

FEATURE

Commentary

The Iran conflict's energy shocks are not yet fully realized

[Samantha Gross](#)

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The United States and Israel began their attacks on Iran one month ago. Due to Iran's retaliatory actions, the global oil market is suffering a supply shortfall larger than those in the 1973 and 1979 oil crises combined. The full

brunt of the shock isn't yet being felt in the United States, despite U.S gasoline prices reaching \$4 per gallon for the first time since 2022.

On March 12, President Donald Trump wrote in a [social media post](#) that, "The United

States is the largest Oil Producer in the World, by far, so when oil prices go up, we make a lot of money.”

However, at the 10,000-person CERAWEEK conference in Houston, from March 23 to 27, I heard no one spiking the football over high oil prices. Instead, discussions were much more concerned about how the conflict in Iran would play out in markets and shape the future of the global energy system. This piece is a combination of things I heard in formal events and private conversations, along with my own thoughts about what it all means one month into the conflict with Iran.

Iran and the Strait of Hormuz

So far, Iran has demonstrated that it is willing and able to control the Strait of Hormuz, the single route into the Persian Gulf. One-fifth of the world's supply of both oil and liquified natural gas (LNG) usually flows through the strait on its way to markets around the world, particularly to Asia.

Energy security experts have always viewed blockage of the strait as a scary but unlikely scenario, given that mining or otherwise physically blocking the strait would also prevent Iranian oil from reaching the market.

But Iran, retaliating against the U.S. and Israeli bombing campaign, has [many ways](#) to harass and damage vessels in the strait and the Persian Gulf, from small boats along its long shoreline to drones that can be launched from as far as [1,200 miles](#) away.

Iran has also attacked at least [22 vessels](#) in the Persian Gulf since the war began to demonstrate its seriousness.

In this environment, no ship dares pass through the strait without Iranian permission, and [insurance](#) is very expensive or impossible to obtain. But since the strait is not physically blocked, Iranian oil is still reaching markets, in even larger quantities than before the conflict.

The Iranian regime is trying to gain further leverage by attacking its neighbors' oil and gas infrastructure. Key attacks have damaged the Ras Laffan LNG complex in Qatar, the Yanbu terminal on the Red Sea in Saudi Arabia—the end of the Saudi pipeline that bypasses the strait—and Fujairah on the Gulf of Oman in the United Arab Emirates (UAE), where Emirati crude can be exported outside the strait. These attacks are intended to reduce the crude oil that can reach the market today and prolong the shortage in supply beyond the strait's eventual opening, since damaged facilities will take months or years to repair.

A mess for the world's energy system

Several sessions at CERAWEEK grappled with the geopolitical challenges of the conflict. In conversation with Brookings Vice President Suzanne Maloney, former U.S. Defense Secretary General James Mattis described how the United States may have miscalculated the Iranian regime's weakness after the protests of January 2026.

The regime slaughtered thousands of people, with a documented total of about [7,000](#) and estimates of more than [30,000](#), demonstrating that it is willing to “kill its own people at an industrial level,” Mattis said.

Rather than weakening the regime, the protests strengthened its grip on power, as fewer people are now willing to take to the streets. He said that he had a hard time identifying good options for the United States at this stage of the conflict.

The perceived risk in oil markets will change after the conflict; the world can't go back to the time before the war. Saudi Arabia, the UAE, Qatar, Kuwait, Bahrain, Iran, and Iraq export most of their oil through the Strait of Hormuz, although Saudi Arabia and, to a lesser extent, the UAE and Iran have pipelines that avoid the strait.

In all, the world is missing about 11 million barrels per day (mbd), or 11%, of crude

oil supply, compared to the roughly 20 mbd that transited the strait before the conflict.

Additionally, the oil market considers spare production capacity to understand supply risk, but nearly all the world's spare capacity is in Saudi Arabia and the UAE. Finally, it's difficult to imagine Saudi Arabia continuing to be the secure marginal supplier of oil so long as Iran can harass traffic through the strait. Militarily eliminating this ability would be very difficult indeed.

