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How the Iran War Is Changing Oil Demand

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For the time being, the war between the United States/Israel and Iran has come to a ceasefire. Israel and Lebanon have also agreed to a 10-day ceasefire, due to begin on 17 April. However, reports suggest that the conditions presented by the two sides for a permanent ceasefire remain far apart, and there is still no clear path towards a complete ceasefire and subsequent permanent safe passage through the Strait of Hormuz.

The war and the blockade of the Strait of Hormuz are having a significant impact on oil-consuming and oil-producing countries alike. Among consumers, including Japan, there are not only supply-side measures aimed at securing oil at all costs, but also numerous demand-side measures intended to reduce oil consumption. Oil is primarily used in automobiles and industry. Looking at developments in Asian countries, some governments are adopting policies to promote the expansion of electric vehicles and biofuel use in the automotive sector. Thailand, for instance, plans to convert all long-distance buses to electric vehicles (EVs) within the next four years. In addition to supplying B50 fuel with 50% biodiesel blending, Indonesia will resume subsidies for the purchase of electric motorcycles. However, electrifying vehicles does not reduce lifecycle CO_2 emissions if the CO_2 emission intensity of electricity remains high. This is particularly true of many Southeast Asian countries that rely heavily on thermal power generation. However, the key point is that accelerating vehicle electrification in response to the war in Iran is not primarily motivated by climate change measures, but by a desire to reduce oil imports and strengthen energy security. Consequently, any subsequent increase in CO_2 emissions is deemed acceptable. While vehicle electrification in Southeast Asia is inconsistent with climate action in the short term, it is consistent with the basic strategy of energy transition: electrifying demand. In the future, electrification aimed at reducing oil consumption may also advance in sectors other than transport. If so, could the war in Iran accelerate the global peak in oil demand and become a catalyst for an energy transition model in which 'demand electrification' precedes first and 'decarbonization of electricity' follows? If this trend continues to grow, it could create opportunities for Chinese companies to expand the use of their electrification technologies, including in the automotive sector.

The situation for oil-producing countries depends greatly on whether they are located inside or outside the Strait of Hormuz and whether they have transport capacity that bypasses the strait. Saudi Arabia, for example, can export crude oil by bypassing the Strait through pipelines with a transport capacity of 7 million barrels per day. As its total crude oil exports in 2025 amounted to 5.6 million barrels per day, Saudi Arabia could, in theory, export the same amount as before the war. Compared with the full year of 2025, the average Brent crude oil price in March 2026 increased by around 1.5 times, meaning Saudi Arabia's crude oil export revenue has also increased by around 1.5 times. By contrast, Kuwait and Iraq, which do not have bypass routes, are unable to export and are losing money day by day. Meanwhile, outside the Persian Gulf, Russia — whose oil embargo was temporarily lifted — along with other oil-exporting countries, including the United States, are earning additional profits from increased export volumes and/or higher oil prices.

Currently, many oil-producing countries are benefiting from the windfall created by the war. The gap between countries that are endowed with oil resources and those that are not has become extremely large. However, oil-producing countries should pay close attention to the trend of reducing oil consumption in the aforementioned countries. Asian developing countries, which were expected to experience continued growth in oil demand, have learnt the painful lesson of the risks associated with oil imports. Just as advanced countries, including Japan, did after the 1970s oil crisis, Asian developing countries will now likely work seriously to reduce their dependence on oil based on this experience. In the 1970s, high technical and economic barriers prevented a bold shift in automotive fuels. Now that EV technology is within reach, the supply and demand for oil may be subject to unprecedented change.

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