

The Oil Problem

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[PDF](#)

We are facing a significant emergency. This is an attempt to present the problem clearly.

The intermittent closure of the Gulf of Hormuz due to the ongoing Iran conflict is going to cause many countries to "run out of oil" — some earlier than others. For the U.S., estimates differ, but sometime in the next several months, it will be "running out of oil." What is involved in that unprecedented process is a complex and fascinating story, but wherever and whenever it happens, it will be relatively rapid and its consequences will be significant personal hardship for us.

Former CIA analyst Larry Johnson, with his many contacts — direct and indirect, around the world — has been an excellent source of current information on what is happening in the war with Iran, both in his daily posts (available at SONAR: "Son of the New American Revolution" — <https://larrycjohnson.substack.com>) and his numerous interviews with a variety of hosts.

Johnson is but one of a [number of analysts](#) who in my experience have proved to be reliable. I focus here on Johnson in particular because of his recent helpful coverage of the petroleum issue. With respect to that, I am providing below what I consider to be his three most important posts. Subsequent posts from other financial/petroleum experts have confirmed this, with variations only in the immediacy with which the shortages will become acute. I've prefaced them with an interview of petroleum industry expert Art Berman, subsequently summarized by Johnson. It was that interview that made me starkly aware of the problem; I can't recommend it more highly.

Overall summary of the situation, based on the articles below:

- Crude Oil
 - There are two basic kinds of crude oil: heavy ("sour", so-called because of its sulfur content) and light ("sweet")
 - The U.S. has a native supply of sweet crude, useful for gasoline and petrochemicals, but has none of the sour crude essential for distillation of the diesel and aviation fuel that undergird the supply chains that make our economy possible.
 - All sour crude must be imported from five basic sources: Canada, Mexico, Venezuela, Russia, and the Persian Gulf.
 - The latter two make up a significant part of the supply, but are no longer available.
- The U.S. [Strategic Petroleum Reserve](#) (SPR).
 - The import shortage has required drawing down the sour crude portion of the SPR.
 - The SPR is housed in salt caverns with physical limitations on draw-down and re-use.
 - The SPR is now at a record low level, and absent resupply will eventually run out for all practical purposes.
 - The timing of this depends on the interaction of various administrative policies and physical limitations.
 - Originally it seemed like this was imminent. Taking all these factors [into account](#) as of July 10, Johnson considers the end of 2026 to be a reasonable end date.
 - Weekly reports: <https://www.eia.gov/dnav/pet/hist/LeafHandler.ashx?n=PET&s=WCSSTUS1&f=W>
- Refining

- 70% of our refining capacity was designed (for financial reasons) to be committed to sour crude, particularly the low-sulfur type available from the Persian Gulf.
- These refineries can shift between producing diesel and producing aviation fuel, but the shift takes a fair amount of time.
- This creates a tension between the two products, and the longer the air war continues, the less diesel and aviation fuel will be available to run the economy.
- Prospects
 - The only relief is a resumption of Persian Gulf imports
 - That won't happen until the U.S. comes to an agreement with Iran, which the U.S. has so far refused to do.
 - If/when it finally does, the first tankers won't arrive for another 40 days.

The articles

1. Oil Supply Crisis Won't End Quickly

Lt. Col. Daniel Davis & Art Berman

May 28

https://www.youtube.com/watch?v=IyVUgJ_5H5k

Summary: This provides a very clear and helpful description of the types, sources, and uses of crude oil.

