

# Our View

## Volodymyr Zelensky's Revenge: High US Gasoline Prices

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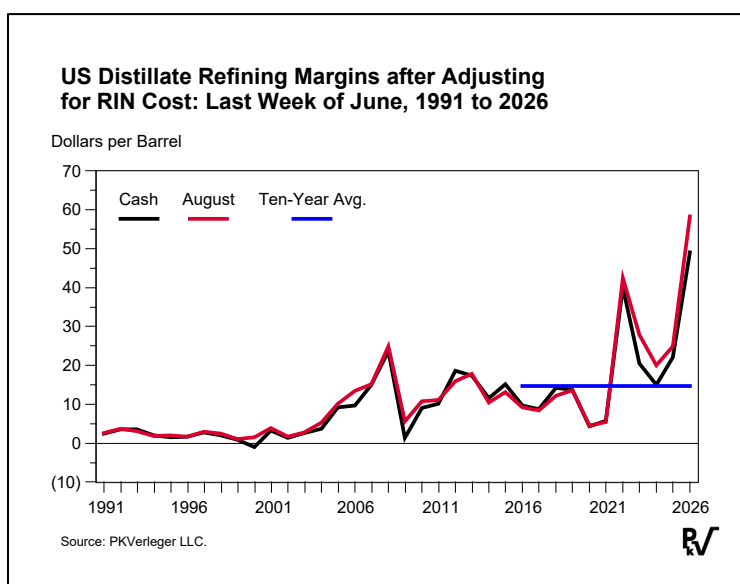
Donald Trump famously told Volodymyr Zelensky, “You have no cards,” when the two met to discuss the ongoing war in Ukraine in February 2025. Today, Zelensky could say the same to Trump as the president fights to bring down US gasoline prices. Ukraine’s president could, but will not, take credit for the high US gasoline prices because he found an ace to play against the Russian aggressors, drones, and turned his weapon of choice on Russia’s refining industry. His country’s attacks have cut Russian gasoline, jet fuel, and diesel production, creating domestic shortages and reducing export volumes. In response, US refiners have boosted their jet fuel and diesel output while cutting gasoline production. US consumers are paying the price.

On July 4, TotalEnergies CEO Patrick Pouyanné noted the situation, telling listeners at a conference in France that “gasoline and diesel are still trading at levels as if crude oil were at \$95 to \$100 a barrel.” He then added this observation:

Middle Eastern producers have built up such large inventories that they are now desperate to sell their oil. At the same time, there are difficulties getting tankers through the Strait of Hormuz because many shipowners are still unwilling to take the risk. As a result, producers are heavily discounting their crude, and oil prices are collapsing.<sup>1</sup>

In his talk, Pouyanné focused on the loss of Middle Eastern jet fuel and diesel shipments due to the war with Iran. The conflict prompted refiners there to cut production, creating temporary shortages of the fuels. Refiners in the US and Europe stepped in to fill the gap after diesel rose to record levels (see the figure here). Jet fuel margins went even higher.

Refining margins may fall in the coming days as product flows rise, especially given increased crude movements. However, Ukraine’s increasingly successful drone attacks



<sup>1</sup> Francois de Beaupay, “Total CEO Sees Mideast Producers Desperate to Sell Oil Stocks,” Bloomberg, July 4, 2026 [<https://tinyurl.com/kbuttky7>].

on Russian refineries are more than offsetting the recovery of Persian Gulf refiners. *Financial Times* reported that Ukrainian drones have hit Russian refining infrastructure at least 194 times in 2026. The country's success in this has been attributed to technological breakthroughs that have increased the production and sophistication of the weapons. Russia's energy infrastructure has been and remains its primary target.<sup>2</sup>

Russian consumers are feeling the impact. Diesel prices are up more than 40%.<sup>3</sup> Russian farmers lack the fuel needed to harvest winter wheat, according to Bloomberg.<sup>4</sup> *The Moscow Times* reported that Russia might ban diesel exports.<sup>5</sup>

Reuters columnist Ron Busso warned that such a decision “could not come at a worse time”:

The world's third-largest crude producer—and a major diesel supplier—has sustained significant damage to its energy infrastructure in recent months as Ukraine has intensified attacks on oil terminals and refineries across the country. Moscow's key refinery has been hit twice this month and is expected to remain offline for at least six months.

