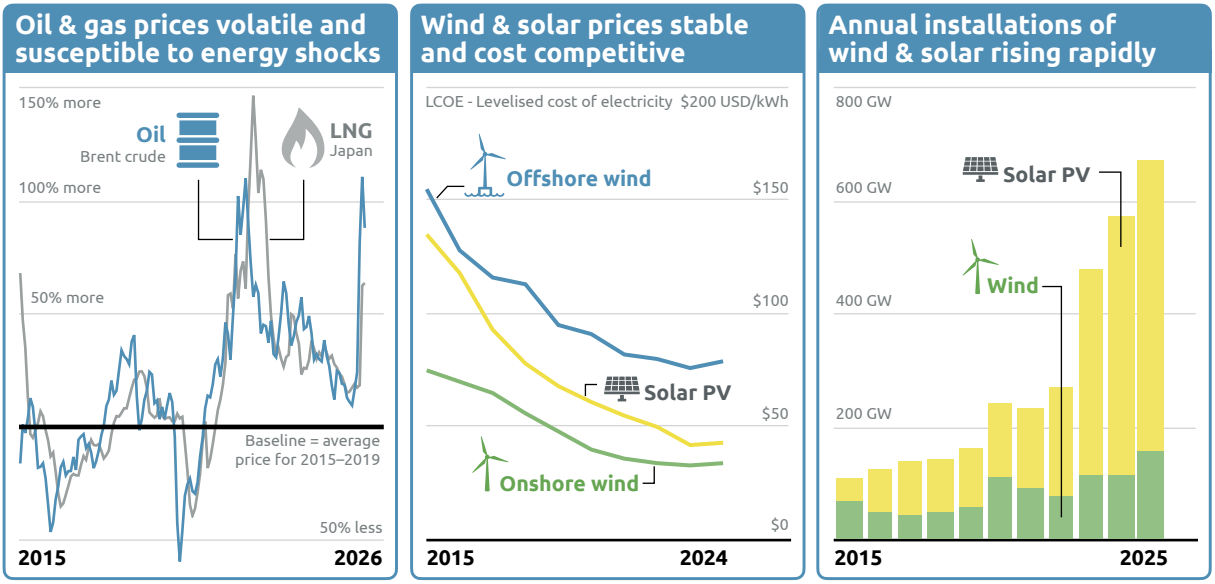
Historically, periods of energy insecurity have reinforced dependence on fossil fuels. From the 1970s oil crisis, through the Gulf War and subsequent supply disruptions, governments have repeatedly responded to energy insecurity in the same way: by doubling down on fossil fuel extraction, diversifying supply routes and expanding strategic reserves. These earlier crises entrenched a fossil fuel centric system because renewables and other clean energy alternatives were seen as costly and lacked political backing.

The CAT has tracked this pattern over recent energy crises:

- In our COVID 19 recovery briefing, we found that governments had overwhelmingly failed to use the pandemic as an opportunity to accelerate decarbonisation, instead funnelling the bulk of stimulus spending into maintaining fossil fuel intensive systems.
- In our 2022 analysis of responses to Russia's invasion of Ukraine, we found a similar dynamic: rather than pivoting away from fossil fuels, many governments responded to this energy crisis by "rushing" to secure fossil gas supplies and building new import terminals.

In 2026, the situation is fundamentally different.

The current energy crisis is becoming an existential threat for many countries, affecting not only energy security but also economic stability, food security, industrial competitiveness and climate resilience. At the same time, clean energy technologies have reached a new phase of deployment. Renewables, battery storage, electric vehicles and other electrification technologies across end-uses are no longer niche solutions or crisis add-ons; they are technologically mature, increasingly cost-competitive, and deployment is growing exponentially (Figure 1).



Source: World Bank 2026 | Source: IRENA 2025 | Source: IRENA 2026

Figure 1 Comparison of fossil fuel prices January 2015 – April 2026 (crude oil, Brent and liquefied natural gas, Japan) against levelized cost of electricity prices for solar PV, onshore and offshore wind as well as annual global installations of wind and solar.

The belief that fossil fuels guarantee stable and low-cost energy has proven to be false, even if energy demand continues to grow. Instead, the economic case for clean energy alternatives has never been stronger. Cost declines, learning effects and infrastructure build-out mean that renewables and electrification now benefit from powerful self-reinforcing dynamics.