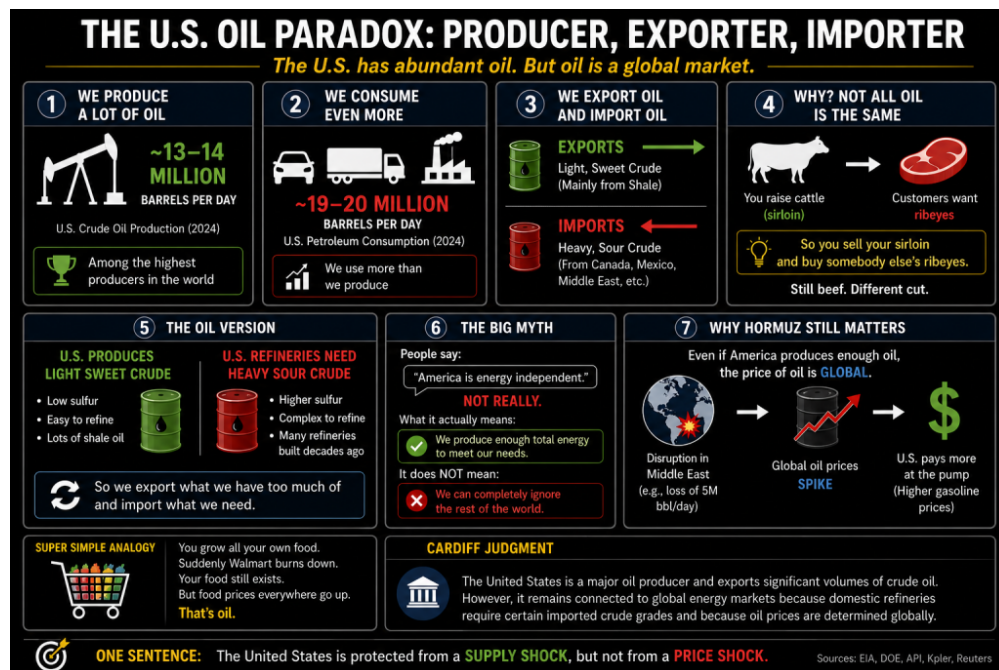
2. Trump's Oil Confabulations

Larry C Johnson

May 30

<https://larrycjohnson.substack.com/p/trumps-oil-confabulations>

Summary: Johnson lays out the situation Berman describes above, in a brief readable form, illustrated with this helpful graphic (click to expand):



3. The Sour Crude Problem I: Why America's Refineries Depend on Imports and Why It is Relevant to the Strait of Hormuz

Larry C Johnson

July 10

<https://larrycjohnson.substack.com/p/the-sour-crude-problem-why-americas>

Summary: This is an excellent, succinct explanation of the issues generated by the difference between sweet (light) and sour (heavy) crude and its relationship to our legacy refining capacity.

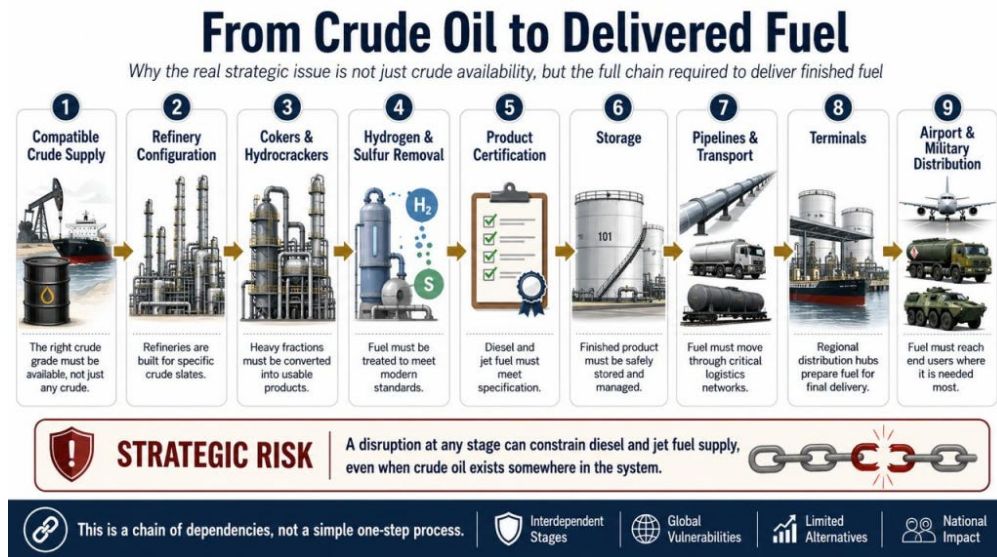
4. The Sour Crude Problem II: The Sour Crude Problem: How Long Can the Salt Caverns Keep Bridging the Gap?

