BCEC Policy Brief

When oil shocks return: what the US-Iran crisis means for Australia

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Key insights

- **The US–Iran escalation has triggered a fast-moving global oil shock**, highlighting the Australian economy's continued vulnerability to energy disruptions.
- Fuel prices have risen sharply in weeks (diesel ~+63%, unleaded ~+42%), **flowing quickly into inflation and business costs.**
- Emerging shortages reflect both supply strain and behavioural responses, **with panic buying and distribution bottlenecks amplifying pressures.**
- The shock is significant but not yet systemic, with outcomes **highly contingent on escalation and duration** of the Iran conflict**.**
- Impacts are broadening rapidly beyond oil, affecting gas, freight, food and supply chains - **raising stagflation risks if sustained.**
- **Oil price shocks often hit regions hardest**, where limited competition, longer travel distances and higher freight costs drive both higher fuel prices and a larger cost-of-living impact.
- BCEC analysis suggests fuel price spikes are largely driven by wholesale cost surges, but with **some signs of uneven pricing - particularly in regional areas -** where the extent of price gouging remains unclear as margins and behaviour adjust under greater scrutiny.
- **Immediate policy priority is operational stability and protection**: stabilise demand, prioritise fuel for critical sectors, monitor prices and keep supply chains functioning-while delivering **targeted support to vulnerable households most exposed to rising energy and food costs**, and accelerating longer-term resilience in line with international responses.

Nature of the Current Global Oil Supply Shock

A sharp escalation in tensions between the United States and Iran has pushed oil prices higher and reminded the world of a familiar vulnerability: when energy supply is disrupted, the economic consequences are felt quickly and widely. For Australia, this is not a distant geopolitical story - it is a **cost-of-living shock, a business shock and a policy test all at once**.

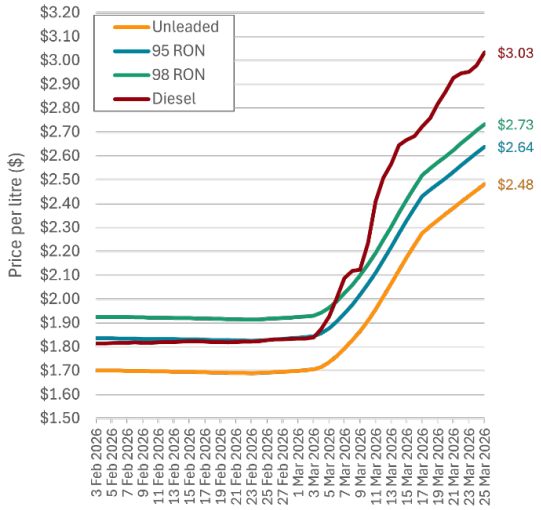
Australia's petrol prices are often viewed through a domestic lens - taxes, retail margins and local competition - but in reality, they are bound far more tightly to global oil markets. During major geopolitical disruptions, such as the current US–Iran conflict, Australian fuel prices are best understood as the **local transmission of a global supply shock**.

This episode is not just about higher prices - it is about **physical disruption to supply**. The Strait of Hormuz, a critical artery for global energy, typically carries around **20 million barrels of oil per day**, or roughly **20 per cent of global oil flows**. Disruptions to this route have tightened supply and pushed crude prices above **US$100 per barrel**, with markets becoming highly volatile (Figure 2).

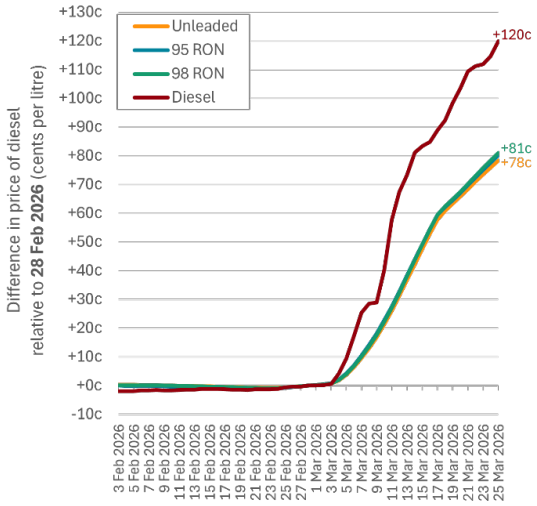
For a country like Australia, heavily reliant on imported refined fuels, these global shocks quickly translate into higher wholesale costs, which flow through to retail prices. Over the past four weeks, fuel prices have surged, with diesel rising from around $1.85 to $3.03 (**an increase of 120c or around 63%**) and premium unleaded from $1.80 to $2.73 (around **+42%**) (Figure 1). At the same time, **local shortages have begun to emerge**, particularly on the east coast, as supply constraints interact with panic buying and distribution bottlenecks.

