The Iran War *and the* Energy Transition

By Philip K. Verleger, Jr.

More painful than expected.

The energy transition seemed to screech to a halt with Donald Trump's inauguration on January 20, 2025. Programs to encourage and accelerate the use of solar and other renewables were axed. Tax incentives for purchasing electric vehicles were eliminated by the "Big Beautiful Bill." Fossil fuel development was favored, and owners of coal-fired power plants were forced to keep them operating even when the economics no longer worked. U.S. energy dominance through coal, natural gas, and oil production became the administration's mantra. International efforts to address global warming were disparaged, with advocates treated as traitors. Scientific research on the subject was defunded, and researchers were labeled as charlatans. Trade policy, dominated by new or higher tariffs, was tailored to promote fossil fuel use and punish those nations daring to switch to renewables. Those nations willing to burn more coal, oil, or natural gas produced in the United States won favorable treatment. Those concerned about the planet's future became enemies.

A different "energy transition" became U.S. policy in 2025. The previous Biden administration had embraced the Paris Agreement on climate change, negotiated in 2015 and signed in 2016, seeking to speed the energy transition that, until 2025, was seen as the process of reducing greenhouse gas emissions by cutting fossil fuel consumption. Biden's Inflation Reduction Act of 2022 provided financial incentives for expanded investment in renewables and energy storage, EV purchases, and the reduction of fossil fuel consumption.

The Trump administration's energy transition gutted the Inflation Reduction Act and other programs adopted by administrations dating back to that of George H.W. Bush. The new regime's motto might be characterized

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as "Burn Baby Burn" as it implemented policies that promoted oil and gas drilling and coal mining. U.S. exports of those fuels surged.

Senior executives in the global energy industry welcomed the Trump transition policy. Shell Oil, in particular, saw the benefits. Its CEO, Wael Sawan, had strenuously advocated the use of natural gas as the transition fuel, especially in Asia.

A different "energy transition" became U.S. policy in 2025.

One year later, the Trump energy transition to fossil fuels is in shambles. The Israeli/U.S. war with Iran has destroyed the future global prospects of these fuels, particularly natural gas. Jeff Currie, the Carlyle Group's chief strategy officer of energy pathways, summarized the new situation succinctly: "The main message is that we're going to get the energy transition forced on us in a very painful way that's going to happen very quickly." Left unsaid was that the much higher oil and LNG prices would create opportunities for low-cost renewable technologies to displace traditional fuels in many applications.

Watching this debacle, one can only conclude that Israeli Prime Minister Benjamin Netanyahu and Donald Trump have killed the oil and gas industries.

THE TRUMP FOSSIL FUEL STRATEGY

The key to the Trump administration's energy policy was fossil fuel dominance. Its shutdown of most renewable energy projects was part of a strategy to sell more oil and gas. The goal of boosting oil was clearly expressed by U.S. Secretary of Energy Chris Wright in Davos, where he declared that increasing oil production would improve the lives of billions in developing nations, explaining, however, that "we need way more than double global oil production to get the other seven billion people just halfway to where our quality of life is." Trump's promotion of fossil fuels has been enhanced by his executive order requiring generating companies to keep operating coal-fired generating plants despite plans to close them.

Other executive orders halted the construction of offshore wind farms and mandated the repurchase of federal lands leased for wind development. Meanwhile, the U.S. Environmental Protection Agency has stalled the building of power lines from solar farms across federal lands.

The administration has further promoted U.S. oil and natural gas by offering access to our exports of these fuels while threatening efforts to advocate for renewables. The European Union has been attacked repeatedly in this regard. Secretary Wright told an audience there in November 2025 that renewable energy "just hasn't worked." He then touted oil and gas "domination" as a central driver for the U.S. economy and international influence and denigrated renewables development: "We spend more money every year on low-carbon energies than we spend on hydrocarbons, but … the shift in money has not resulted in a shift in energy supply," said Wright, who later described climate change as a "hoax."

The Trump administration's claim of U.S. energy dominance was and is false. Firms and countries that lead markets are almost always the low-cost producers. The United States is the world's highest-cost oil and gas producer. Qatar's cost is one-tenth that of ours, and, before the war, the country had planned to double its LNG exports. Producing oil in the Middle East costs far less than in the United States. Thus, the United States can only achieve market dominance if the lower-cost producers with excess productive capacity restrain their output.

