

The Pacific and the Iran war

by Stephen Howes and Rubayat Chowdhury

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Oil tanker docked at the Port of Lyttelton, New Zealand

Photo Credit: [Wikimedia/Bernard Spragg](#)

There is no doubt that the war Israel and the United States have launched against Iran will have global economic consequences. While it is difficult to know what those consequences will be, it is hard to see them as positive, and they could be very, very negative.

Already we have seen [oil prices spike by 8% since last week](#), and by much more since January. Oil prices reached above US\$100 a barrel with Russia's invasion of Ukraine in 2022, but then gradually started to fall, and by the start of the year had returned to their pre-2022 level of US\$60. Just before the weekend they had risen to US\$70 and now they are almost at US\$80. With the Strait of Hormuz effectively closed, they could rise much more.

That is on the price front. There could also, unlike in 2022, be problems on the quantity side. If it continues to be difficult to ship oil out of the Middle East, then shortages of oil might start to emerge. The countries that will do best in such a situation are those with large stockpiles or plenty of bargaining power. The Pacific Island countries have neither.

The Pacific is also vulnerable because of its extreme reliance on oil. [According to a 2022 UN report](#), the Pacific meets 80% of its energy requirements through oil. Even in the electricity sector, renewable energy sources make only a limited contribution. There has been some growth in renewable energy as an electricity source. [According to analysis by Janendra Prasad at UNSW](#), the share of renewable energy in electricity production in the Pacific has increased from 17% in 2017 to 24% in 2023. That is still low, and nowhere near what Pacific governments are themselves targeting (in excess of 80% by 2030).

The Pacific is also vulnerable because of its lack of domestic oil production and very limited storage capacity. In fact, [Tonga suffered fuel shortages last year](#) due to problems with its fuel depot and a stranded fuel vessel.

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With drivers now queuing in [Australia](#) and [the UK](#) to get their petrol before prices rise or petrol rationing begins, it wouldn't be surprising to see queues develop across the Pacific. Governments can tell people not to panic, but it may seem like a rational response given the risks of petrol price rises and rationing.

It is important to clarify that PNG is the “odd one out” in the Pacific. PNG will actually likely benefit from the crisis as it is a large exporter of LNG. The government's tax and dividend take will increase as LNG prices rise. PNG also has an oil refinery. And this war will also help the prospects for [PNG's much-delayed and still-uncertain future LNG projects](#) by increasing the value to Asia of sourcing its LNG nearer to home than the Middle East.

So far we have focused on petroleum. But there are also the wider ramifications of the war. It may lead to an uptick in global inflation, and may even push the world towards or even into recession. An oil shock on its own is unlikely to be enough to lead to a recession, but an escalated, widespread Middle East conflict (or possibly a conflict that extends to Turkey and Europe) certainly could.

Again, PNG will benefit from a further increase in the gold price as investors lose faith in the US, and therefore in the US dollar. But overall, what is bad for the world is bad for the Pacific. Remittances, tourism, fishing licence fees, aid and investment returns would all suffer in the event of a global recession.

There is a possible upside. If Iran capitulates and, with or without regime change, gives in to US demands, then, with sanctions removed, oil production might go up and oil prices down. Right now, that doesn't seem like a likely scenario.

More relevant are the positives that could limit or to some extent offset the downside for the Pacific.

One is that it is still unclear how long this war will go on for. The shorter it is the less worrying the outcomes.

A second is the positive role Australia can play. Although there are questions about Australia's [own limited oil storage capacity](#), Australia will be under pressure to share whatever oil it is able to import with its Pacific family.

Third, and longer-term, this crisis, especially if it is long-lasting, might make the world more serious about the renewable transition, not so much to avoid dangerous climate change, but to shore up energy security. Understandably, for the Pacific, which is highly vulnerable to climate change impacts and whose emissions are negligible at the global level, the focus to date has been on climate change adaptation rather than mitigation. But the sort of crisis currently unfolding should

give the Pacific countries and their funders a stronger incentive to close the growing gap between Pacific renewable energy targets and reality — not to reduce the risks of climate change, but rather to reduce Pacific vulnerability to an increasingly shock- and conflict-prone Middle East.

Stephen Howes was recently interviewed on this topic for the [ABC's Pacific Beat program](#).

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