Tomorrow's Affairs
Analysis of today
Assessment of tomorrow

By: TA | AP Insight

Can Iran's oil industry recover from the US blockade?

Even as Iran squeezes world energy supplies with its chokehold on the Strait of Hormuz, its own oil industry is increasingly being threatened by an American blockade.

With no way to export the oil it is pumping out and diminishing room to store it at home, Iran may be forced to dramatically reduce or cease production from some of its wells, perhaps beginning in as little as two weeks, experts say.

The situation likely isn't as dire as U.S. President Donald Trump recently described, colorfully suggesting pipelines could start exploding within days.

But once shut down, production from the aging wells may not be restarted so easily, if at all, undermining Iran's future oil output.

Iran appears to have begun dialing back production already, analysts say, to avert outright shutdowns.

The pressure is building as the U.S. Treasury Department ratchets up sanctions on Iranian oil shipments already at sea.

The U.S. military has seized at least two tankers off Asia believed to be carrying Iranian oil.

With its oil trade constrained, Iran is seeing less hard currency flow back into an economy mauled by weeks of war, months of unrest and decades of international sanctions.

But with fewer tankers shipping Iranian oil, the effects of the Strait of Hormuz shutdown are only being magnified, leading to shortages of jet fuel and rising gasoline prices around the world.

Iran's leaders "are really resisting" shutting down oil wells because of how painful that would be long-term, said Miad Maleki, a former sanctions expert at the U.S. Treasury who is now a senior fellow at the Washington-based Foundation for Defense of Democracies.

"They've been under sanctions, they've been isolated for 47 years now. Those oil wells are not maintained well. Their machinery is not maintained well," Maleki said. Once shut off, he added, the wells won't easily "snap back after a few months."

The squeeze on Iran intensifies

Iran had been pumping over 3 million barrels of crude oil a day before the war, with a little more than half going toward its domestic market.

But since the American blockade began on April 13, ships have been filled with oil and unable to get out.

"It looks like there's been a significant slowdown in production," said Antoine Halff, the co-founder and chief analyst at Kayrros, an environmental intelligence company that tracks emissions and energy supply chains.

He pointed to signs that storage is not filling as fast as usual at Kharg Island, Iran's main oil export terminal in the Persian Gulf.

Iran is likely storing some of its oil in tankers positioned around Kharg Island, Halff noted.

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Kpler, a firm monitoring commodities markets, said it believes Iran has enough capacity left to store about two weeks worth of oil production, even after reducing output.

"While the immediate revenue impact is limited, operational constraints are now forcing production cuts and setting up a delayed but significant financial squeeze," wrote Homayoun Falakshahi, an analyst at Kpler.

Wood Mackenzie, another oil analysis firm, estimates Iran will run out of storage capacity in about three weeks.

"If the blockade persists, cuts become inevitable," wrote Alexandre Araman of Wood Mackenzie.

Shutdowns of more than a month "risk long-term damage" to Iran's oil reservoirs, he wrote, adding that recovering older fields "remains uncertain."

Iran's oil industry long a shaky lifeline

From the moment it first struck oil in 1908, Iran's oil industry has been entangled in the region's politics.

A move to nationalize Iran's oil fields and wrest control from the British sparked the CIA-backed 1953 coup that cemented Shah Mohammad Reza Pahlavi's rule.

That also lit a long fuse to Iran's 1979 Islamic Revolution that toppled the shah. During the revolution, oil workers went on strike and brought production down from 6 million barrels a day to around 1.5 million.

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In his first term, Trump exerted a "maximum pressure" campaign, hiking sanctions to severely cut Iran's oil exports.

Forced to store oil in tankers at sea, the Iranian government lost tens of billions of dollars in revenues. Still, the pressure failed to push Tehran into reaching a nuclear deal with the U.S.

Now Iran faces a combination of hiked sanctions and the blockade. Trump on Tuesday claimed that Iran was "in a 'State of Collapse.'"

Oil workers could potentially lose their jobs

U.S. Treasury Secretary Scott Bessent piled on, writing on X, "Iran's creaking oil industry is starting to shut in production thanks to the U.S. BLOCKADE. Pumping will soon collapse. GASOLINE SHORTAGES IN IRAN NEXT!"

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However, Iran does seem to be acknowledging some of the pain indirectly.

A segment on state TV, which is run by hard-liners, included journalists discussing the possibility of an oil storage crisis.

One noted that if empty tankers get blocked from returning to Iran, "we won't be able to export."

Oil Minister Mohsen Paknejad on Monday praised oil terminal staff for their "continuous perseverance."

Maleki, the analyst from the Foundation for Defense of Democracies, said that if the blockade continues and production slows further or halts, oil workers could potentially lose their jobs — which could cause new unrest.

"In 1979 when the oil industry was disrupted,

in the 1980s war with Iraq ... you can go and look at to see how effective they were in really pressuring the regime," he said. "It's really going to affect some of the most strategic provinces in Iran and the most strategic industry."