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Iran: The US Needs to Find an Offramp, Soon

Greg Priddy

Senior Fellow, Center for the National Interest

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Executive Summary

Since the April 7 ceasefire that halted the exchanges of strikes between the United States and Israel on one side, and Iran on the other, the Trump administration has taken a relatively inflexible stance in negotiations mediated by Pakistan. While accepting that the situation will not be resolved by a change in government in the near term in Iran, the administration has remained unyielding in its demand for a complete cessation of uranium enrichment. US officials have not been willing to entertain Iran's proposals for limited enrichment under IAEA safeguards, which might follow a time-limited moratorium. There are plenty of other issues that divide the two sides, including how to handle the Strait of Hormuz, but enrichment is the core issue.

The United States has approached the problem confident that time is on its side, now that it has imposed a naval blockade on Iranian oil exports and seaborne trade. Part of this confidence—apparent in some of President Donald Trump's public statements—is the assumption that the blockade will lead to rapid, severe, and permanent damage to Iran's oil infrastructure when it runs out of capacity to store the crude oil it would otherwise have exported. This view is wildly exaggerated and runs counter to how Iran has weathered this challenge before, when oil exports declined to *de minimis* levels under sanctions.

This strategy also ignores the mounting dislocations in the world economy resulting from the closure of the Strait of Hormuz. The United States does not have the luxury to ignore that factor. If the closure remains in place through the summer months, the domestic impacts will extend far beyond escalating fuel prices, stoking inflation, and likely raising unemployment. They will also cause supply chain disruptions in critical sectors such as semiconductors.

Washington should not sacrifice America's interest in restoring the normal flow of commerce in the Persian Gulf to an overly rigid position on uranium enrichment. The United States absolutely does have an interest in preventing Iran from obtaining nuclear arms. Still, limited enrichment under safeguards has been implemented before under the JCPOA, with which Iran complied. The Trump administration would be well advised to adopt a more flexible stance in negotiations, exploring what concessions Iran might be willing to make on other issues in return for flexibility on limited enrichment after a moratorium.

The Current State of the Conflict and the Trump Administration's Theory of Victory

Over two months have passed since the United States and Israel began air strikes against Iran. A ceasefire remains in place, and a deadlock persists in the indirect US-Iran negotiations mediated by Pakistan. Iran has been mostly successful in its attempts to interrupt the normal flow of commerce through the Strait of Hormuz, and Washington has countered with a naval blockade seeking to interdict Iranian oil, petrochemical exports, and inbound trade. Neither side has thus far been willing to make major concessions on the core issue of uranium enrichment, which the US demands that Iran give up, and which Iran claims must be acknowledged as its "right" under the Nuclear Non-Proliferation Treaty (NPT).

On April 29, President Trump announced that he had rejected an Iranian proposal to open the strait to shipping in return for an end to the US blockade, leaving the nuclear issues and the question of lifting US sanctions for later. In his public remarks, President Trump strongly [suggested](#) that he was waiting for the economic impacts of the US blockade on Iran to force it to capitulate. "The blockade is genius. Now, they have to cry uncle, that's all they have to do," he said. Subsequently, on May 10, Iran [rejected](#) a US proposal and submitted a counterproposal, which President Trump deemed "[unacceptable](#)."

Both sides also seem reluctant to return to active combat, at least on a sustained basis, though President Trump has said the ceasefire is "on [life support](#)" after the latest exchange of proposals. The US side has run down both its stocks of munitions and targets in Iran and would probably prefer to avoid the international controversy that would result from targeting civilian infrastructure like power plants and water desalination facilities, which President Trump has previously threatened to do.

Iran, of course, would like to avoid that too, and US officials and military leaders are now aware of Iran's ability to target some of the more important Gulf Arab energy infrastructure, which it has thus far largely spared, which would be the likely result. The United States has reportedly readied plans for "[short and powerful](#)" strikes it could deploy to break the deadlock without an indefinite return to hostilities. Still, Iran would almost certainly respond in kind.

