



**The Brookings Institution  
The Brookings Current podcast**

**“The Iran war is making energy more expensive for everyone”**

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*Participants:*

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*Episode Summary:*

The closure of the Strait of Hormuz has brought the largest energy disruption the world has seen in decades. Adie Tomer, senior fellow in Metro, talks with Samantha Gross, director of the Energy Security and Climate Initiative, to break down the implications of this crisis for American consumers and the United States.

**TOMER:** The median household in America bringing home about \$70,000 post-tax. Every time gas is up a dollar per gallon, they're losing about 1%.

**GROSS:** This is the big one. This is the thing that energy security people have worried about for years.

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**TOMER:** You're listening to *The Current*, part of the Brookings Podcast Network. I'm Adie Tomer, a senior fellow in Brookings Metro.

**GROSS:** And I'm Samantha Gross, director of the Energy Security and Climate Initiative in Brookings Foreign Policy.

[1:12]

**TOMER:** And we're here to have a conversation about rising energy costs caused in large part by the closure of the Strait of Hormuz, the impact on American households, where this global story could be going, and what we all can do about it.

So Sam, let me kind of toss it to you first because this is really coming out of your line of work. Obviously there's this major military conflict underway, and there's all those dimensions to it, but let's... you know, we're really here to talk about energy today. What's kind of been your reaction overall? I mean, how have folks been dealing with this in the global marketplace?

[1:13] **GROSS:** Well, just to let folks know, this is the big one. This is the thing that energy security people have worried about for years. And for a long time, we thought that Iran couldn't or wouldn't close the Strait of Hormuz, because we were concerned that they wouldn't be able to get their own oil out, and so they wouldn't close it because they couldn't deal with the economic consequences.

Whereas what Iran has shown in this conflict is they can easily close the strait, and also they can close it selectively. They, until the U.S. blockade, were sending out their own crude and blocking everyone else.

The other thing to learn from this is how easy it was to block the strait. You don't need a giant navy. Trump's not lying when he says it's at the bottom of the sea. But a few drones, some missiles, some small attack boats, a lot of threats and occasionally making good on it means that boats can't insure themselves, and so they don't go through the strait because they can't get insurance.

But, fully 20% of the world's liquefied natural gas and 20% of the oil used to go through the Strait of Hormuz on any given day.

[2:05]

**TOMER:** Yeah, this is a busy, busy place. You can always tell when Americans all of a sudden know this new geographic place, and there's-

**GROSS:** Yeah, exactly ...

**TOMER:** they're talking about it all the time.

**GROSS:** I wonder how many... I wonder how many could find this on a map beforehand.

[2:13]

**TOMER:** Yeah, yeah, yeah. Yeah, probably in a few years they won't be able to find it again.

One of the questions I'm getting the most, so I'm actually curious your thoughts on this is what is, to borrow a phrase in a clumsy way, what's the peak oil here? But I mean the peak oil price. All of a sudden folks are watching the crude marketplace looks like, both for the global, the West Texas Intermediate. Folks are throwing around numbers like \$150 a barrel, \$200 a barrel.

What's realistic? And then, including are all those just made up? And then the other part of this is what, what's the kind of numbers we should really be concerned with in the global marketplace, but also back here in the U.S.?

[2:48]

**GROSS:** Those are great questions, and they're also really hard to answer because the oil market is in completely uncharted territory. All told, because some oil has ways around the strait, we're losing maybe 11%, or 11 million barrels a day-ish, of global oil supply. And we've never had a a disruption this big, and we've certainly never had it last this long.

So I think trying to predict prices is a fool's errand. But the thing that I will say is that we've seen them peak out at about \$120 a barrel. That's Brent, the UK benchmark. Here today on Monday, May 11th, they're at about \$105 a barrel.

