Iran war will debilitate petrochemicals for the rest of 2026

Chemical production will decline in Asia as long as the conflict persists, experts say

by Alexander Tullo

April 2, 2026 7 min read

The Kuwaiti-flagged tanker Al-Salmi following a purported Iranian attack off the coast of Dubai, United Arab Emirates. Harassment of shipping in the Persian Gulf has paralyzed exports of oil and chemical products. Credit: Reuters

The war in Iran has upended all of the petrochemical industry's expectations for 2026.

The year was supposed to be one of surplus: petrochemical supplies are glutted, and producers are working through their longest and deepest downturn in a generation. Now the war has taken out oil and petrochemical production in the Middle East and Asia because energy installations have been struck by drones, and ships are unable escape the Persian Gulf. More output is lost every day. Even if hostilities were to cease tomorrow, it would take months, and possibly the rest of the year, for business to return to normal.

At S&P Global's World Petrochemical Conference in Houston last week, market analysts and chemical executives warned that the bad situation is only getting worse. Speakers didn't hesitate to use superlatives. "On March 1, we put out a report saying 'the biggest supply disruption in history, question mark.' Well, that question has been definitively answered: it absolutely is," said Jim Burkhard, S&P Global Energy's head of research for oil markets, energy, and mobility.

Before the war, Burkhard said, some 21 million barrels of oil and refined products—about 20% of global supply—exited the Persian Gulf through the Strait of Hormuz every day. Some oil is trickling out on occasional ships that make it through or via pipelines to the Gulf of Oman and the Red Sea. Overall, for March, the market was missing about 14 million barrels per day.

Most of this product had been destined for Asia. "Asia is the epicenter. That is where there is a real supply crisis," Burkhard said. Days before the conference, while Brent crude, the European benchmark, was trading at $111 per barrel, grades of crude from Dubai and Oman were going for $169 and $182 per barrel, respectively.

“That’s a massive spread that cannot endure, and the longer that the Strait remains closed, effectively closed, there is going to be more and more pressure outside of Asia,” Burkhard said. Over time, he said, if the crisis doesn’t ease, prices in Europe and even the US will “gravitate more towards the prices we have seen in Asia,” to the detriment of refiners and petrochemical producers.

> "We have a very long supply chain that has now dried up."
>
> Kurt Barrow, vice president, oil, fuels, and chemicals research, S&P Global Energy

“Over half of the world’s refineries are somehow impacted or influenced by this,” said Kurt Barrow, vice president of oil, fuels, and chemicals research at S&P Global Energy. Among these are refineries in the Persian Gulf, some of which are under the direct threat of missile and drone strikes, as well as the 40% of refineries in the rest of the world that buy oil from the region. Such refineries make feedstocks such as naphtha for ethylene crackers or are integrated with petrochemical plants.

Under normal circumstances, it takes 20 days for tankers from the Persian Gulf to reach destinations in Asia. The war has continued past that duration, and customers are missing deliveries. “We have a very long supply chain that has now dried up,” Barrow said.

Janet Kong, CEO of Hengli Petrochemical International, the Singapore-based trading arm of the Chinese giant Hengli Petrochemical, said refiners in Asia are already cutting output by 10–15%. “The US has a blessing of being an energy exporter,” she said, and the crisis isn’t fully reflected in its oil prices. “East of Suez, life has been very different.”

The war is also affecting petrochemical plants directly in the Middle East and indirectly in Asia. “The duration of the war is very important,” said Walt Hart, vice president of global natural gas liquids research at S&P Global Energy. “If it drags out, we have a lot more problems that we face than if it ends quickly.”

Hart said that about 29 million metric tons (t) of ethylene capacity, out of a global total of 232 million t, is sitting directly in the conflict zone. Ethylene, one of the most important

building blocks made in petrochemical plants, is used to make polyethylene and ethylene glycol, a precursor for polyester products.

A big issue facing these facilities is that even if they are safe from missiles and drones, their output, such as bags of polyethylene, piles up quickly if their owners can't ship it out. "I'm asking myself, What level of inventory can I stack up and keep the operation running?," Mark Eramo, a special adviser for S&P Global, said on the sidelines of the conference.

Dow, which operates joint ventures in Kuwait and Saudi Arabia, is contending with the storage problem, CEO Jim Fitterling said. "We are finding out things every day, second derivative effects of what's going on," he told the audience. "We want to run because taking everything completely down cold is not the best, but there's no place to put everything."

Following the conference, Dow's massive Sadara petrochemical joint venture with Saudi Aramco in Saudi Arabia suspended operations because of supply chain disruptions.

Ethylene capacity, S&P's Hart noted, has also been shut down in Iran, Kuwait, and Qatar. "We are seeing reductions to near minimum in the rest of the Persian Gulf countries." So far, he said, the industry has lost 15 million t of Middle Eastern production capacity on an annualized basis.

On top of that, another 140 million t of capacity across Northeast Asia, Southeast Asia, and the Indian subcontinent is affected by the dwindling of feedstocks from the Middle East. Plants in those regions have throttled back production by 7–8 million t, Hart said. All together, the ethylene outages due to the war amount to 12% of global production.

In addition, the market has lost 8 million t of annual ethylene glycol exports out of the Middle East. Even if other regions, such as the US and Canada, run their plants at maximum capacity, the market will still be short, and some customers will have to limit output. "We are going to see demand destruction," Hart said.

Chemical prices are increasing. Jesse Tijerina, executive director of chemical consulting at S&P Global Energy, said variable costs to make polyethylene in Asia have doubled since the beginning of the war, and prices for polyethylene have increased 40–50%.

The higher prices were not what executives expected for 2026. Fitterling pointed out that the market had been in a period of unprecedented overcapacity, and depressed prices, before the crisis. Now every company that can is producing as much as possible. Operating rates before the crisis were in the mid-70% range, Fitterling said. “Suddenly everything’s flat out.”

US petrochemical production, which is largely based on domestic natural gas and is at a cost advantage over Asian and European production even under normal circumstances, is in a position to ramp up. As long as demand remains steady, producers in North America, and even in Latin America, are “poised to benefit from this,” Eramo said.

John Moseley, chief commercial officer of Port Houston, told attendees that he has already seen an increase in exports, especially products, such as polyethylene, that are shipped in containers. “We have already seen an increase of 12% just in the last 2 weeks,” he said. “We’re going to see some huge increases going into Asia.”

In Europe, the conflict has pushed up production costs, said Anup Kothari, a BASF executive board member. On the other hand, the region is experiencing less pressure from imports, which had been a problem in recent years. “People are not yet seeing the full effect, but everybody is expecting it,” he said. “So far, actually, surprisingly, it is actually a net positive, even in Europe.”

Petrochemical makers are also considering what happens after the war, particularly regarding the shipping of products now trapped in the Persian Gulf. “Petrochemicals are not going to be the first in the pecking order,” Fitterling said. “Fertilizers, oil, and gas are going to get out first.”

Andrew Neale, global head of chemicals for S&P Global Energy, warned that the chemical industry will be ensnarled by supply chain issues. “You are going to have a big dislocation of containers around the world, which is going to take quarters instead of months to unwind,” he said. “We need to look at what demand will do coming out of this. We have seen big swings post-COVID. I think we will see the same coming out of 2026.”