In essence, the conflict has become a test of economic pain thresholds, as Iran suffers severe economic damage from the blockade and the United States and the rest of the world feel the economic impacts of higher oil prices, interrupted flows of liquefied natural gas (LNG), as well as shortages of petrochemicals, fertilizer, and helium. Inventories provide a good deal of leeway in the short term. Still, it is obvious that if global crude oil supplies were reduced for an extended period, the world's economic activity would decline, albeit by a smaller percentage than the loss of oil due to efficiency gains.

Both sides seem to think that they can win in an economic war of attrition. While it would be difficult to

calculate precisely, Iran is clearly facing much greater economic losses. The issues at stake, however, are existential for the Iranian regime. Uranium enrichment has become a nationalist touchstone in Iran, with a government spokesman recently [terming](#) it “sacred to us, as is Iranian soil.” The United States is banking on the pressure of both economic privation and possible infrastructure damage to lead to Iran’s capitulation.

Washington is facing much smaller economic losses, but it is a democracy with a population not accustomed to suffering severe economic dislocations from international conflict. The issues at stake are also nowhere near existential in the eyes of most Americans, though they rise to that level for many Israelis. President Trump is the primary decisionmaker on the US-Israel side, not Prime Minister Benjamin Netanyahu. Iran is banking on the American public to generate pressure on the Trump administration to come to a compromise with Iran, which Israel would face pressure to acquiesce.

Optimism About the Effectiveness of the US Blockade

The Trump administration seems very confident about the rapid efficacy of the US blockade. In remarks on [Fox News](#) on April 26, President Trump said very specifically that Iran only had “about three days” of crude oil storage capacity left, after which it would be forced to shut in wells, causing permanent damage. Treasury Secretary [Scott Bessent](#) said on April 27 in public comments on X that “Iran’s creaking oil industry is starting to shut in production thanks to the US blockade” and that “pumping would soon collapse” along with “gasoline shortages” in Iran.

Clearly, if Iran’s oil exports were completely cut off, it would eventually have to shut in wells—it has done so before under the impact of US sanctions. But why the specificity about the exact date storage capacity would be exhausted? Shut-ins often result in a loss of production capacity when they are reactivated. Why is the administration so sure that the impact in this case would be so catastrophic that Iran could not hope to absorb the blow and would be forced to capitulate?

The answer seems to be that the administration was influenced by a [brief analysis](#) published on the *Foreign Affairs* website on April 15 by Miad Maleki, a senior fellow at the Foundation for the Defense of Democracies, who has previously served as an associate director of the Office of Foreign Assets Control at the US Treasury Department. As the title

suggests, the [piece](#) argues that the Strait of Hormuz is “more a weakness than a weapon” for Iran. The core assertion is that “Within weeks of a blockade, the country could run out of food, as well as space to store unshipped oil, requiring it to decrease or stop production at major oil wells—an act that can damage such infrastructure permanently.”

The piece does marshal a good number of accurate observations about weaknesses in the energy sector, such as Iran’s very limited ability to load oil outside the strait at its alternative port of Jask on the Arabian Sea, the fact that over two-thirds of Iran’s export revenues come from sales of hydrocarbons, including petroleum products and petrochemicals, and that Iran is reliant on imports for much of its gasoline. It also points out that Iran is the largest importer of grains and oilseeds in the Gulf—not surprising, given its large population.

The view seems to have taken hold in the White House that Iran faces a ticking time bomb—if its storage tanks fill up, which they would do within a couple of weeks under a blockade, then Iran runs into a disastrous loss of much of its oil industry, from which, at least for those fields and wells, it would not recover.

This argument has many weak points. First, Iran has several workarounds to avoid well shut-ins. Maleki’s piece mentions the option of floating storage but does not note that Iran has a significant number of tankers returning after discharging cargoes overseas, some of which continue to arrive despite the blockade. It has also taken old tankers and railcars out of storage for this use. The date at which it will

have to shut in production in significant volumes seems to be further out than President Trump and Secretary Bessent believe—analysts at [industry](#) consulting firms are split. Some put it as far out as mid-June.