They're lower than I might have expected beforehand, and there's a few reasons for that. An important one is that there are a lot of reserves being released from various places in the world to deal with this. The International Energy Agency, which is a coordinated bloc of sort of, you know, Western nations, is releasing stocks for this. It's also true that China has immense oil stocks, and they are also using oil from their reserves rather than necessarily importing as much oil.

So the shock is being dampened by oil that's coming from other places, mostly out of storage. And so that's not sustainable over the long, long term. And so all of this is a gamble trying to protect the global economy as this goes on and hoping that it ends soon. So any sort of thought about how high prices might go depends entirely on how long this lasts.

[4:19]

**TOMER:** Yeah. That's a perfect segue because that's the other main question I get that I'm always curious about, which is how long is this going to take to see prices — I say this in a vague way, right, because you, you said it well. We can't predict prices, whether they're retail or, of course, on the global kind of trading marketplaces. But once, let's just say, hopefully this conflict ends tomorrow, you

know, just for conversation, how long does it take, or maybe what does it take for prices to start coming down?

[4:46]

**GROSS:** Those are great questions. And so the thing that needs to happen for prices to start coming down is the crude oil needs to be flowing again. So let's think about what that's gonna take. Part of this is really dependent on travel times. You remember that this crisis arrived in areas in Southeast Asia first, and the reason for that is it only takes a week to go from the Persian Gulf to Southeast Asia, maybe another week, so two weeks, up to Japan and Korea.

But when you think about bringing various products over to the Americas, you're approaching six weeks. So this has been kind of a slow-moving disaster. It's gonna be a slow-moving recovery, too. Any tanker that gets out that's coming towards us is gonna take six weeks to get here. So that's sort of the minimum.

But you also have to think about facilities being shut in. When you shut down a facility, when what it's producing just doesn't have anywhere to go anymore, you can't just sort of turn a valve to start it up again. So that's gonna take time.

And then you have to think about all the rearranging of the various ships going different places. Some have been stuck inside the strait, some have been stuck outside the strait. Few of them are actually where we want them to be, and then you think about those travel times.

It's gonna be several months to get back to a normal-looking oil market even if today, please, inshallah, we were able to get the oil market going again, that the strait was completely open, and everything was what was like it was before.

And there's another question about whether that's even possible. But if it were, you're still looking at two to three months minimum to get to something that looks like normal. And that's not taking into account facilities that were damaged in the war.

[6:25]

**TOMER:** Yeah. And that recovery's gonna take some time. Right? Like, are, are—

**GROSS:** Yeah ...

**TOMER:** what, is there any sense of how, how much time it's gonna take to invest in those damaged facilities? And is the financial capital available to do that?

[6:38]

**GROSS:** It depends on the facility. The world's largest LNG, liquefied natural gas, export facility is in Qatar. And two of the 14, they call them trains, facilities that squish and cool the gas so that you can ship it, two of the 14 facilities there are destroyed. And when Qatar first said it was gonna take five years to bring those back, I was blown away. But I've since seen reports from their suppliers, and the way this has to happen, it will take about five years to get those back. So that's kind of the worst of it.

And then others, it's gonna depend on availability of, you know, various parts and equipment that are needed to get things going again, I think that five years is the long end. But, there should be capital available. That's that's a bright spot. Qatar can certainly afford to rebuild those, although it will not be cheap.

And some of the other facilities, there's gonna be investment capital available as soon as the security situation is favorable. And everything I say that that's upbeat depends on the security situation being favorable.

[7:40]

**TOMER:** Totally.

I'd love to switch to the domestic side of this, because we are really seeing pain at the pump for people right now. Gas stations are like economic billboards, and they are advertising bad news to consumers all the time. We're recording on May 11th. Gas prices across the country, they're up about a \$1.50 in many parts of the country. And here's where the pain really comes home. By our own estimates, the median household in America, two adult wage earners, they're bringing home about \$70,000 post-tax. Every time gas is up \$1 per gallon, they're losing about 1%. And I don't know about you, but I don't want to see a 1% pay cut in my take-home paycheck. That never feels good.