I found that in private meetings, industry and government leaders were more concerned about the conflict than they let on in public. The oil and gas industry is worried about physical damage to its facilities and economic damage to its whole industry. (Several facilities damaged by attacks are joint ventures with Western companies.)

Other industries are worried about their resilience to the supply shock, and those that rely on oil or natural gas for fuel or feedstocks are concerned about their ability to obtain supply at all. Asia is taking the brunt of the disruption now, because that is where most Persian Gulf oil and LNG are sold.

But high prices will be seen everywhere as the impact spreads. Many people I spoke with expressed surprise that oil prices are not higher than they are, expecting them to rise as the conflict grinds on and shortages are more widely felt.

Energy shortages and high prices are hitting Asia now, and Europe soon

Asia is getting most of the world's attention right now, and for good reason. Asian countries are already taking drastic measures to reduce demand for natural gas that they receive as LNG and turning to coal for electricity generation. [Pakistan has closed schools](#) to save energy, and India is suffering from a shortage of liquefied petroleum gas used for cooking.

However, the conflict will also impact Europe. After Russia's full-scale invasion of

Ukraine and the subsequent cutoff of pipeline gas supply to Europe, the continent began to import more LNG to make up for the missing supply.

Europe is now facing its second energy shock in four years, as nearly 20% of the world's LNG supply is shut down. Some of that supply will be offline for years, as two of the 14 liquefaction trains at Qatar Energy's Ras Laffan facility, representing about 3.5% of global capacity, were [damaged](#) by an Iranian missile strike. Rebuilding will take years.

Already, wholesale electricity prices in Europe are highest when natural gas sets the market-clearing price, and concerns about high energy prices reducing Europe's economic competitiveness abound. European officials at the conference pointed out that natural gas generation is needed to balance renewable electricity production in many parts of Europe, but the rising price of LNG in the global market will exacerbate Europe's challenges.

The global economy will suffer if the conflict continues

Many people I spoke with at the conference are anxious about inflation and recession. The United States is insulated from the natural gas crisis, since it has significant domestic production, and U.S. LNG facilities are already exporting as much as they can. But even as the world's largest producer of oil and natural gas, the U.S. economy will see rising fuel prices.

Oil is traded on global markets, so U.S. consumers pay global prices. Rising fuel prices flow through the price of goods and services throughout the economy. The inflation hit will be even greater for countries that also rely on imported LNG.

In addition to oil and gas, the global fertilizer supply is taking a huge hit. Natural gas is key to the production of nitrogen fertilizers like ammonia and urea; one estimate found that natural gas is [70% to 90%](#) of ammonia production costs. Access to natural gas makes the Gulf region a good place for nitrogen fertilizer production—

conservatively, [about 12%](#) of global supply is now lost due to the blockage of the strait.

Additionally, the Gulf region is a key location for sulfur production, removed from “sour” oil and gas. Sulfur is an important nutrient itself and is a key ingredient in phosphate fertilizers. Between missing supply produced in the Gulf region and the rising price of natural gas contributing to higher costs elsewhere, fertilizer prices and shortages could be key ingredients for rising food prices in the coming months.

A long disruption could also cause a recession, as economic activity contracts to adjust to high fuel prices. Guessing at where prices could go and what price would create recession in various regions and globally was a topic in private discussions.

Author



[Samantha Gross](#) *Director - [Energy Security and Climate Initiative](#), Fellow - [Foreign Policy](#), [Energy Security and Climate Initiative](#)*

Right now, the oil market is trading “financial barrels,” sales of future oil at future prices. Despite the large disruption, oil and LNG that were in vessels in transit and in storage when the conflict began are still cushioning many buyers. Once these temporary fixes are gone and market participants are dealing with actual shortages, we’re in uncharted territory with respect to oil and LNG prices.

No one knows exactly what to expect, but the range of prices that I heard discussed as recession-inducing seemed more than possible to me. One person in a private meeting summed up the situation thusly: “Can you outrun the dogs you unleashed?”