Below, we first examine both governments' immediate responses to the current energy crisis and long-term structural reforms, looking into what has helped or hindered the transition.

2 Immediate reactions to the energy crisis: a mixed picture for decarbonisation

A typical immediate government response to an energy crisis is to move quickly to protect households and companies from rising prices, most commonly through energy subsidies. Governments have a wide range of instruments at their disposal, from tax reductions to targeted support schemes and measures aimed at reducing energy demand. While such support is politically and socially understandable, the way it is designed matters greatly.

Some measures merely reinforce existing fossil fuel dependence by lowering end-user prices across the board, while others can be structured to support the climate transition, whilst also protecting vulnerable groups.

So far, there appears to be a clear tendency for governments to favour flat-rate fuel subsidies or broad tax cuts over more targeted forms of support, i.e., measures that are simple and fast to implement, they are costly, poorly targeted and risk locking in fossil fuel consumption at precisely the moment when structural change is both possible and necessary (Table 1).

Fewer countries have demonstrated that short-term crisis responses can also be aligned with broader decarbonisation objectives, particularly where measures encourage behavioural change and demand reduction.

Table 1 Immediate reactions that hinder or support decarbonisation.

PRICE INCENTIVES

Hinders decarbonisation

Reduce taxes on diesel, petrol, heating fuels

Australia, Brazil, Canada, Germany, Norway & at least 5 more countries

Price caps

Japan, Hungary, Poland

Temporarily relax transformation incentives

such as carbon taxes, ETS incentives, coal phase-out dates

EU, Japan, USA

Supports decarbonisation

Keep high prices but compensate citizens and industries in need

Belgium, Bulgaria, France, Pakistan, UK

Lower taxes on electricity

Spain

Cap retailer profit margins

Austria, Czechia, Greece, India, Poland

Tax windfall profits of fossil fuel suppliers

BEHAVIOURAL INCENTIVES

Supports decarbonisation

Introduce speed limits

Pakistan

Incentivise home office or limit travel

Philippines, Thailand, Viet Nam

Reduce public transport prices

Chile, Lithuania, Pakistan, Philippines

Incentivise reduced room heating / cooling

Bangladesh, Philippines, Singapore

Policies referenced in this table are primarily drawn from the IEA Energy Crisis Policy Response Tracker, the OECD Energy Support Measures Tracker and the Global Renewables Alliance's Global Energy Crisis Policy Monitor 2026. Please note that the table includes only a selection of policies from countries. It is not exhaustive. All information reflects the status of policies as of 5 June 2026.

Why do fossil fuel prices matter?

High fossil fuel prices are not an accident. They reflect real market conditions such as scarcity, supply risks and geopolitical uncertainty, and create a clear asymmetry by boosting profitability for producers while imposing higher economic and social costs on consumers.

Yet these price signals are essential. They encourage consumers and businesses to adjust their behaviour, invest in efficiency and consider alternatives. As IMF fiscal affairs chief Rodrigo Valdes argued, governments should allow higher energy prices to change consumption behaviour rather than sustain demand through broad fuel subsidies. Short-term responses that artificially suppress prices, such as broad fuel subsidies, tax reductions or the relaxation of CO_2 taxes and emissions trading systems, undermine this market function.

So far, many governments have relied on such measures during the crisis, for instance by cutting taxes on diesel and petrol, as seen in **Australia, Brazil, Canada or Germany**, or by holding prices artificially low through caps, as implemented in **Japan**. While these approaches may offer short-term relief to households and businesses affected, they are expensive, poorly targeted and dilute incentives to reduce fossil fuel consumption or switch to cleaner alternatives at a critical moment.

A more climate-aligned approach would maintain high fossil fuel prices for a limited period while compensating only those most exposed to the immediate impacts—vulnerable households and essential but fuel intensive or price sensitive sectors such as logistics and agriculture. So far, fewer countries, such as **Belgium, Bulgaria and France**, have already implemented targeted compensation rather than broad price suppression.

Complementary measures can further support the transition, for example, by lowering taxes on electricity to incentivise electrification—a measure that, so far, almost none of the countries tracked by the CAT have implemented as a response to the current energy crisis, with Spain being a notable exception.