Even if it is less immediate, it is still a problem—but much less so than President Trump apparently believes—and not likely to be painful enough to cause Iran to cave in on enrichment. A subsequent [analysis](#) by Robin Mills, an Emirates-based industry consultant and non-resident fellow at Columbia University’s Center for Global Energy Policy (CGEP), suggests that if Iran had to shut in large amounts of production, it would come back online with only very modest capacity losses, which could be restored with appropriate maintenance work.

As he points out in detail, most of Iran’s fields lack the geological or production characteristics that make restarts extremely difficult. Indeed, because most forecasters now expect crude oil prices to remain at least somewhat elevated for a couple of years after the current crisis ends, due to the sharp drawdowns in global oil inventories, higher prices might offset losses in Iranian volumes from shut-ins. Halting production at some oilfields is not going to bring Iran to its knees.

The gasoline shortage alluded to is also manageable, based on the number Maleki cited in the article. Iran’s gasoline deficit is about 4 million gallons per day, out of a total consumption of 30 million gallons per day. Iran does import food commodities, but there

are alternative suppliers accessible over land routes, including Russia. Pakistan has also quietly made its Arabian Sea ports available to unload [cargoes](#) of goods destined for Iran. Those overland routes are already functioning.

It is also instructive to note that Iran has on two previous occasions seen its oil exports knocked down below 500,000 bpd—first when President Barack Obama imposed sanctions in 2012, and then in 2018 when President Trump left the JCPOA. In both cases, it took time for Iran to develop workarounds. In the latter case, tighter enforcement under the first Trump administration, combined with the demand effects of the COVID-19 pandemic in 2020, kept Iranian exports below 500,000 bpd for about two years. Both cases involved substantial shut-ins of production assets, but in neither case did it lead to catastrophic consequences for the Iranian oil industry.

In the first instance, under President Obama, the JCPOA's implementation led to sanctions relief for Iran in January 2016. Iran surprised the market by adding 800,000 bpd to its output within six months afterward. The state-run oil company had been conducting its own well workovers and did not require any foreign assistance. In the second case, the Trump administration was demanding Iran completely give up enrichment, and the pressure of having to shut-in production did not change Tehran's position on this issue.

Obviously, the US blockade is going to do serious harm to Iran's economy, the effects of which will be felt by the population, but the idea that it will bring Iran to its knees quickly is overstated.

Harm to the US Economy Makes Maintaining the Blockade a “Lose-Lose” Scenario

While it is highly unfortunate given the nature of the Iranian regime, Iran's leaders do hold a few important cards in this standoff, including effective control of the Strait of Hormuz. Many on the hawkish side of the American Iran policy debate argued that Tehran would not or could not close the strait, given Iran's purported weaknesses. Nevertheless, it did. It is also clear at this point that the Trump administration has a strong aversion to deploying US troops to seize portions of Iran's coastline and local islands near the strait, given the potential for high casualties and a costly occupation. Within those parameters, it will be necessary to reach some sort of agreement with Iran to restore normal shipping in the strait.

For the global oil market, the impacts of the crisis are becoming increasingly apparent after two months. There was a time lag during which cargoes of crude oil loaded on or before February 28 were still *en route* to delivery, but the last such cargoes reached their destinations in late April. Now, massive draws on commercial inventories have begun, even though in some markets, including the United States, there are countervailing flows out of government-held strategic stockpiles. America has seen sharply increased export flows as refineries in Asia and Europe seek alternative supplies wherever available. Thus far, the impact in the United States has been manageable—an

increase of about a dollar in US gasoline prices to a national average of \$4.40 per gallon as of May 5.

Americans have also been cushioned against the impact of lost Qatari liquefied natural gas (LNG) because the United States is a significant net exporter of natural gas, with limited liquefaction capacity for exports. But contrary to what many Americans believe, the country's status as a net oil exporter has limited utility in insulating its people from the economic consequences of shortages in the globally integrated system for producing, transporting, refining, distributing, and consuming oil and oil products.

Looking forward, the impacts are about to become much more pronounced. Drawdowns from the US Strategic Petroleum Reserve (SPR) and other OECD government-held or government-mandated stocks have masked the impact on commercial inventories, but those will eventually end. As a recent analysis by the commodities team at [JP Morgan](#) pointed out, while the world began this crisis with about 8.4 billion barrels of crude oil inventories, the global midstream and refining sector will reach a point of "operational stress" when the drawdown hits only 800 million barrels. Much of this inventory is caught up in pipeline fill, minimum tank levels, and the like.