Figure 1: *Retail fuel prices and price changes by type: Western Australia, 3 Feb 2026 to 25 March 2026*

(a) Price of fuel in WA: by fuel type ($ per litre)



(b) Price change relative to 28 Feb 2026 (cents p/l)



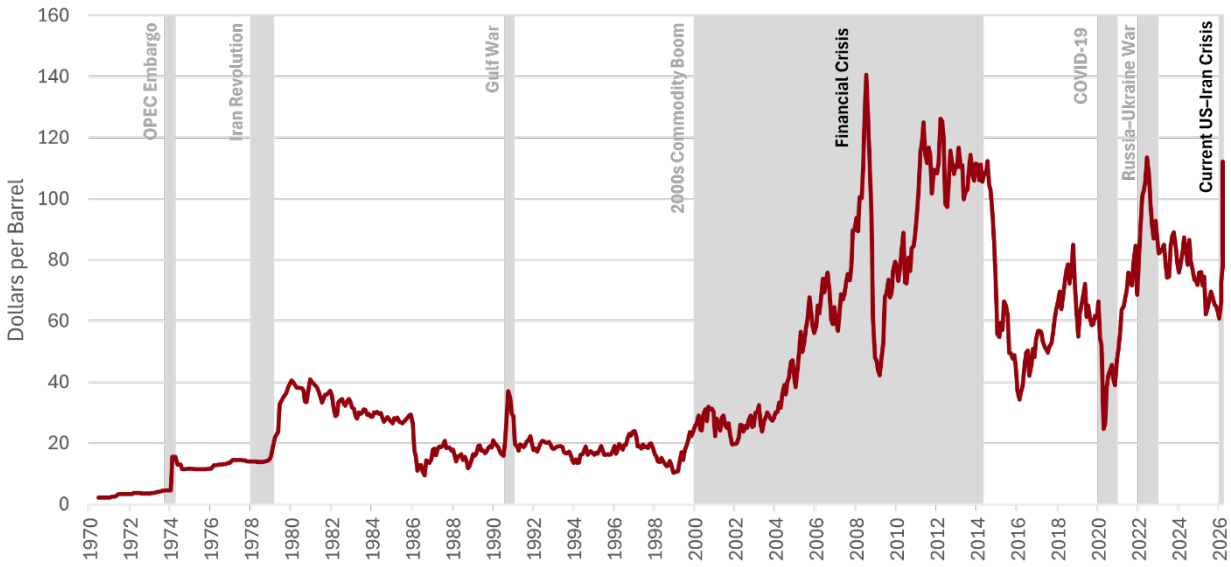
Notes: All prices are unweighted averages of daily prices from FuelWatch data across WA retail outlets. Price changes are measured relative to 28 February 2026, representing the start of the Iran conflict.

Source: Bankwest Curtin Economics Centre | Author's calculations from FuelWatch historical data (https://www.fuelwatch.wa.gov.au).

How does the Current Shock Compare to Previous Oil Supply Shocks?

The 2026 oil shock stands out not just for its size but its structure. Rather than a single producer cutting output, it reflects a **chokepoint disruption** through the Strait of Hormuz, simultaneously constraining multiple exporters and a large share of globally traded oil. This makes it harder to reroute supply and amplifies its global reach compared to earlier shocks.

Figure 2: *Brent crude oil price, 1970 to 2026*



Source: Bankwest Curtin Economics Centre | Author's calculations from Trading Economics

By contrast, more recent disruptions have been narrower and more manageable. The Gulf War caused a sharp but short-lived spike, while the Russia-Ukraine shock was shaped by sanctions and trade re-routing rather than outright supply loss. In both cases, markets adjusted through spare capacity, alternative suppliers and demand responses, avoiding prolonged systemic disruption.

The current shock sits between past extremes, which is to say, **serious, but not yet catastrophic**.

Like the 1970s, it is supply-driven, but today's economies are less oil-intensive and central banks, including the Reserve Bank of Australia, are better equipped to manage inflation. What matters most is not the initial shock, but its **duration**. A short disruption may resemble the Gulf War; a prolonged one risks broader spillovers across energy and supply chains - and a return to **stagflation-like dynamics of the 1970s**. Key differences between previous oil shocks and their potential economic impact are outlined in Table 1.

Table 1 *Oil Shocks over time – causes, speed and economic impact*

Shock	Cause	Supply impact	Speed of price rise	Market scope	Economic impact
1973–74 OPEC embargo	Coordinated supply cut (Middle East)	🔴 Large ~7% supply, (multi-country embargo)	🔴 Rapid	Oil-focused	🔴 Severe stagflation, deep global slowdown
1979–80 Iran revolution	Political collapse in Iran	🔴 Large ~5% supply (production loss + panic)	🔴 Very rapid	Mostly oil	🔴 High inflation, global recessions
1990–91 Gulf War	Iraq invades Kuwait	🟡 Moderate ~9% supply (temporary disruption)	🔴 Sharp spike	Mostly oil	🟡 Mild, short-lived slowdown
2000s commodity boom	Strong global demand (China-led)	🟢 Limited (no supply shock)	🟡 Gradual	Oil, gas + other markets	🟡 Inflationary but strong growth
Global Financial Crisis (2007-09)	Financial system collapse	🟢 No supply shock (demand collapse)	▨ Price collapse (not rise)	Oil, gas + other markets	🔴 Deep global recession, disinflation
COVID-19 (2020–21)	Pandemic, lockdowns, reopening	🟢 Demand collapse → later supply bottlenecks	🔴 Very rapid rebound (after collapse)	Oil, gas + other markets	🔴 Highly volatile (collapse → surge)
Russia–Ukraine war (2022–)	War, sanctions on Russian exports	🔴 Large (especially gas, some oil)	🔴 Rapid	Oil and gas	🔴 Sustained inflation, Europe most affected
Current US–Iran crisis	Conflict, geopolitical tension, shipping risk	🟡–🔴 Very Large ~20% supply, (escalation risk)	🔴 Sharp spike, volatile	Oil, gas, fertiliser + other markets	🟡–🔴 Higher inflation, growth drag, elevated stagflation risk

Transmission Channels

An oil price shock spreads through the economy first via **higher costs**. Oil is a key input into transport, freight, agriculture and industry, so when prices rise, businesses face higher operating costs. Some of these are passed on to consumers, pushing up inflation, while others are absorbed through lower profits. At the same time, households experience a **real income squeeze,** with more spending on fuel, energy and food leaving less for discretionary consumption, weakening demand in sectors like retail, hospitality and travel.