A chart provided by Busso shows Russian exports by month from 2022. The volumes averaged more than one million barrels per day in the first months of the year, normally dropping to around 800,000 barrels per day in the spring and summer. Brazil and Turkey are the principal importers. Busso then described the impact of the Ukrainian attacks:

Russian seaborne diesel shipments have fallen sharply in recent months, dropping to 426,000 bpd in June, the lowest since at least January 2017, according to Kpler data. That's down from 827,000 bpd a year earlier, when Russia was the world's second-largest diesel exporter after the U.S., accounting for 11% of global seaborne supply.<sup>6</sup>

To take advantage of the lost Russian supply, US refiners are boosting diesel and jet production and cutting gasoline output. It is currently far more profitable to produce diesel than gasoline due to global market conditions. Not surprisingly, refiners are doing everything possible to maximize their jet fuel and diesel output. EIG's Frans Koster and Kerry Preston noted the shift with regard to jet fuel: “High domestic crude output and diversification away from Mideast crude feedstock enabled US

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<sup>2</sup> Alan Smith, Christopher Miller, Anastasia Stognei, and Max Seddon, “Ukraine striking Russian energy infrastructure at unprecedented rate,” *Financial Times*, July 5, 2026 [<https://tinyurl.com/bdcnar8m>].

<sup>3</sup> “Russia faces growing fuel shortage,” Semafor Energy, July 2, 2026 [<https://tinyurl.com/5bybcuzk>].

<sup>4</sup> Pyotr Kozlov, “Russia's Wheat Harvest Faces Fuel Crunch and Rain Concerns,” Bloomberg, June 26, 2026 [<https://tinyurl.com/tvjsy87z>].

<sup>5</sup> “Russian Government Weighs Total Ban on Diesel Exports,” *The Moscow Times*, June 24, 2026 [<https://tinyurl.com/3hsjrpr7>].

<sup>6</sup> Ron Bousso, “Putin's diesel export ban risks new fuel shock,” Reuters, July 1, 2026 [<https://tinyurl.com/2p9spt5u>].

refiners to boost jet fuel yields to unprecedented levels and help fill the supply gap for aviation fuel in Europe and Asia. “<sup>7</sup> They also explained the reason for the changeover:

Signals from downstream economics prompted a massive shift in yield patterns among US refiners. By April, nationwide jet yields hit a record 12.5%, while gasoline yields sank to their lowest level since April 2020, at 43.5%. Higher jet yields propelled the surge in exports.

At the end of June, data from the US Energy Information Administration showed that weekly domestic gasoline production of 10 million barrels per day accounted for 57% of the combined gasoline, diesel, and jet fuel output. This share has slumped as low as 50%.

The president’s command, “gasoline retailers must get their prices down, IMMEDIATELY!” will only accelerate the decrease. Price-gouging investigations by the Justice Department will not help. A loss in gasoline production, should it occur, would create a supply-and-demand market imbalance, especially if refiners redirected their gasoline to more profitable export markets. Shortages would appear in some regions, as in past instances of government market interventions, given current low stock levels.

To be clear, the market situation makes Donald Trump’s goal of \$2.50-per-gallon gasoline unachievable without a drastic decline in gasoline refining margins. Given the record margins for diesel and jet fuel, it will take strong gasoline margins to motivate refiners to produce gasoline.

Should this scenario play out, Volodymyr Zelensky may get the last laugh. He might even get to tell the president, “Donald, it is you who has no cards.”

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<sup>7</sup> Fran Koster and Kerry Preston, “Why US Refiners Could Boost Jet Fuel Yields to Fill Global Supply Gap,” Energy Intelligence, July 1, 2026 [<https://tinyurl.com/ejxfebfu>].