Larry C Johnson

July 10

<https://larrycjohnson.substack.com/p/part-ii-the-sour-crude-problem-how>

Summary: This is a detailed and fascinating examination of the complexities of how the Strategic Petroleum Reserve actually works — the geometry and limitations of the salt caverns, how many times they can or cannot be drawn down, and what this means for estimating the timing of when we "run out." Another helpful graphic (click to expand):



5. What Triggered Trump to Make the Deal with Iran?

Larry C Johnson

Jun 18

<https://larrycjohnson.substack.com/p/what-triggered-trump-to-make-the>

Context: Trump mentioned on June 17 that he'd been told we have [4 weeks](#) of reserves left, and suddenly changed his negotiating posture from intransigence to conciliation.

Summary: In other interviews I've heard, the issue of the petroleum reserve levels of various countries has been discussed. The capacity of many of these is seriously short, many measured in days or weeks. This post is Johnson's first reference to the (political) use of the U.S. Strategic Petroleum Reserve (SPR) to prevent gas/diesel prices from skyrocketing. His major point is to outline the various delaying factors that will prevent the restocking of the SPR before it "runs out."

These factors will have effect even if the Strait of Hormuz is "opened" immediately. They include — among others —

- the damage affecting various oil/gas facilities in the Gulf area,
- the speed-reducing buildup of barnacles on the hulls of stationary tankers,
- the scheduling involved in the massive number of tankers trapped in/out of the Gulf, and
- the unwillingness of Lloyds of London and other insurers to insure ships until the Strait of Hormuz is de-mined, which the Pentagon has estimated could take months (perhaps as long as December).

Johnson's analysis of this starts at "The Anchored Tanker Problem" heading, below his detailing of the current "Memorandum of Understanding" between the U.S. and Iran.

6. Strategic Oil Reserve Nears Collapse... US Must Choose: Guns or Butter

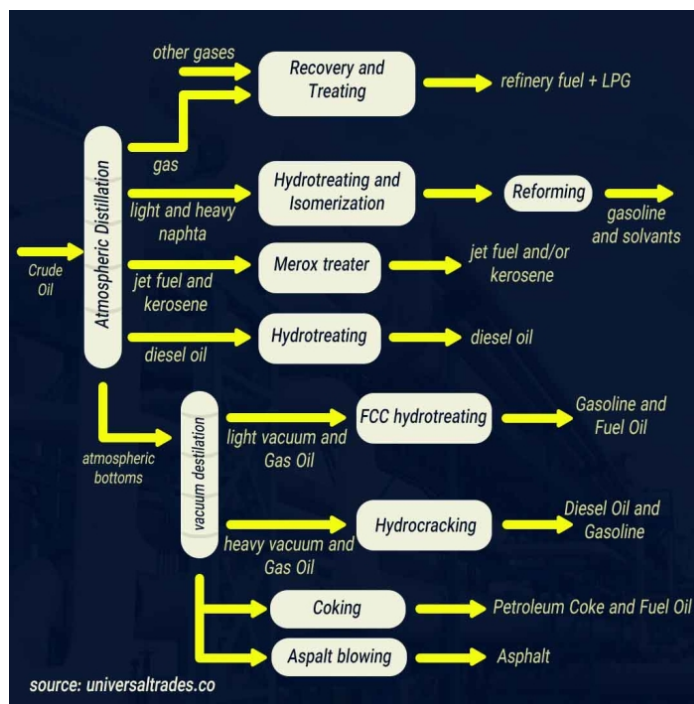
Larry C Johnson

Jun 21

<https://larrycjohnson.substack.com/p/strategic-oil-reserve-nears-collapse>

Summary: Johnson provides details here of how the SPR works. The crude oil is stored in caverns in the Southeast, with a capacity of roughly 730 million barrels (MB). A limiting factor is their structural integrity, which may be compromised if they drop below 20% of capacity (145 MB). The total availability of crude between its current reduced level (about 340 MB on June 12) and that 20% is only about 200 MB, which at current draw-down levels of 16 MB will last about 12 weeks.