These effects are reinforced through **inflation expectations and policy responses**. If higher energy costs feed into wages and broader pricing, inflation can become more persistent, prompting central banks, including the Reserve Bank of Australia, to keep interest rates higher for longer. This raises borrowing costs and further dampens spending and investment. Oil shocks also increase uncertainty and have uneven sectoral impacts, with energy-intensive industries hit hardest. For Australia, reliance on imported fuel amplifies these dynamics, resulting in the difficult combination of **higher inflation alongside weaker growth, raising the risk of stagflation if the shock persists**.

Distributional impacts - Why are there differences in prices across regions and cities?

Domestic market dynamics shape how global oil shocks are felt on the ground. While higher oil prices are generally passed through to consumers, the **timing and magnitude vary across locations**. Retail fuel markets are competitive but imperfect, meaning prices can diverge from underlying wholesale costs in the short term. This helps explain why **price increases are often sharp and immediate, while declines tend to be slower and uneven**.

These dynamics play out differently across cities and regions. In major centres like Perth and Sydney, motorists benefit from dense networks of petrol stations and greater price transparency, which intensify competition. Urban households also have more options to adjust behaviour such as using public transport or reducing discretionary travel. As a result, while city drivers still face higher prices during a global shock, they have **more capacity to mitigate the impact**.

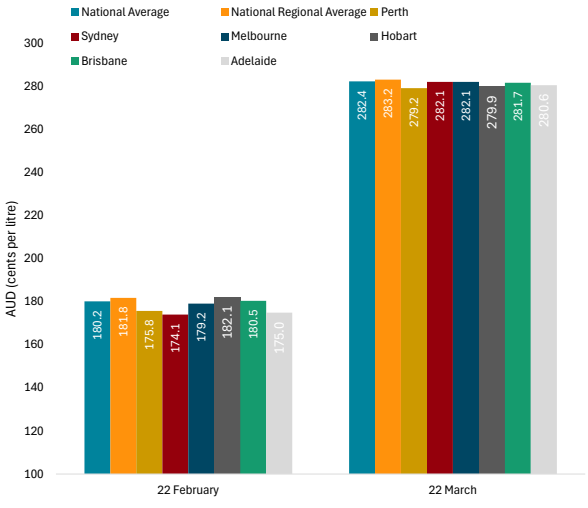
In contrast, rural and regional communities face **structurally higher exposure**. Petrol stations are fewer and more dispersed, reducing competitive pressure and contributing to higher baseline prices. This is especially the case for diesel, which is often in greater demand in regional areas (**Figure 3**). Travel distances are longer, and alternatives to private vehicle use are limited or non-existent. When fuel prices rise, these households often **cannot reduce consumption proportionally** - they must continue driving for work, education and essential services.

Freight costs further amplify these disparities. Regional Australia depends heavily on long supply chains for food, goods and agricultural inputs. Higher diesel prices increase transport costs, which are passed through into **higher retail prices for groceries and essentials**. The result is a compounding effect: rural households face both **higher direct fuel costs and higher indirect living costs**, intensifying the distributional impact of the shock.

Figure 3: *Retail fuel prices by capital city, regional and national Australia: 22 February and 22 March 2026*

(a) Retail **unleaded** fuel price by city and region

(b) Retail **diesel** fuel price by city and region



Notes: Prices based on weekly averages for week to Sunday

Source: Bankwest Curtin Economics Centre | Australian Institute of Petroleum, Motormouth

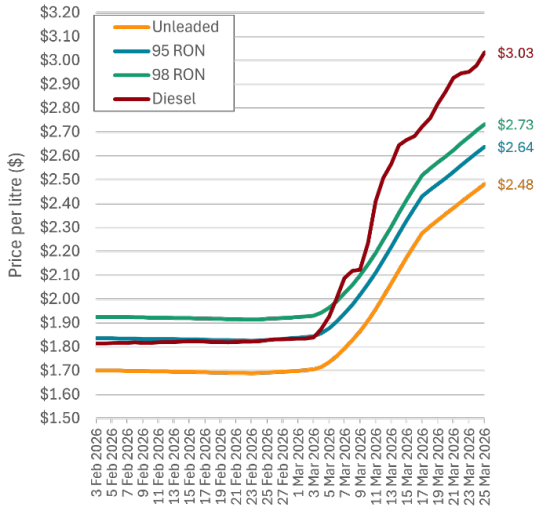
Are suppliers price gouging?

Fuel prices have risen sharply across all regions of Western Australia from shortly after the onset of the Iran conflict on 28 February 2026. The evidence shows aggressive increases in prices of unleaded, premium unleaded and diesel fuels from around 3 March 2026. And as highlighted earlier, the relative increase in diesel prices have been especially pronounced – rising by 120c to an average of $3.03 per litre between 28 February 2026 and 25 March 2026 (**Figure 4**). This compares to increases of between 78c and 81c in the average price per litre of unleaded or premium unleaded petrol.

