

Infrastructure Situation Report

China Protects Domestic Fuel Supply as Iran Conflict Pressures Supply Chains and Logistics

March 23, 2026



Bottom Line Up Front

- China is responding to the Iran conflict as a fuel security and supply continuity challenge, with measures aimed at protecting domestic availability and stabilizing transport-dependent sectors.
- The main near-term risk to China is not confirmed nationwide retail fuel shortage, but growing pressure on supply chains, freight networks, industrial inputs, and fuel procurement reliability.
- Disruption to Gulf energy flows is increasing uncertainty around crude arrivals, refinery planning, inland distribution, and downstream logistics across China's manufacturing and transport system.
- China's use of export controls, price management, and domestic supply prioritization may reduce immediate internal disruption, but these measures do not remove the risk of broader supply chain friction if disruption persists.

Risks and Vulnerabilities Summary

- **Fuel import and supply continuity risk:** China remains vulnerable to prolonged disruption affecting seaborne energy flows from the Gulf. Even where physical shortages are not yet visible at the national level, reduced predictability in crude arrivals and higher replacement costs can complicate refinery scheduling, distribution planning, and fuel balancing.
- **Freight and logistics disruption:** Tighter diesel conditions and fuel market volatility increase risk for trucking, warehousing, port-linked distribution, and regional cargo movement. The most immediate disruption pathway is likely to be higher operating costs, delivery delays, and reduced schedule reliability rather than outright system-wide stoppage.
- **Aviation and commercial transport exposure:** Jet fuel market tightness and broader energy uncertainty may affect airline operating costs, route economics, cargo uplift, and airport-linked logistics planning. Even where flights continue normally, tighter fuel conditions can reduce resilience across commercial transport networks.
- **Manufacturing and industrial input pressure:** China's industrial base is exposed through higher fuel costs, feedstock volatility, and possible delays in energy-linked inputs. Petrochemicals, heavy industry, mining, and fuel-intensive manufacturing are likely to face tighter planning conditions if disruption continues.
- **Downstream supply chain risk:** Fuel market instability can extend beyond refiners and distributors into factory throughput, last-mile delivery, export processing, and supplier performance. Companies that depend on just-in-time movement or narrow inventory margins may face increasing operational friction even without formal fuel rationing.
- **Policy distortion risk:** Measures that protect domestic stability, including export restraint, state coordination, and price controls, may help reduce immediate disruption inside China but can mask underlying stress. If the external shock lasts longer, the burden may shift to refiners, distributors, logistics providers, and industrial operators.

Outlook and Assessment

- China is likely to maintain a controlled fuel management posture over the near term, with the immediate objective of preserving domestic distribution stability and limiting disruption to transport and industry.
 - **Confidence: High.** Current policy direction supports continued administrative management of supply and pricing. This approach is well suited to absorbing short-term disruption, though its durability is less certain under a prolonged external shock.
- The conflict is likely to affect China more through supply chain friction and logistics inefficiency than through rapid, nationwide fuel scarcity in the immediate term.
 - **Confidence: Moderate.** Current indicators suggest China is containing immediate domestic disruption, but transport costs are rising, procurement is becoming more difficult, and industrial planning is under greater pressure. Impacts are likely to vary by province and sector.
- China’s manufacturing and freight networks are likely to face rising operational pressure if disruption to Gulf-linked energy flows continues into the medium term.
 - **Confidence: Moderate.** China has stronger buffers and coordination mechanisms than many regional peers, but prolonged uncertainty in fuel supply and cost conditions would likely affect trucking, industrial output, and delivery reliability.
- Additional state intervention is likely if authorities judge that fuel market stress is beginning to affect strategic sectors or broader economic stability.
 - **Confidence: Moderate.** Further intervention would be consistent with current policy direction, especially if authorities seek to protect freight movement, aviation, and priority industrial activity from deeper disruption.

Potential indicators of escalation: tighter domestic fuel allocation measures, wider export restraint, signs of refinery scheduling pressure, longer inland freight delivery times, increased logistics surcharges, localized fuel queuing, signs of industrial procurement delay, or evidence that transport-intensive sectors are facing reduced operating flexibility.

Potential indicators of de-escalation: more stable crude arrival patterns, reduced pressure on domestic fuel pricing, improved freight reliability, easing procurement conditions for airlines and logistics providers, resumption of more normal refinery planning, or reduced need for additional state market intervention.

Business implications: Companies with exposure to China should focus less on immediate nationwide shortage risk and more on second-order disruption to freight, procurement, industrial throughput, and delivery timing. The most likely near-term challenge is a less efficient operating environment, with higher transport costs, reduced scheduling flexibility, and greater uncertainty across fuel-dependent parts of the supply chain.

Global Insights Confidence Levels

High	Moderate	Low
This judgment is based on strong, credible, and typically corroborated reporting, supported by a clear analytic basis and relevant precedent or observable indicators. Some uncertainty may remain, but it is unlikely to change the core assessment.	This judgment is based on a reasonable body of reporting and sound analytic reasoning, but important gaps, conflicting information, or a fluid environment leave meaningful uncertainty. New information could materially refine or alter the assessment.	This judgment is based on limited, fragmentary, weakly corroborated, or highly uncertain reporting, or on a scenario with several unresolved variables. The assessment is plausible, but it should be treated with caution because new information could significantly change it.

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