And that's what, that's what folks are feeling. So this really does feel like, I loved your language, Sam, on like this is the big one. And it really does feel like the first time domestically we're feeling it somewhat like the 1970s oil crises. We don't have the lines at the pump, but we're starting to see this kind of seep into the economy, seep into our narrative that we're really getting punished here on gas prices.

[8:43]

**GROSS:** Yeah, I mean, and if you think about it, I'm, I'm showing my age, I I certainly remember the gas lines in '79. I was a wee lass in '73. But this is bigger than those two disruptions combined.

But Adie, I mean, this is a question kind of in your world. What can consumers do about this? I mean, over the long term you can talk about electric vehicles and building transit, but none of those are quick solutions for people who are taking it right in the wallet right now.

[9:09]

**TOMER:** Yeah. The the short answer is there's not much we can do. You know, back to those 1970s conversations, you know, they actually brought out, Hey, make sure you carpool more. Make sure your tires are pumped up, because you'll stretch further on a gallon of gas. It's basically the same stuff right now. You know, Americans are mostly stuck in their cars, and it's gonna be really, really difficult for them to find anything else besides either carpooling, staying at home more.

Except the problem is, as the gas prices move throughout the economy, right, transportation and logistics, that's one of the major consumers of refined petroleum. Right? So they are going to pass that along to people. We can expect to see

deliveries getting more expensive. Of course, we're already seeing this in our consumer aviation market.

So it's a really tricky time for people. I don't think there's any short-term solutions. I'd love to give people some good advice besides take your local bus or train if you've got it, but, it's not much more than that.

[10:02]

**GROSS:** It's really tough. And, I mean, you talk about transportation, and you're thinking more about people, whereas I'm actually thinking a lot about goods. And the one that makes me the most nervous is food. Margins on food are pretty small, and so an increase in the transportation costs is a big deal for the price of food.

And in addition to that, we don't really think about fertilizer as being an oil and gas product, but in many ways it is. Ammonia, nitrogen fertilizer, is basically made from hydrogen made from natural gas. And then on the phosphate side, that's often made using sulfur that is taken out of sulfury crude oil. And so both of those products were missing the supply that used to come through the Strait of Hormuz. About 30% of seaborne fertilizer trade actually went through the Strait of Hormuz.

So I'm worried about food prices taking a little bit of a double whammy, both through the transportation cost and then also through the cost of growing food in the first place.

[10:57]

**TOMER:** Yeah. And we're already seeing this on the CPI. You know, inflation is up in the United States. It's not just limited to the gas prices that people are paying. And it speaks to, as you pointed out, there are just so many industries this touches. I did talk to a reporter about medical devices. Those are so deeply intertwined with plastics at this point. You know, so what could be good for the petrochemical industry in Houston, for most other corners of the country, they're really getting punished here economically.

And again, that's also the story of the 1970s. Many parts of Texas and the households down there actually did okay in all this because the revenues actually flow back to them. But for most places, if you don't have a refinery of any type, of course if you don't extract oils in any way, then you're really just kind of taking it on the chin and exporting your income somewhere else.

The other part that I'm really closely watching, of course, is the November elections, because we know that households do not like when they have to spend more money on something they don't want to spend more money on. And gas fits perfectly into that. Feels like they're trapped here. And so we we already know the polling is kind of showing some very slight movement here. It certainly hasn't been good in approval ratings for any of the incumbents.

But the part I keep trying to pass along to people is really watch how long this lasts. And I think what's so valuable about what you're bringing to the conversation here is that folks need to be ready. This is not going away anytime soon even if the conflict

magically just solves itself and stops, let's say this week. The chances are as we get closer and closer to November, people are either gonna have the memory or potentially still confronting high gas costs. That is a big problem for incumbents.

