

World counts the cost of damage to Middle East's oil and gas industries

Scale of destruction at pumping and refining sites begins to become clear amid tentative ceasefire

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The six-week-long Iran war struck the world's most energy-rich region, with oil and gas facilities targeted by both sides and soaring prices for fuel triggering a new global energy shock.



Amid a tentative two-week ceasefire, the full scale of the damage has started to become clear. Saudi Arabia, the world's largest oil exporter, has said it has suffered significant damage to its production capacity. Qatar, one of the world's largest liquefied natural gas producers, has lost almost a fifth of its output, which will take years to restore.

Some of the world's largest oil refineries, essential for turning the region's thick black crude into the fuels that power the world economy, have suffered numerous hits, with as much as 2.4mn barrels a day of capacity estimated to be offline.

At any future peace talks, much will centre on whether the US and Iran can reach a deal that reopens the Strait of Hormuz, the waterway under Tehran's de facto control. About 10 per cent of the world's crude oil production remains shut in. "Even if there is a durable ceasefire tomorrow and the strait reopens, markets will not return to normal for at least six months," said Jorge León, head of geopolitical analysis at Rystad Energy. "And in some cases it could take significantly longer."

The world's top oil exporter confirmed this week that a series of attacks cut its oil production capacity by 600,000 b/d and reduced the flow at the critical East-West pipeline by 700,000 b/d.

The pipeline, from Abqaiq to Yanbu on the Red Sea, has become a lifeline for oil exports during the war and was struck on the day after the ceasefire, damaging a pumping station. Strikes at the offshore Manifa oilfield and at the Khurais oilfield north of Riyadh reduced production at each site by about 300,000 b/d, according to Saudi Arabia's energy ministry.

Helima Croft at RBC Capital Markets said the fact that some of the attacks came after the initial ceasefire would keep markets on edge. "How do you reconcile significant material damage to a de-escalated environment?" Croft said. "I just don't think we can square that."

The attacks on fields mean Saudi Arabia's usual 12mn b/d production capacity has been cut — for an indeterminate period of time — by at least 5 per cent. That means that even if the Strait of Hormuz is reopened soon, the kingdom will not be able to pump flat out to replace barrels lost since late February.

It will also lower the world's spare capacity buffer, which Riyadh has historically maintained the lion's share of to help counter the threat of supply disruptions elsewhere.

Saudi Arabia also confirmed attacks on four major refining facilities, though most were able to keep operating. The kingdom warned the attacks had affected "security of supply for consuming countries".

QatarEnergy's vast Ras Laffan industrial site was hit by missiles on March 18 and 19 after Israel bombed petrochemipended cal facilities and the South Pars gasfield in Iran. The Iranian retaliatory strikes marked one of the most significant escalations of the war, with ballistic missiles slamming into the world's largest LNG facility in two waves. The company said the damage to the LNG facility would affect about 17 per cent of its exports and take three to five years to repair.

As well as the lost LNG production totalling about 12.8mn tonnes per year, QatarEnergy has said a gas-to-liquids plant operated with Shell was damaged in the attacks and would reduce its capacity for at least a year.

Analysts at Wood Mackenzie believe it will take several months to bring back the non-damaged parts of its LNG sites.

"The ceasefire means it may be possible for the 14 trapped LNG cargoes in the Gulf to exit the Strait of Hormuz and provide some relief to the global gas market," said Tom Marzec-Manser, Europe gas and LNG analyst at Wood Mackenzie. But he said there would be no "real structural change in supply" until Ras Laffan could start restoring its remaining production.

Abu Dhabi's 922,000 b/d Ruwais refinery, one of the world's largest, was among the first energy facilities to be targeted. On March 10, drone strikes sparked a fire at the facility, while debris from an air-defence interception caused several fires at the plant on April 5.

Operations at the Habshan gas processing plant, the largest of its kind in the United Arab Emirates, were sustwice in the conflict, including on April 8 after falling debris from an interception sparked multiple fires.

The incident was reported within an hour of the ceasefire agreed between Washington and Tehran, immediately raising questions over the efficacy of the deal. Two gasfields were also struck in March, leading to suspensions of production.

The UAE has been able to continue some oil exports through its port of Fujairah, which lies outside the Strait of Hormuz and can be reached by pipeline. However, operations have been halted on multiple occasions as the port and oil storage facilities have been targeted.

Two oil refineries — Mina Al Ahmadi and Mina Abdullah — suffered serious damage from multiple strikes, according to people familiar with the matter, though both have continued running.

Before the war both plants were significant suppliers of jet fuel to Europe, particularly the UK, as well as sending refined fuels to Asia. The loss of their supplies has contributed to warnings about jet fuel running short in Asia and Europe in the coming weeks.

The second-largest oil producer in Opec has been hit heavily by the effective closure of the Strait of Hormuz, due to its lack of alternative export routes. Iraq has been forced to shut

in more than three-quarters of its oil production, with volumes falling to just 800,000 b/d last month, compared with 4.3mn b/d before the war.

The country has also suffered direct attacks on its energy infrastructure. Drone attacks shut the Rumaila oilfield.

One tanker carrying Iraqi crude successfully transited the Strait of Hormuz on April 5, pointing to a tentative agreement between Iraq and Iran.

Israel targeted three fuel depots in the capital and another in the nearby city of Karaj, west of Tehran, along with refineries on March 8. The attacks sparked enormous fires that caused thick black clouds to gather over Tehran, plunging the capital into darkness.

The Israeli strikes on the South Pars gasfield on March 18 forced Iran to take several units out of production.

Kharg Island, which hosts Iran's main oil export hub, has also been struck several times, but the attacks have centred on military targets, leaving its energy facilities intact.

Oman has received far fewer drone and missile attacks than its neighbours in the UAE, and the country has historically close links to Iran. However, several air attacks have succeeded in disrupting operations at the port of Salalah, where an attack on oil storage facilities injured one worker. Danish shipping giant Maersk suspended operations there following the attacks.

Bahrain declared force majeure on March 9 after its 400,000 b/d Sitra refinery on the east of the island was struck. Analysts said the damage appeared serious and it would take several months to get back to full output.