Ensuring fairness and preventing crisis profiteering

While preserving price signals is essential for long-term change, governments also need measures that ensure fairness and prevent excessive profits during periods of extreme volatility. Crises also tend to generate **windfall profits** for fossil fuel producers and retailers, as periods of extreme price volatility create additional margins driven not by efficiency or innovation but by scarcity and market power. Taxing these profits would ensure that extraordinary gains arising from disruption and speculation are captured and redirected to support the energy transition.

For road fuels alone, crisis-related additional profits in the EU to date are estimated to be in the order of EUR 14 billion. Governments have several options to address this imbalance, including capping retail margins, as already done by countries such as **Austria, Czechia and India**, which limit retailer mark ups to maintain price signals while preventing excessive gains.

Taxing excessive producer profits would be another option. The **UK** introduced a windfall tax following the energy crisis of 2022 and has kept it in place, but this remains an exception rather than the norm. In fact, since the start of the current energy crisis, no new country has so far implemented such a measure in a systematic way. In the **EU**, in April 2026, several Finance Ministers called for an EU-wide windfall tax on energy companies, but the AccelerateEU plan ultimately left the decision to individual Member States instead of establishing a common framework.

Behavioural incentives and demand reduction

Alongside the above measures, governments can implement short-term policies that encourage immediate reductions in fuel and energy demand. For example, measures such as speed limits, as implemented by **Pakistan** as part of its response package, where they are not already in place, can deliver rapid fuel savings.

Several governments have also encouraged behavioural changes that reduce transport demand. Many countries, particularly in Southeast Asian countries like **Thailand** or **Viet Nam**, have encouraged or mandated home office arrangements or restricted non-essential travel.

Reducing public transport fares can also have both short- and long-term benefits, as users may continue to rely on public transport even after the crisis has passed. Some of the most far-reaching examples include **Lithuania**, which halved local train fares for two months, and **Pakistan** and the **Philippines**, where public transport was made free for selected periods and user groups.

In addition, several countries have sought to reduce energy demand by adjusting default heating and cooling settings. **Bangladesh, the Philippines** and **Singapore**, among others, have introduced guidance or requirements to reduce heating demand or increase cooling temperature settings.

3 Impact of structural reactions to the energy crisis on energy transition

A more consequential dimension of crisis responses is **whether governments implement structural measures or limit themselves to short-term relief**. They are now at a crossroads:

- One path risks **locking in fossil fuel dependence** by dismantling key transition incentives (carbon taxes, emission trading systems and coal phase-out timelines), while simultaneously expanding oil, fossil gas and coal production, or increasing biofuel blending mandates. While these measures may improve short-term supply security, they undermine long-term climate goals and increase exposure to future price shocks.
- **The other option is to double down on the energy transition**: accelerating electrification across sectors, strengthening renewable energy targets, and rapidly expanding grid and storage infrastructure. Additional measures could include reducing import taxes and trade barriers for clean technologies and committing to the gradual removal of fossil fuel subsidies once market prices ease again (Table 2).

Table 2 Structural reactions that hinder or support the energy transition.

TRANSFORMATION INCENTIVES

Hinders decarbonisation

Dismantle or weaken price signals/economic instruments
such as carbon taxes, ETS incentives

EU UK & at least 3 more countries

Dismantle or delay regulatory instruments
such as phase-out targets, limits and standards

Germany Italy Japan

Supports decarbonisation

Economic instruments to support fast electrification
such as adoption subsidies for electric technologies like EVs, heat pumps or batteries

Chile France Indonesia
Netherlands Viet Nam

Regulatory instruments to support fast electrification
such as introducing mandates, emission limits, standards, fleet targets

EU France

Strengthen renewable energy targets

Egypt EU South Korea

Reduce import taxes on renewables, EVs, batteries

SUPPLY INCENTIVES

Hinders decarbonisation

Expand domestic oil, gas, and coal production

USA

Expand fossil fuel infrastructure for export and import

Canada

Blend more biofuels

Argentina Indonesia

Policies referenced in this table are primarily drawn from the IEA Energy Crisis Policy Response Tracker, the OECD Energy Support Measures Tracker and the Global Renewables Alliance's Global Energy Crisis Policy Monitor 2026. Please note that the table includes only a selection of policies from countries. It is not exhaustive. All information reflects the status of policies as of 5 June 2026.

Several early examples suggest that some governments are treating the current crisis as a **decisive moment to double down on the energy transition**. While it is still too early to draw conclusions at the global level, these cases illustrate how crisis conditions can be used to accelerate structural change rather than delay it.