JP Morgan's analysts predict that if traffic shutdowns in the strait continue at their current level, OECD countries would reach "operational stress" in June and "operational minimums" by September, even assuming a 5.5 million bpd demand destruction. That implies that use of strategic stocks has delayed the

worst economic impacts but not averted them unless the situation is resolved soon. The result could be a "non-linear" price spike past \$150 per barrel. Analyses from other major investment banks, including [Goldman Sachs](#), have similar price impacts.

Given that the United States is now a net oil exporter, some Americans, including President Trump, seem to think this insulates us from these impacts, with the president noting that Asian and European refineries are now coming to the United States to purchase from our inventories. This is draining US inventories at a more rapid pace. President Trump has statutory authority to ban oil exports in an emergency, but this would not be an attractive option, as US-produced crude is, on average, "lighter" than optimal for many US refineries, which were built to process imported oil with different characteristics. Exporting some domestic oil and blending some of it with heavier grades makes sense, given the configuration of domestic refineries.

On top of this, refineries have only a very limited ability to adjust the output of different types of petroleum products with any given refinery setup and grade of crude oil. Thus, while a ban or restrictions on crude oil exports might temporarily limit or reduce gasoline prices in the Southern and Eastern United States, it would lead to underproduction of diesel and jet fuel, which are already in shorter supply globally. It is simply not a viable alternative.

In addition to the shock from petroleum prices, farmers in the United States and worldwide are facing an acute shortage of fertilizer during this summer's

growing season. The Middle East is the source of 42 percent of the world's urea and 27 percent of its ammonia, according to a [JP Morgan report](#). It is also a major source of sulfur, a key ingredient in phosphate fertilizers. [American farmers](#) are already feeling these impacts and, in some cases, adjusting their crop choices. JP Morgan economists estimate that the fertilizer shortage may push food commodity inflation to 4–5 percent this year. As with energy, there is a lag, but this will show up in US consumer food prices in the fall, before the 2026 midterm elections.

The mood in US financial markets has remained positive despite two months of disrupted oil supplies, but this is mainly due to the strong expectation that the disruption will be of limited duration. Strong corporate earnings in the technology sector from the first business quarter of 2026 have also helped. But the aggregate impact of the oil shock will only worsen the longer it lasts.

Goldman Sachs recently revised its probability of a US recession to 30 percent, largely based on the oil shock, even though its baseline assumption remains that it will be resolved before June (and the implicit corollary that the risk will likely increase if it is not). The Bond-rating agency Moody's now has a 49 percent probability of a US recession in 2026. To be sure, the US impact will be much less than that on developing economies, given the lower energy intensity of US GDP, but if the stalemate drags on into the summer months, it will be material.

A Better Alternative: Negotiate Toward a Compromise on Enrichment

Given the low likelihood of Iran's rapid capitulation, the increasing costs to the United States over time, and the lack of a feasible military solution to open the strait at an acceptable cost, the Trump administration clearly does not "hold all the cards" in this situation. The Trump administration's approach of laying out "take it or leave it" proposals coupled with threats of renewed military action (including against civilian infrastructure), which it does not carry out, has not been successful. The best course of action at this point for overall US interests would be greater flexibility and a recognition that Iran has significant leverage.

To be clear, Iran's nuclear program has never been an innocent pursuit. Tehran's desire to resume enrichment in the future stems not only from national pride but also from the desire to have a "warm industrial base" of nuclear personnel and facilities that can enrich uranium, build advanced centrifuges, and perform other tasks required for a nuclear capability if the regime chooses to attempt that in the future. In the Iranian view, mastering nuclear technology enhances its geopolitical heft, even in the absence of a nuclear arsenal. That said, when Iran accepted limits on uranium enrichment and enhanced IAEA inspections under the Additional Protocol,

it complied. Nonetheless, Iran has never given an honest and thorough account to the IAEA of their pre-2003 nuclear weapons program research.