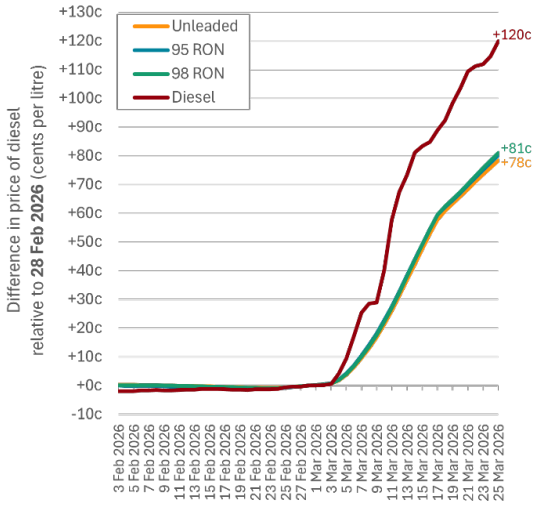
But what's also worth noting is that **wholesale prices have, on average, increased by more than retail prices** across the state, by 138c over a comparable time period between 28 February 2026 and 25 March 2026. Retail prices have, if anything, lagged behind wholesale cost pressures, compressing profit margins across the market. **These patterns do not point to system-wide price gouging**.

Figure 4: *Retail and wholesale (terminal) fuel price changes by type: WA, 3 February 2026 to 25 March 2026*

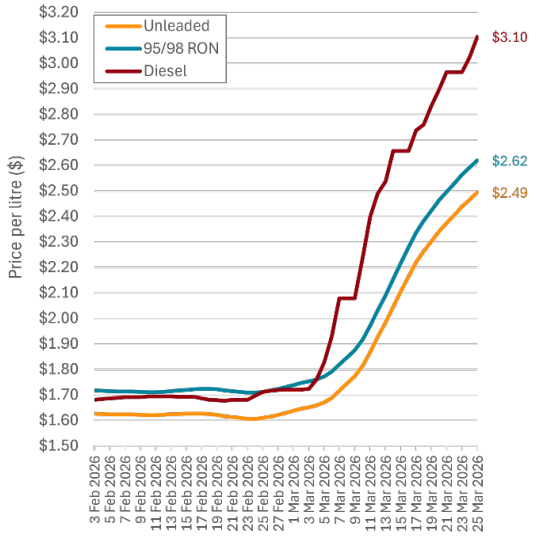
(a) **Retail** prices of fuel by type ($ per litre)



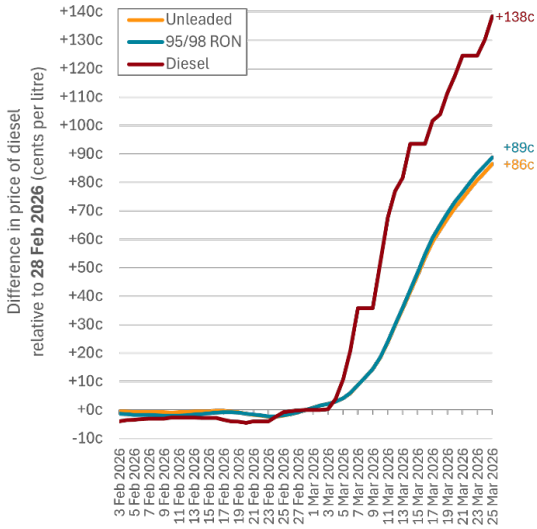
(b) **Retail** price change from 28 Feb 2026 (cents p/l)



(c) **Wholesale** prices of fuel by type ($ per litre)



(d) **Wholesale** price change from 28 Feb 2026 (cents p/l)



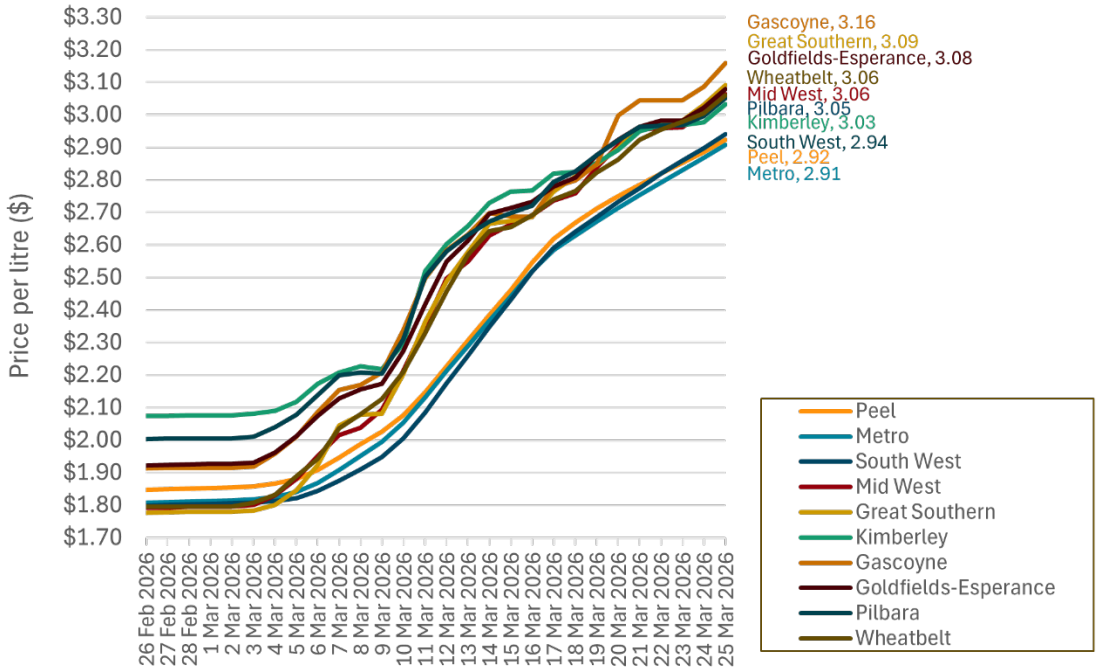
Notes: All prices are unweighted averages of daily retail or wholesale prices across WA retail and terminal outlets. Price changes are measured relative to 28 February 2026, representing the start of the Iran conflict.