Egypt, for instance, has significantly strengthened its renewable electricity ambitions. The government has raised its renewable electricity target to 45% by 2028, framing this shift explicitly as a response to heightened energy security risks and fiscal pressure from volatile fossil fuel imports. By accelerating clean power deployment, Egypt aims to reduce exposure to fuel price shocks while positioning itself as a regional renewable energy hub.

At the **European level**, the European Commission has signalled a similar strategic reorientation. As part of its response to the crisis, it has proposed faster electrification across key sectors, including consideration of an explicit electrification target. It has proposed complementary plans to accelerate the expansion of electricity grids and renewable generation capacity. While detailed measures are expected to be presented in the coming months, the direction of travel suggests an effort to address the crisis by structurally reducing dependence on fossil fuels rather than temporarily offsetting their costs.

South Korea offers another example of this emerging trend. In response to the current energy crisis, the government has accelerated its renewable energy strategy, particularly in solar power. It has set targets to expand installed renewable capacity to around 100 GW by 2030 and raise the share of renewable electricity generation to over 20% by 2030 and above 30% by 2035. As one of the world's most fossil fuel import dependent economies, the government has framed this shift as a matter of national resilience and energy security.

Beyond these, several countries are introducing targeted measures to accelerate electrification. **France** is expanding its social EV leasing programmes to make electric mobility accessible to lower income households, aligning social policy with climate objectives.

In Southeast Asia, some countries are adopting measures to improve electric mobility. **Viet Nam** has reduced consumption taxes on electric vehicles and related technologies, while **Indonesia** has implemented measures to accelerate the conversion of gasoline-powered motorcycles to electric motorcycles.

International mechanisms

Previous energy crises like the 1970's oil shock also led to structural changes at the international level. Under the International Energy Agency (IEA) framework, governments created institutional mechanisms to manage fossil fuel insecurity, including strategic oil reserves and emergency sharing systems – measures that became the backbone of the global fossil fuel security architecture.

If the current crisis is indeed pushing some governments toward a structural shift toward clean energy, a similar evolution will be needed at the international level – not to stabilise fossil fuel markets but to coordinate rapid renewable energy deployment and resilient clean energy supply chains. The current energy crisis therefore raises not only the question of national policy direction but also whether a new generation of institutions is needed to underpin a clean energy security architecture.

4 Energy transition progress has made countries less vulnerable to the energy crisis

There are also countries that demonstrate how prioritising renewables and electrification can strengthen resilience to energy price shocks. These examples include countries at different stages of development and with varying energy system structures, showing that this pattern is not limited to a specific group of economies.

China is a prominent example. Over recent years, it has pursued a massive expansion of renewable energy capacity across solar, wind and hydro, accompanied by rapid electrification of end-use sectors. As a result, China's dependence on fossil fuel imports has declined, while its electrification rate has increased far faster, and now stands at a higher level than the EU or the United States. This structural shift reduces exposure to volatile global fossil fuel markets and provides greater flexibility in responding to external supply shocks.

Pakistan illustrates a similar dynamic at a different scale. In response to high electricity prices and repeated supply disruptions, the country has seen a recent boom in distributed solar photovoltaics (PV), particularly rooftop PV. This rapid deployment has significantly reduced dependence on imported fossil fuels and mitigated the impact of price spikes on consumers and businesses. While challenges such as grid transmission remain, the expansion of domestic renewable generation has clearly strengthened Pakistan's ability to cope with the current crisis.

Within Europe, **Spain** stands out as a case where earlier investments in renewables are directly paying off. With a high share of renewable electricity in its generation mix, Spain's power prices are structurally less exposed to fossil gas price volatility than those of many other European countries. As a result, Spanish consumers and industries are better shielded from fossil fuel price shocks, underscoring the value of renewables not only as a climate solution but also as a tool for energy security and price stability.

Chile offers another example of resilience built through sustained renewable energy expansion. Following earlier crises and persistent import dependence risks, Chile accelerated solar and wind deployment, becoming one of the fastest growing renewable markets in Latin America. Renewables now provide around 70% of total electricity (Ember, 2026a).

