

The Iran War has been a big shock to the global energy system. It's natural to wonder what the long term will bring. Will it lead to an orgy of oil and gas drilling, or will it speed up the energy transition? There are enormous uncertainties, and making confident predictions would be a clear mistake. In this post, I'll try to unpack some of the issues and offer a semi-educated guess about the answers.

My best guess, for whatever it's worth, is that the war will have a positive effect on the energy transition, although it could be a small one if the effect on energy markets is short-lived. I'm more confident about the description of the dynamics than about the prediction itself.

We've already seen substantial effects on energy markets. The average price of gasoline has gone up about 30% in the last month, while diesel is up 50%. Other effects involve cutting off the supply of fertilizer from the Gulf and cutting off the supply of helium (which is used in making computer chips). The price of crude oil has [shot up](#) (from about \$70/barrel (for Brent) before the war to the \$110-\$120 range now. (\$115 as of early this morning.) Expectations of a short war have tended to keep the prices down. Natural gas prices are up by 50% or more in Europe and Asia, but relatively flat in the U.S. due to our high production level.

A prolonged war, or one with heavy damage to energy infrastructure in the Gulf region, could result in more severe, longer-lasting impacts. The [NY Times](#) reports that "[r]estarting plants and reopening the Strait of Hormuz could take weeks, causing a relatively brief disruption. But repairing or rebuilding facilities could take much longer." As one expert said, "If the market is pricing in a short disruption that could be resolved in a cease-fire or the end of the war, it would be weeks for full functional facilities to come back on line. If it is damaged, it could be months." According to the [Congressional Research Service](#), "A prolonged disruption of Middle East oil trade would create oil market conditions for which there is no historical precedent."

A short-lived price surge seems unlikely to prompt large increases in oil and gas production outside the Gulf. As one former official explained: "Maybe the most important thing that I learned working on these issues in government was the limitation that we faced trying to pull levers to incentivize new investment or new production in a sector where the [return on investment] is measured in decades, and where the timeline for implementing projects runs into years." On the other hand, prolonged high prices would also increase incentives to shift away from oil and natural gas to use of alternative energy sources and energy conservation.

Even without a prolonged price increase, there may be something of a move toward alternative energy simply as a buffer against price uncertainty in oil and gas markets. Wind and solar are more predictable economically since they're not subject to fluctuating fuel costs and expensive pollution controls.

There are indications that the Iran War could accelerate the energy transition in Europe. [According to the executive vice president](#) of the European Commission, "the very economic and security rationale beyond the decarbonization of the economy is even more obvious after this great crisis." This makes sense. Europe is not an oil and gas producer. It already went through a an energy crisis when Russia attacked Ukraine and Europe stopped using Russian natural gas. It responded in part by substituting liquified natural gas from the U.S., but we're obviously no longer a reliable trading partner. And it's now in trouble because of reliance on Persian Gulf sources for oil and gas. The best way Europe can insulate itself from these geopolitical shocks is to embrace clean energy and electric vehicles. China has already been moving down the same path.

Pressures on the U.S. are less pronounced because we have become such a major producer of oil and gas. Particularly as to natural gas, home country production has [muted](#) the price impact because global markets are only partially integrated. Nevertheless, we have already learned that our high fossil fuel production offers only partial insulation from the economic impacts of geopolitical crises. So, you'd expect to see some pressure to move away from oil and gas here, but less than in other parts of the world. A lot will depend on how long and how deep the effects of the war run. In geopolitical terms, the war has also revealed that our reliance on fossil fuels creates asymmetric vulnerability: Much weaker nations can exert leverage on us via these markets by cutting off oil supplies.

What if the war ends relatively soon, its impact passes quickly, and it successfully removes the regional threat posed by Iran? That's a best-case scenario for Trump. It would put the economy and the political situation roughly back where they were before the war started. Removing Iran as a regional threat would be an important foreign policy achievement, but American voters are unlikely to care much about issues so far away from home.

There are obviously huge uncertainties, but a reasonable case is that the war either won't move the needle much in terms of the energy transition if its economic impact is transitory, or will push things forward, with how much depending on the length and severity of the impact on energy markets.