Source: Bankwest Curtin Economics Centre | Author's calculations from FuelWatch historical data (https://www.fuelwatch.wa.gov.au).

But the data also reveal a **clear divergence in fuel pricing between metro and regional areas of Western Australia** (**Figure 5**). The retail price of diesel fuel initially rose far more sharply in regional areas of the state compared to Perth metro. Higher station density, lower delivery costs and stronger competition in Perth metro, Peel and the South West may explain the slower price growth compared to regional areas.

Pricing in regions such as the Wheatbelt, the Mid West and Great Southern has risen far more quickly over the first two weeks of the US-Iran crisis compared to metro areas, from around the same price level before the conflict began. These price increases may stem from retailers anticipating future wholesale cost increases, as well as faster cost pass-through compared to the more competitive metro market.

Figure 5: *Retail diesel prices by region: Western Australia, 26 February 2026 to 25 March 2026*



Notes: All prices are unweighted averages of daily prices from FuelWatch data across WA retail outlets. Price changes are measured relative to 28 February 2026, representing the start of the Iran conflict.

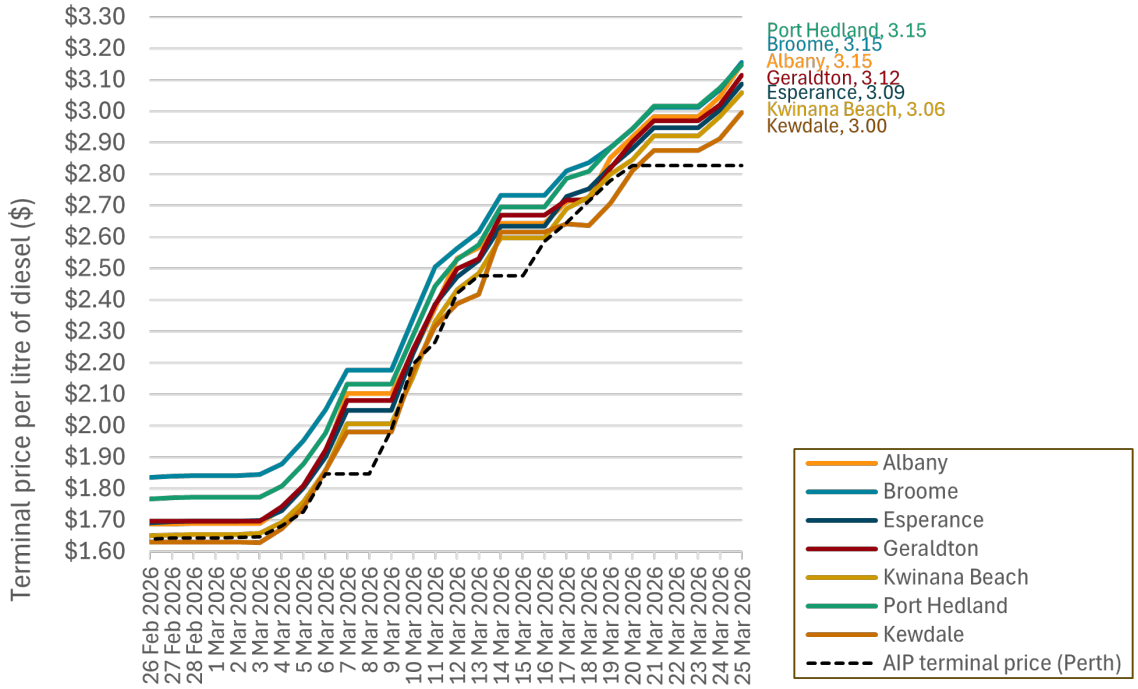
Source: Bankwest Curtin Economics Centre | Author's calculations from FuelWatch historical data (https://www.fuelwatch.wa.gov.au).

Wholesale prices of fuel at WA's seven key terminals [1] have increased relatively evenly in comparison, with prices for a litre of diesel ranging from $3 at Kewdale to $3.15 at Broome and Port Hedland on latest data to 25 March 2026 (**Figure 6**). More surprising is the much tighter concentration of wholesale prices across WA fuel terminals since the start of the conflict, compared to a much broader range of retail prices up to around 15 March 2026. Since this time, the growth in regional diesel prices has been slower.

With intensified public scrutiny, regional price growth looks to have moderated, and the gap with metropolitan pricing has narrowed over the past 10 days. This pattern may reflect the transition among regional retailers from uncertainty-driven pricing behaviour to more competitive, cost-reflective pricing. There is no strong evidence to suggest price gouging by fuel retailers in the regions.

[1] Kwinana Beach, Kewdale, Albany, Esperance, Geraldton, Broome and Port Hedland. See also Appendix A Table 3.

Figure 6: *Wholesale (terminal) diesel prices by region: Western Australia, 26 Feb 2026 to 25 March 2026*



Notes: All prices are unweighted averages of daily prices from FuelWatch data across WA retail outlets. Price changes are measured relative to 28 February 2026, representing the start of the Iran conflict.

Source: Bankwest Curtin Economics Centre | Author's calculations from FuelWatch historical data (https://www.fuelwatch.wa.gov.au).