5 The global rush to fossil gas is unravelling, exposing countries to volatility

Fossil gas has often been wrongly touted as a "transition fuel" and a response to energy crises. Successive shocks since 2020 have triggered a renewed rush to gas, alongside broader structural strategies in some regions:

- In Europe, the response to Russia's invasion of Ukraine led to a scramble for new suppliers, with countries such as **Germany, Italy and the Netherlands** signing long-term LNG contracts, reviving dormant import terminals and expanding regasification capacity at record speed.
- East Asian economies, such as **Japan and South Korea**, are expanding LNG plans to hedge against volatility.
- Across Africa, governments, including **Egypt**, accelerated LNG export projects, while **South Africa and Morocco** advanced new gas-fired power plants and import infrastructure to address domestic electricity shortages.
- In North America, **Mexico** has explored expanding domestic fracking to reduce reliance on US gas imports, while placing little emphasis on demand side measures such as efficiency or electrification.

While this "rush" may have provided short-term relief from energy crisis triggered by the Russia–Ukraine war, it has now increased dependence on volatile global markets and delayed the structural changes needed for long-term energy security, and those who rushed to gas are paying the price now.

Since 2021, LNG markets have been highly volatile due to tight supply, geopolitical tensions, and infrastructure constraints. Importers have competed for limited supplies, and prices have swung sharply in response to geopolitical events. The Russia-Ukraine war, instability in major producing regions and disruptions to shipping routes have repeatedly shown how easily gas markets can be thrown off balance. For countries that rely on imports, securing gas at predictable and affordable prices has become more difficult, undermining its role as a dependable long-term option.

The current energy crisis triggered by the US-Israel war on Iran is following the same pattern. It has once again pushed LNG prices higher and highlighted the vulnerability of gas dependent economies. This has added to concerns that were already emerging before the crisis, leading some governments, particularly in Asia, to start re-evaluating the role of LNG in their energy strategies.

Indeed, Asian countries, once expected to drive future LNG demand, are now more cautious about expanding their reliance on gas, as they have faced the greatest import pressure (IEEFA, 2026). **Viet Nam** has delayed or reconsidered planned LNG-to-power projects due to high capital costs and concerns over long-term price competitiveness. The **Philippines** has scaled back earlier LNG ambitions and is placing more emphasis on renewables and storage.

6 The Global Stocktake provides the clearest roadmap out of this crisis

As part of the first Global Stocktake (GST-1), governments agreed to work toward tripling global renewable energy capacity and doubling the global average annual rate of energy efficiency improvements by 2030, alongside broader efforts to reduce methane emissions.

These GST-1 Energy and Methane goals now also provide the clearest roadmap for strengthening both climate action and energy security. They provide the very path that countries would have benefited from already being on—one that reduces long-term costs, strengthens resilience, and lowers dependence on volatile fossil fuel markets.

The GST-1 Energy and Methane goals

Tripling renewables

Driving fossil fuels out of the power system towards net zero emissions electricity, providing clean energy to the demand sectors

Will reduce dependence on imported fossil fuels and shield economies from global price volatility

Doubling energy efficiency

Striving for the most efficient use of energy in buildings, industry and transport, minimising waste and maximising electrification

Will lower overall energy demand and system costs, making countries less vulnerable to supply shocks

Reducing methane

Cutting methane in line with the Global Methane Pledge, reducing emissions by 30% by 2030 from 2020 levels, especially in the energy sector, as fossil fuel production phases down

Will help cut waste in fossil fuel systems and deliver rapid, near-term climate and economic benefits

Each of these Energy and Methane goals targets a structural vulnerability that recent shocks have exposed:

- Expanding renewable electricity reduces dependence on imported fossil fuels and shields economies from global price volatility.
- Energy efficiency gains lower overall energy demand and system costs, making countries less vulnerable to supply shocks.
- Methane mitigation cuts waste in fossil fuel systems and delivers rapid, near term climate and economic benefits.

If fully implemented, these GST-1 Energy and Methane goals would substantially reduce the risks associated with climate breakdown while also strengthening energy security and economic resilience. They would reduce exposure to fossil fuel price volatility and provide a more secure pathway for countries that currently rely on large volumes of expensive fossil fuel imports.

Together, these goals would bring projected 21st century warming below 2°C. The outlook improves significantly (by about 0.9°C), almost as much as the entire 1°C improvement in the global warming outlook seen over the ten years since the Paris Agreement was adopted in 2015 and would be a major step towards keeping the 1.5° limit in sight (Figure 2).