And one last kind of quick stat on this, Republican-represented districts in Congress, their constituents drive 27% more miles on average than constituents who live in Democratic-represented districts. When there's already headwinds against the Republican controlled Congress, this is a really tricky conversation for them to have with voters.

[12:53]

**GROSS:** And I guess that makes sense because more Republican voters are in rural areas where there are fewer options to driving. I'm from one of those areas. It makes sense to me.

One of the other things I want to point out is it, it's gonna be a rough summer driving season no matter what. If the war, by some wonderful happening, ends at the end of this week or whatever, it's still gonna be a rough summer. It's gonna take us two to three months minimum to kind of get to something that looks vaguely like normal. So we're gonna have a rough driving season, or expensive driving season.

And it depends on how long that goes on and also who gets the blame for it. And I think an important thing is here is the cause and effect on this I think is quite clear to voters. They are, I feel, making the connection between the war in Iran and expensive gas. That's a logical leap that they feel comfortable making.

I've also heard some things come out of the administration that's like, Oh, we're in much better shape because, you know, that's not our oil, you know, we're energy powerful. Or that, Oh, well, you know, at least our oil companies are making money, and that's true. Our overall economy is in better shape than it would otherwise be. And the fact that we're not involved in the natural gas disruption because we make more than we need already here and we can't export anymore means that that doesn't touch us, so we are in better shape than most.

But, even though we produce oil and gas here, it's priced on the global market. It's why our oil and gas companies are making money. But the flip side of that is anybody who uses oil and gas as an input, the petrochemical companies who are making all the plastics for everything we use every day, the price of their inputs went up, which then flows into the price of those products, and all the packaging for other products, and just the inflationary pressures for this are off the charts.

And people hate inflation. I get it. I go to the grocery store and I'm like, what did that cost yesterday? So we're looking at a, I think, a difficult summer for incumbents for sure, just because they, they want to blame somebody. And, you know, everybody knows what gasoline costs. People can't tell you what a gallon of milk costs, but they drive down the road and they see what a gallon of gas costs every single day. And so it's gonna be a rough one.

[15:00]

**TOMER:** Yeah. I I think that's spot on. Let's kind of look beyond maybe even November, irrespective of what happens in politics. What's it gonna take to see changes in the marketplace? Like, does this inspire something? What do you think might happen to kind of just, globally speaking, our oil and gas markets and kind of who makes what, and what what gets shipped where? What's possible here?

[15:23]

**GROSS:** It's a tough question, and that kind of depends on how long this lasts, too, how deeply felt and long felt the the effects of this are. If this goes on a long time, it really actually encourages the push towards renewables. It makes less of a difference in the power sector here because we're fine on natural gas, but it does push the U.S. towards electric vehicles, whereas internationally it helps on the power side too because the connection to natural gas. And so it pushes for both electric vehicles and renewables the longer it goes on.

Something I hope it doesn't do is push towards this every man for himself mentality, we all must be energy independent. That was never a great goal for anybody. Even though the U.S. is an energy powerhouse, we're not energy independent, nor should we be. You know, it makes, it makes sense to trade. It makes the world better for all of us.

But if it does push us more towards thinking about how to deal with disruptions together and how to move away from fossil fuels in the places where that's easier to do, I think that is something that could be a potential silver lining to something that is otherwise honestly just all negative.

[16:30]

**TOMER:** Yeah. I I'm expecting to see big changes to how we regulate vehicles here in the United States. That was one of the big lessons of the 1970s. Folks kind of probably don't have that memory anymore, but there used to not be that sticker when you went to buy a new or used car telling you how many miles per gallon you got. That's a direct offshoot of those dual oil crises in the 1970s.