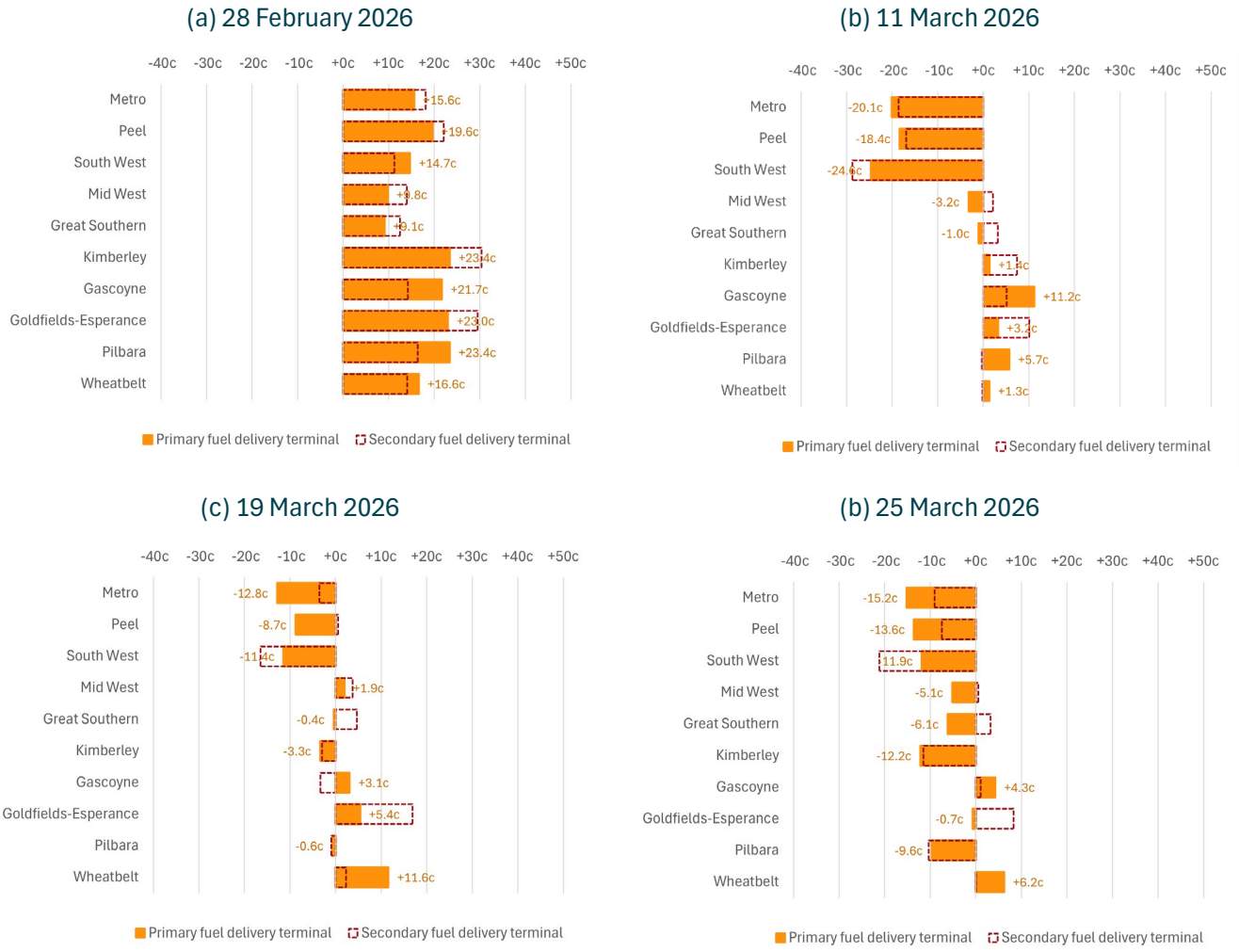
The differences between retail and wholesale prices before and during the Iran conflict have varied substantially across WA's regions.

Prior to the crisis, retail prices were consistently **higher** than wholesale prices by between 15c and 23c per litre (**Figure 7**). Now, retail prices are between 10c and 15c **below** wholesale costs across most regions. This indicates that retailers do seem to be absorbing much of the price shocks.

Metro areas have benefited more than regional areas from cost absorption by retailers, with the retail prices of diesel in Perth metro, Peel and the South West falling to between 18c and 23c **below** wholesale costs by 11 March 2026 (**Figure 7** panel b). Only in the past 10 days have we seen fuel price growth in regional areas moderating relative to metro areas (**Figure 7** panels c and d).

This pattern of change coincides with the move by the Australian Competition and Consumer Commission (ACCC) to **monitor fuel markets more closely**, stepping up scrutiny from **mid-March 2026** as global oil prices began rising sharply. At the same time, Treasurer Jim Chalmers has publicly signalled expectations of **close oversight of fuel pricing behaviour**, reinforcing the ACCC's role rather than issuing a formal direction. While the ACCC does not set prices, it plays a critical role in ensuring increases reflect **underlying costs rather than anti-competitive conduct or excessive margins**, monitoring the pass-through from wholesale to retail prices and warning against price gouging. Early, visible scrutiny of this kind helps **anchor expectations, maintain consumer confidence, and deter opportunistic pricing** in a fast-moving and opaque market.

Figure 7: *Differences between retail and wholesale (terminal) diesel prices by region: 28 Feb 2026 to 25 March 2026*



Notes: Prices are average daily retail and wholesale (terminal) prices per litre of diesel fuel. Differences between wholesale and retail prices are based on reported prices on the same day. For an authentic price comparison, we align the average retail price of diesel in each region with wholesale diesel prices at the geographically most proximate primary and secondary fuel terminals (Appendix A, Table 3). For example, Perth metro is primarily served by the Kwinana Beach terminal, followed by Kewdale, while Kimberley sources wholesale fuel primarily from Broome, with Port Hedland as a secondary terminal.