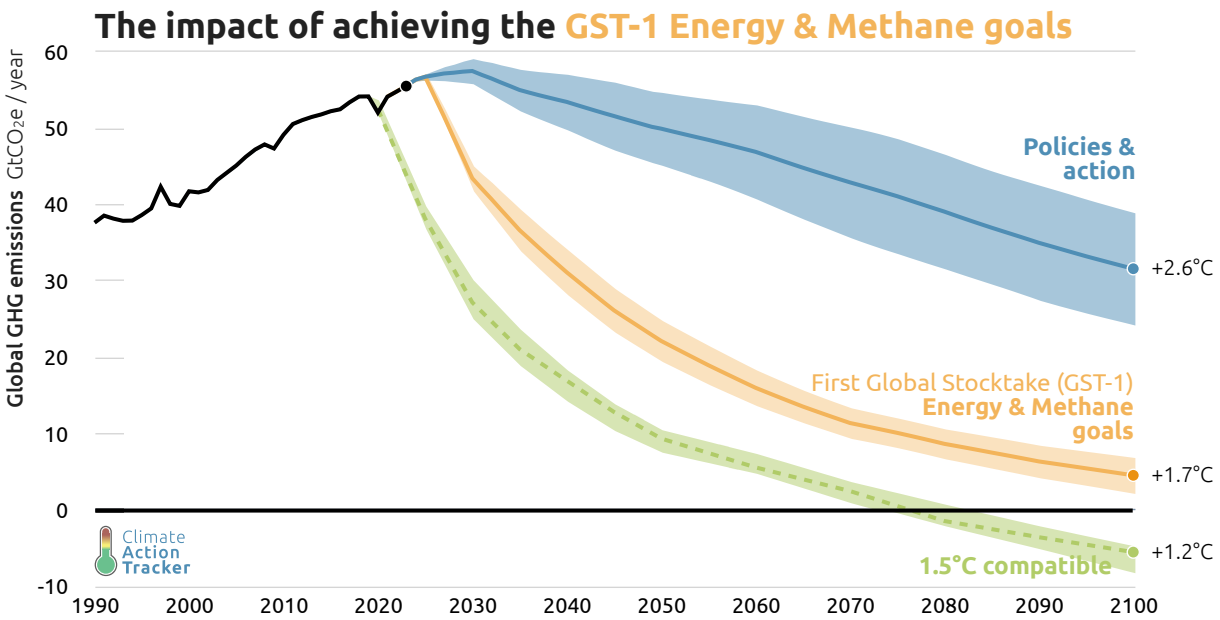


Figure 2 Emissions pathway and projected warming based on achieving all three GST-1 Energy and Methane Goals, compared to action achieved to date.

Had countries already been on this pathway, the impacts of the recent energy crises would have been significantly less severe. The structural choices governments make now will determine whether they remain locked into volatile fossil fuel markets or move toward a more resilient system that provides affordable energy for all. For countries that are especially exposed to external shocks, aligning crisis responses with the GST-1 pathway is essential for long-term economic stability and resilience.

The current crisis could provide the decisive push toward a predominantly renewable and electrified energy system—**but only if governments reinforce these structural shifts through coherent policies**. Without such measures, the system risks drifting back toward fossil fuel lock-in, especially where entrenched interests and short-term energy security concerns dominate.

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The Climate Action Tracker (CAT) is an independent scientific project that has been tracking climate action since 2009. We track progress towards the globally agreed aim of holding warming well below 2°C, and pursuing efforts to limit warming to 1.5°C.

climateactiontracker.org

NewClimate Institute is an independent non-profit organisation that develops solutions to tackle climate change and drives their implementation worldwide. Through research, policy advice and knowledge sharing, we aim to raise the ambition for climate action and support sustainable development.

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Climate Analytics is a non-profit institute leading research on climate science and policy in relation to the 1.5°C limit in the Paris Agreement. It has offices in Germany, the United States, Togo, Australia, Nepal and Trinidad and Tobago.

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Institute for Essential Services Reform (IESR) is an energy and environment focused think-tank that aims to accelerate the energy transition by supporting sustainable mobility, green economy, and well designed climate change policy. IESR has experience mainly in Indonesia, but is expanding its focus to work in other regions and countries.

iesr.or.id