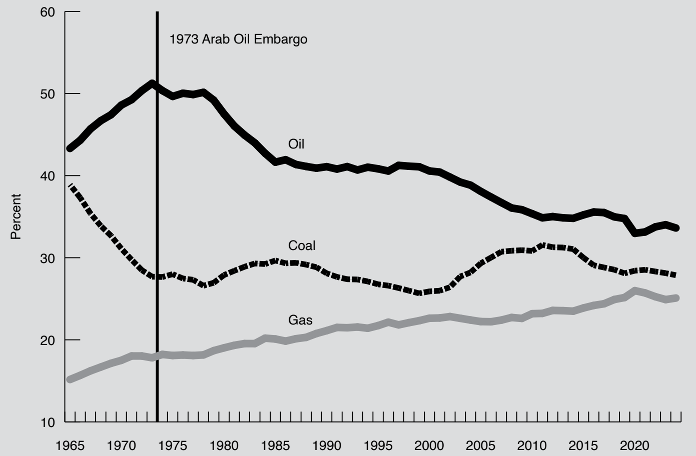
The Trump energy transition to fossil fuels is in shambles.

The U.S. vulnerability to low-cost producers became painfully evident at the end of President Trump's first term. In March 2020, Saudi Arabia started an oil price war with Russia by slashing prices and ramping up output. To protect U.S. producers, President Trump had to broker a deal with Russia and the Saudis that ended that war. The Saudis cut output by 9.7 million barrels per day, and oil prices recovered. The financial position of U.S. producers was secured, in part because some colluded with OPEC by letting their production fall as well even as prices rose.

THE ENERGY TRANSITION REBOOT

The February 28, 2026, attack on Iran marked the rebirth of the transition from fossil fuels to renewables, as oil and natural gas prices doubled or tripled in many countries. The price increases alone justify efforts to abandon oil and natural gas. The incentive was further boosted by the realization that supplies of oil, natural gas, and fertilizer from Persian Gulf nations were insecure.

Global Consumption of Oil, Natural Gas, and Coal as a Percent of Total Energy Consumption, 1965–2024



Source: Energy Institute

As noted above, the Carlyle Group's Jeff Currie told an audience at the CERAWeek conference in March 2026 to expect an acceleration of the transition away from oil: "The only demand left was the stuff you cannot substitute away from, all the low hanging fruit that has been accomplished since 1973. What is left over is going to be extraordinarily meaningful. We are going to take out 20 percent of global demand. That is irreplaceable demand," he said. "My message here is we are going to get energy transitions forced on us in a very painful way."

The data support Currie's comment. As the figure shows, oil consumption as a percentage of total energy peaked in 1974 and then declined from 50 percent to 34 percent in 2024. Coal use also fell, while natural gas use rose.

Currie did note that the adjustment process was slow. The drop in oil use only really began following the oil shock of 1979. That slowness can be explained by a lack of entrepreneurship in the global economy. No Steve Jobs, Michael Dell, or Elon Musk emerged to spur change in the global economy after the Arab oil embargo. Instead, the global industry was dominated by legacy firms, including Exxon, Mobil, Westinghouse, General Motors, Ford, and Chrysler. As the late Harvard Business School professor Clayton Christensen explained, legacy firms that produced fossil-fuel–guzzling products had little or no incentive to introduce substitutes.

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The resistance to change in the industry allowed fossil fuels to continue their dominance of much of the energy economy, even though Christensen's fellow professor, Theodore Levitt, had predicted the oil industry's demise in his classic 1960 article "Marketing Myopia" due to coming innovations and advances in solar energy, hydrogen-powered vehicles, and batteries. While Levitt pointed out oil's unpopularity among consumers, describing gas stations as a "tax collector to whom people are compelled to pay a periodic toll as the price of using their cars," the legacy auto firms still refused to offer viable alternatives.

In 1979, the passage of amendments to the Employee Retirement Income Security Act, followed by a reduction of capital gains taxes during the Reagan administration, altered the incentives for pension funds to support venture capitalists. Firms such as Dell, Apple, and Tesla benefited from the resulting infusion of funds. Innovation accelerated, speeding the introduction of alternative products and hastening the demise of legacy firms such as Westinghouse.

Since then, the forces of change have spread across the globe. For example, the development of electric vehicles and batteries, which began in the United States, expanded to China, where firms now make products that are far superior and more efficient while promoting and selling them around the world. This trend will likely continue to gain momentum.

The increasing availability and decreasing price of renewable alternatives suggest that nations seriously affected by the staggering rise in oil and natural gas prices caused by the Israeli/U.S. war on Iran can displace their fossil fuel use relatively quickly. Consumers across the world can do the same.

In January 2026, Donald Trump famously claimed that Venezuela "stole" U.S. oil and that he was taking it back when he blockaded the country's oil exports, kidnapped Nicolás Maduro and his wife, and then bullied his successor as president. Trump has also suggested he will take Iran's oil.

By 2030, the president may discover that his "taken" oil is worthless. ◆