Source: Bankwest Curtin Economics Centre | Author's calculations from FuelWatch historical data (https://www.fuelwatch.wa.gov.au).

Policy responses to an oil supply shock: stabilisation, trade-offs and lessons

Across the globe, countries are deploying a mix of **three main policy levers: increasing supply, managing demand, and cushioning households and businesses (see Appendix A Table 2)**. The most coordinated response has come through the International Energy Agency, with member countries releasing large volumes from **strategic oil reserves** to stabilise markets. The United States, Japan and European countries have led these efforts, using reserves to **buy time and smooth supply disruptions**.

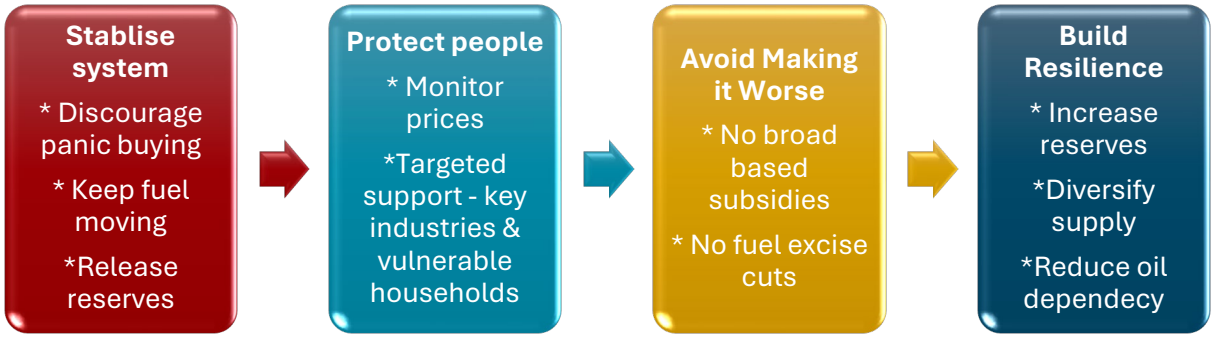
Australia is following this approach - through **targeted reserve releases, temporary relaxation of fuel standards to increase usable supply, and close coordination with industry via a national fuel taskforce** - while also monitoring stock levels and distribution risks. These measures help stabilise the system in the short term but also highlight the need for **stronger fuel security over time**, including higher stockholdings and improved storage capacity (see Appendix A Figure 9)

Many countries are also acting to **manage demand directly**, particularly where supply risks are most acute. Across parts of Asia, governments have implemented **fuel subsidies, conservation measures, and in**

some cases rationing or purchase limits to prevent shortages and reduce pressure on supply chains. New Zealand has taken a more restrained approach - focusing on **coordination, contingency planning, fuel prioritisation and targeted support**, while explicitly ruling out fuel tax cuts to avoid stimulating demand. In Australia, the emphasis has similarly been on **public messaging to discourage panic buying and maintaining orderly distribution**, with the option to prioritise fuel for critical sectors - such as freight, agriculture and emergency services - if conditions tighten.

A third set of responses focuses on **cushioning households and businesses**, but here the trade-offs are most acute. Countries such as Japan, Spain and Malaysia have used **broad fuel subsidies and tax cuts** to provide immediate relief, while others - like France, New Zealand and Germany - have favoured **targeted support** for vulnerable households and key industries. Australia's current stance aligns with the latter approach - **prioritising targeted support, maintaining price signals, and increasing scrutiny of fuel pricing behaviour** rather than introducing broad-based subsidies. The evidence increasingly suggests that such broad measures are **expensive, poorly targeted, and can worsen inflation by sustaining demand when supply is constrained**. Australia's 2022 fuel excise cut illustrates this trade-off: it delivered short-term relief but did not address underlying supply pressures and was quickly eroded as global prices rose.

Figure 8: *Policy response framework – global oil shock*



Taken together, the international experience points to a clear policy hierarchy for Australia. **What Australia should do** is focus on **operational stability, targeted support, and building long-term resilience**: keep supply chains functioning, use reserves judiciously, monitor prices consistently, prioritise fuel for essential sectors, and direct relief to the most vulnerable households (**Figure 8**). Over time, this should be complemented by **structural measures -** strengthening fuel security, diversifying import sources, investing in storage and logistics, improving energy efficiency, and accelerating electrification and alternative fuels. **What Australia should avoid** is broad-based measures - such as fuel excise cuts or universal subsidies - that **inflate demand, undermine price signals, and risk making the inflation problem harder to solve**.