[16:50]

**GROSS:** But the flip side of that is the current administration just rolled those back. And so what I really wonder in, you know, the shorter term, you know, the the next two years and change, is what does this administration take away from this? Do they continue to say, Well, that's not our oil, and it's not our problem, even though we're clearly paying \$1.50 more for gasoline? Or do they kind of back off and say, Oh, yeah, well, you know, maybe regulating vehicle efficiency's a good idea? I'm curious how how, you know, the administration we have for the next couple years responds.

[17:19]

**TOMER:** I think it's gonna be really tough to answer. It's the right question. And I I don't mind kind of saying this out loud, is we don't really understand fully the lobbying that is happening behind the scenes from the oil and gas industry extended.

It was really clear before the election that if President Trump was reelected, that there was gonna be big support for the oil and gas industry to consume more of their product. Right? And obviously, that is now coming into real conflict with what consumer demands are. It's it's tough to know if the administration's gonna back off.

But interesting here, even though they do control some of the regulatory levers, Congress still has real authorities here, and states theoretically can have some, too. Even if they can't regulate some of those federal standards, although California has an interesting exception still, they can offer incentives for electric vehicle uptake. So I think you're spot on on that.

This is gonna be great, great news for the electric vehicle industry globally. This is the kind of black swan-like event, if you will, that really makes their product look more competitive, more frankly future looking. I think the U.S. is gonna come back to that, too. That's a big expectation.

The other one, and this was really fun for our research. You know, I've known since the 1970s that these communities, actually both you and I spent time with them over in Europe, that they made a big switch away from vehicles, that they were doing pretty similar to the United States through the middle of the 20th century. And then starting in the 1970s and '80s really started rethinking how people moved around their communities. You know, this is most typified through, you know, the the bike rider in Amsterdam. But it's not just those places. It's all of those Central European countries, and now places like London and Paris even more so.

Turns out, yep, in those countries it actually was the 1970s oil crisis. And they knew that they didn't have the same potential reserves that we had. Of course, they didn't have the shale revolution like we did. So I think a huge question that's really hard to answer but that I'm gonna be closely watching, is how are mayors, county officials, governors, and of course even federal officials thinking about, You know what? Maybe we should offer people not just more fuel efficiency in their cars, but the actual opportunity to get out of cars entirely.

[19:24]

**GROSS:** It's definitely a quality of life improvement. I mean, I'll sort of wrap a bit by saying that I went to a huge energy conference in March right after this all started, and even the big oil companies, who you would think would be delighted that they're making a ton of money because oil prices are so high, they don't like this crisis either because they're worried about some of the things that you're describing.

They see high oil prices for an extended amount of time bringing about what they like to call "demand destruction." They're concerned about moving more quickly towards substitutes for oil and gas, and they're also incredibly worried about their own operations. I mean, if you think about when I said an important chunk of facilities that make LNG in Qatar were damaged, well, those were joint ventures with Shell and ExxonMobil. And so those big companies that we see when we drive down the road are also being hurt by what's happening.

[20:17]

**TOMER:** Yeah. Well, there's a ton to chew on here. I mean, it is... I personally, I don't think this story's going anywhere anytime soon, and I think we—

**GROSS:** No, we're gonna be talking about this again.

**TOMER:** Yeah. And, and the question is, how long is the institutional memory, too, and some big changes coming. So again, to kind of repeat for folks, we've got really interesting stuff to watch in terms of the actual conflict, the opening of the shipping channels, then here domestically not just the prices, but what does that mean for midterm elections? And then, and then long kind of tail from there.

[20:44]

**GROSS:** Yeah. This is an event that we're all gonna remember. I think of events in my life that have happened, and I'm like, I'm gonna remember this date, and this is one of these things. This is gonna be something that we're all gonna talk about for a long time, and we don't know how it ends yet.

**TOMER:** Yeah. Great. Well, Sam, thank you so much. You know, we get to do this in the hallways. It was really cool to do it this way. Thank you to everyone for listening and watching.

[music]

You can learn more about these topics on our website, Brookings dot edu. Again, my name is Adie Tomer, and this is *The Current*.