In the current war footing, the government is faced with deciding how the remaining capacity for producing diesel is to be allocated. If the war-footing is continued, the military will use most of it, quickly destabilizing our diesel-fueled economy. If that is to be dropped, the war presence will have to be abandoned, which Trump is under pressure from powerful influences not to do. This piece provides the following helpful graphic (click to expand):



7. 13-18 DAYS: THE PRACTICAL DIESEL BUFFER. . . Does It Preclude Bombing Iran?

Larry C Johnson

Jun 26

<https://larrycjohnson.substack.com/p/13-18-days-the-practical-diesel-buffer>

Summary: Although the time estimate was revised later, this fairly technical discussion is quite helpful in understanding of how diesel and jet fuel (competing products) are made and distributed.

The basic financial reality that arises from these observations (and many others I have encountered in the global financial realm — another important topic) is twofold:

- The over-priced and volatile stock market is at significant risk of a crash in the relatively near term,

- The bond market will be increasingly damaged by the ongoing abandonment, on the part of much of the world, of U.S. financial domination and its Treasury securities.

These factors raise concerns about assets maintained in stocks and bonds, directly or indirectly, and whether it makes sense to consider moving them to a less exposed form.

In the nonfinancial realm, shortages will be resulting from (among other factors)

- **supply chain disruption** due to the cost and limited availability of diesel;
- interruptions or outage of **electric power** generated by fossil fuels (significantly impacted by AI data centers);
- **significant food shortages** — limited Fall **agricultural harvests** due to limited Spring planting caused by the soaring cost and limited availability of fertilizer (urea and sulfur, 20% of which is sourced from the Persian Gulf), paralleled by the concomitant bankrupting of many farms; and
- **electronics** cost/availability issues due to the cutoff of Qatar's significant contribution to the world's supply of the helium required for computer chip manufacture.

The shortages will in turn create inflation — e.g., Apple's recent announcement of a \$2-300 increase in iPhone prices. All of this is worth considering and planning for, going forward.

But there's much more . . .

It isn't just oil and gas. Johnson gathered more information for a subsequent post.

Strait of Hormuz Remains Open for Those Who Adhere to PGSA Protocols, But Global Economy Faces Inflationary Shock

Larry C Johnson
June 29

<https://larrycjohnson.substack.com/p/strait-of-hormuz-remains-open-for>

- **Helium** — Helium plays a key role in the manufacture of computer chips.
 - Qatar produces a third of world's helium in the course of natural gas extraction.
 - Those facilities were hit by Iran, and QatarEnergy suspended delivery contracts until the end of the war, with additional delays, causing prices to spike.
 - The helium in a ship's cryogenic container will evaporate in about 45 days, so any helium rerouted from other sources will suffer significant losses.
- **Sulfur** — Sulfur is used in fertilizer and for sulfuric acid leaching of metals from mined ore.
 - 24% of world supply (and 50% of the seaborne trade) of sulfur comes through the Strait of Hormuz.
 - The World Bank cited a doubling of sulfur prices between January and April
 - China has restricted sulfur exports, adding to the shortage.
 - The world fertilizer price index is slated for a 30% increase this year.
- **Urea** — Urea is the basis for most nitrogen fertilizers
 - 46% of the world's urea and 20% of all seaborne fertilizer comes from the Gulf.
 - Prices were \$400-490/metric-ton before the war, rising to as high as \$850.
 - The recent Memorandum of Understanding promised to open the Strait, initially lowering prices, but the violations of it by Israel's Lebanese attacks and Trump's inexplicable threatening to destroy Iran have put that agreement in jeopardy.

We have a long way to go, and not a lot of time.