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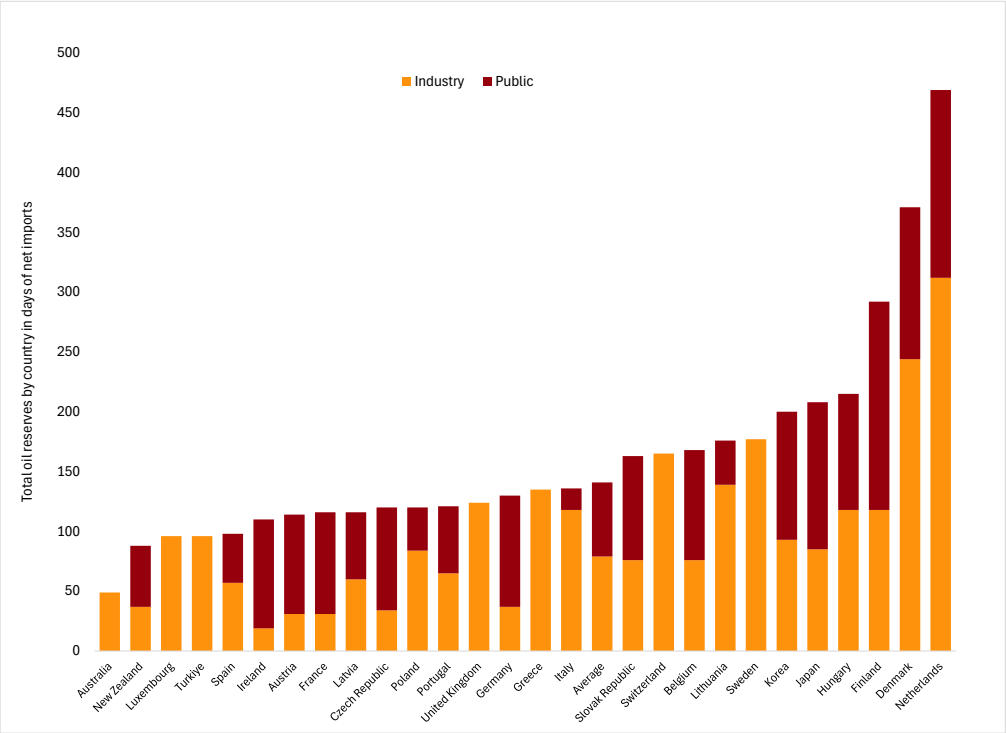
Appendix A

***Table 2** Country policy responses to date*

Country / Region	Supply measures	Demand measures	Household / business support	Policy model	Key objective
United States	Large Strategic Petroleum Reserve release	Public conservation messaging	Limited targeted support	**Supply-led stabilisation**	Stabilise global supply and prices
IEA (32 countries)	Coordinated release (~400m barrels)	Demand restraint guidance	-	**Coordinated supply response**	Ease global supply shock
Australia (federal)	Reserve releases, relaxed standards, coordination	Messaging to avoid panic buying	Targeted support (no broad subsidies)	**Balanced (targeted + stabilisation)**	Stabilise system, protect vulnerable
Western Australia (state)	Appointment of a Fuel Security State Controller, logistics expansion (e.g. road train limits), port prioritisation	Targeted rationing in regions, anti-hoarding messaging	Limited direct support (focus on system functioning)	**Operational control / supply prioritisation**	Maintain distribution, protect critical sectors
Tasmania (state)	Supply coordination	Potential demand controls	Emergency powers for fuel caps	**Contingency / demand control**	Manage shortages if conditions worsen
Japan	Reserve releases	Conservation messaging	Fuel subsidies	**Subsidy + supply**	Stabilise prices, cushion households
South Korea	Reserve use + alternative	-	Price caps + fiscal support	**Price control + support**	Limit inflation and price spikes
Germany/ France/EU	Reserve coordination + supply management	Monitoring markets	Targeted household + industry support	**Targeted + disciplined**	Protect economy without fuelling inflation
Spain / Portugal	Reserve coordination	-	Fuel tax cuts / subsidies	**Broad subsidy**	Immediate relief
Malaysia / Indonesia	Supply coordination + domestic fuel management	-	Large fuel subsidies	**Subsidy-heavy**	Protect affordability
Thailand / Hungary / Croatia	Supply coordination (regional/global)	Price caps/controls	Household price caps	**Price control**	Limit retail price increases
New Zealand	Reserve coordination	Contingency planning (prioritisation)	Targeted payments (~NZ$50/week)	**Targeted + restraint**	Cushion households, avoid inflation
Canada	Increased production + contribution to IEA release	-	Targeted transfers (GST credits, benefits)	**Supply + targeted support**	Support supply, cushion households avoid inflation

Source: Various news and country reports.

Figure 9: Total oil reserves by country in days of net imports



Source: Bankwest Curtin Economics Centre | International Energy Agency

Table 3 *Access to fuel terminals across WA regions*

WA Region	Primary fuel delivery terminal	Secondary fuel delivery terminal	Justification
Metro	Kwinana Beach	Kewdale	Kwinana is the major coastal import hub. Kewdale serves inland Perth distribution and road freight access to eastern suburbs.
Peel	Kwinana Beach	Kewdale	Mandurah and northern Peel sit just south of Kwinana; inland Peel can draw via Perth freight networks.
South-West	Kwinana Beach	Albany	The Bunbury/Busselton/Collie corridor is closer to Kwinana, but Albany can serve the southern edge of the region.
Mid West	Geraldton	Kwinana Beach	Geraldton is the regional coastal terminal; Kwinana provides backup via Great Northern Highway.
Great Southern	Albany	Kwinana Beach	Albany is inside the region and serves most towns; Kwinana provides supply to northern Great Southern areas.
Kimberley	Broome	Port Hedland	Broome is the regional coastal hub; Port Hedland can supply parts of south Kimberley via the Pilbara corridor.
Gascoyne	Geraldton	Port Hedland	Carnarvon/upper west coast are closer to Geraldton; Port Hedland can supply the north-east of the region.
Goldfields-Esperance	Esperance	Kewdale	Esperance serves the southern part of the region; Perth supply via Kewdale feeds inland Goldfields freight routes.
Pilbara	Port Hedland	Broome	Port Hedland is the main fuel import hub; Broome can supply the far north-west Pilbara.
Wheatbelt	Kewdale	Kwinana Beach	Much of the Wheatbelt's logistics flows through Perth freight hubs; Kwinana is an alternative for the western Wheatbelt.