

Our View

The Disruption: A Diesel/Natural Gas Story

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Every energy crisis I have studied has had unique features. And in every episode, the uniqueness is ignored. It always happens. The prominent economists and commentators always rush to explain energy market disruptions. **And they always get it wrong** because they focus on one thing: crude prices.

In 1973, a young MIT professor, Paul MacAvoy, explained that when he heard about the Arab Embargo, he saw an opportunity to get publicity: “I could see my hourly rate for consulting double or triple.” One day later, his far more famous colleague Paul Samuelson commented on the embargo. MacAvoy noted, “My expectations of financial gains crashed.”

MacAvoy later served on President Ford’s Council of Economic Advisers and did very well. But the lesson that the best-known economists get the attention, even if they do not understand all the facts, was true then and is true today.

Monday, Nobel-winner Paul Krugman posted on Substack regarding the current development. It is an excellent tutorial.¹ He explained that the oil is far less important to the economy than it was in 1979 when the Shah of Iran was deposed and energy markets disrupted. He even added two very important warnings. First, Krugman worried that the oil disruption could destabilize the financial system, a concern everyone should share. Second, he emphasized that the modern Middle East plays an important role in the global economy, a point that all others missed.

Everyone should read Krugman’s post. However, Krugman, like Samuelson more than fifty years ago, does not understand the real threat of the current disruption. **This one is about diesel fuel (distillate oil) and natural gas.** The supplies of these fuels are endangered. The potential price shock could affect every part of the world economy, from data centers that rely on diesel to power backup generators to truckers to farmers. In addition, many European businesses that rely on natural gas may be forced to shut down, as they did in 2022.

The increase in spot prices from Friday, February 27, to Monday, March 2, emphasizes the exposure.

- The key European natural gas price increased by as much as 45%.²
- Low-sulfur gasoil (diesel in Europe) rose 17%.

¹ Paul Krugman, “War, Oil, and the World Economy,” March 2, 2026 [<https://tinyurl.com/2uut3af7>].

² Doloresz Katanich, “European gas prices jump by as much as 45% as Qatar stops LNG production,” EuroNews, March 3, 2026 [<https://tinyurl.com/2rcwwyt2>].

- Low-sulfur diesel delivered in New York went up 14%.
- Low-sulfur diesel delivered in US Gulf Coast ports climbed 12%.
- Cash Brent crude increased 6%.
- WTI rose 6%.
- US gasoline jumped up 3%.

Natural gas prices in Europe spiked up because inventories there are very low for this time of year and because 20% of the world's LNG supply comes from Qatar. On Monday, Qatar shut down its LNG production to protect facilities against Iranian missiles. In addition, LNG tankers cannot transit the Strait of Hormuz. The situation will worsen quickly if the attacks on and from Iran continue.

Diesel prices increased for several reasons. First, US Gulf Coast refiners have been supplying Europe with the fuel. Second, since January 1, EU sanctions on Russia have prohibited the import of diesel refined from Russian crude. This rule limits diesel exports from India to Europe.

US diesel prices are rising as European customers turn to the United States to meet their needs. The global market for the product was already tight. Now, the Iranian attacks are forcing refineries to shut down, causing further tightening.

The impact of high diesel prices will be felt by transportation companies and farmers. The costs of all products will rise if high diesel prices increase transport costs. Food prices could rise if diesel prices continue to increase and farmers have to reduce plantings because of it.

As I noted at the start, every energy crisis has unique features. Diesel and natural gas stand out in this episode.