Trump administration officials will have to decide what America absolutely needs about Iran's nuclear ambitions and separate it from what would be nice to have. What the United States needs is verifiable non-weaponization under safeguards that would allow it to detect any attempts to move toward weaponization. It would be better to compel Iran to give up enrichment as well, putting the country even further away from weaponization, but that is unlikely to be achievable at acceptable costs, as the United States is now learning. The path out of this impasse will likely lead back to some form of JCPOA-like agreement that permits Iran to conduct limited enrichment under safeguards, unless the administration can convince the American public to bear a much heavier economic and military burden than voters have so far accepted.

It is also clear that there will need to be an initial framework agreement, followed by a full agreement. The urgency of restoring normal commerce does not allow for the extended negotiations required for a full agreement. But the Trump administration also has been correct not to accept Iran's demand that the entire nuclear file be postponed. The most important aspects of that—especially enrichment and the disposition of existing nuclear materials—need to be included in the initial framework agreement. Iran seems to be open to discussing those as part of an

initial agreement, unlike in previous rounds.

It is not clear precisely how the United States has addressed enrichment in the current negotiations. The Trump administration has broached the idea of a moratorium for a set period. Still, Iran has always sought an acknowledgment that it has a "right" to enrichment under the NPT and that it will be permitted to resume enrichment after a moratorium. Some observers had inferred that a time-limited moratorium implied this possibility. Still, President Trump told PBS News in an [interview](#) on May 6 that US acquiescence in Iranian enrichment capped at 3.67 percent after the moratorium was "[not part of the deal.](#)"

Secretary of State Marco Rubio's public comments at the White House on May 5 emphasized other countries' ability to pursue nuclear energy programs without ever engaging in enrichment, an analogy that also does not suggest US acquiescence to Iran resuming enrichment after the moratorium. Whatever Washington has offered on this has not yet been specific enough to be acceptable to the Iranian side, and it would make sense to explore how to overcome that.

On the other hand, the near-weapons-grade 60 percent HEU stockpile, which requires very little additional centrifuge time to raise to 90 percent or higher weapons-grade material, must be addressed. This is enough material for a nuclear test and a small arsenal—a dozen or so warheads—if it were ever further enriched and weaponized. Iran has been firm

in not shipping the material out of the country, but in down-blending it locally. Nonetheless, it agreed to ship out its 20 percent HEU under the JCPOA. It might become more flexible on this point if the administration is flexible on enrichment.

Iran has also hinted at flexibility regarding the Strait of Hormuz, though it is not clear precisely what it has proposed. Preserving freedom of navigation in the strait is a core US interest in the region, for reasons now apparent to all. The United States should push back against any permitting or tolling requirements that Iran may seek to impose. Iran has demonstrated its ability to disrupt normal trade flows, thereby enhancing its diplomatic leverage. Still, even Iranian leaders may realize that a tolling system would permanently inhibit reconciliation with their Arab neighbors and, more than that, generate long-term grievance and resentment that would find expression in ways harmful to Iranian interests. Iran has not previously asserted this as a right and may reciprocate here if the United States is flexible on enrichment.

The bottom line is that US interests will be best served by flexibility in crafting an agreement that reflects the unfortunate power dynamic established by Iran's geography. Continuing to expect full Iranian capitulation is unrealistic and will impose unacceptable costs if the standoff drags on into the summer months. Washington and Tehran can either agree to enrichment under safeguards now or subject the American public to more economic pain later. Accepting reality is the better approach.

About the Author

[Greg Priddy](#) is a senior fellow for the Middle East at the Center for the National Interest. He also consults for corporate and financial clients on political risk in the region and global energy markets. From 2006 to 2018, Mr. Priddy was director, Global Oil, at Eurasia Group. His work there focused on forward-looking analysis of how political risk, sanctions, and public policy variables impact energy markets and the global industry, with a heavy emphasis on the Persian Gulf region. Prior to that, from 1999 to 2006, Mr. Priddy worked as a contractor for the US Energy Information Administration (EIA) at the US Department of Energy. Mr. Priddy's writing has been published in *The New York Times*, *The National Interest*, *Barron's*, and the *Nikkei Asian Review*, among others.