Plastics & Resin Supply Chains

Impact of the US-Iran Conflict and Strait of Hormuz Closure

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Key Summary

How the supply chain works
Key resins related to consumer products (PE, PP, PVC, PET) ultimately trace back to crude oil and natural gas. Key feedstocks are naphtha, LPG, methanol, and ethane, which are cracked into ethylene and propylene, then processed into resins. Other resins (PVC, PET) follow different pathways but still trace back to naphtha, crude oil and/or natural gas. Australia has limited domestic manufacturing capability outside of polypropylene and is import-dependent.

Who does Australia import from?
Asia dominates - accounting for 95% of primary plastics/resin imports (1,136 kt in 2025) and 86% of finished plastic product imports (616 kt). The Gulf directly supplies only a small share of Australia's plastics, but plays a critical upstream role: it supplies ~60% of Asia's naphtha, ~70% of China's methanol, 45% of Asia's LPG, and 25% of global PP/PE trade.

The upstream feedstock shock
The Strait of Hormuz closure severely disrupted Gulf feedstock exports to Asia. Around 22% of Asian cracker capacity (excluding China) was disrupted, triggering widespread force majeure declarations in March-April 2026. Domestically, Viva rationed polypropylene. LPG and naphtha gaps have been partially filled by the US and other sources, while China has ramped up PP/PE exports to offset some shortfall using alternative production methods (methanol, ethane).

Price impact
Crude oil prices averaged ~40% higher in Q2 2026 and are not expected to return to pre-conflict levels until late in the decade. Naphtha peaked 70% above February levels in April and currently sits around 30% above pre-conflict. Ethylene/propylene rose 30–80% in March. PP prices are currently ~29% above pre-conflict (peaked at 50%); PE prices ~20% above (peaked at 40%). Domestic flow-through is visible - e.g. Norco's 10–20c per milk bottle, Reece plumbing up to +36% in April, food-grade resin from Singapore up 110% in April.

Where things stand now
A memorandum of understanding has been signed. Certain operators in Taiwan and Indonesia have ceased their force majeures, and Asian utilisation rates are beginning to edge up from their lows of 50–65%. That said, the Dow CEO has indicated the resins market needs 275 days to return to normalcy. Supply continuity is expected to improve, but prices remain structurally elevated - alternative feedstocks are more expensive, require longer shipping distances, and crude prices are expected to stay higher for years. A 30-day reopening window (with a 60-day toll suspension) is in effect, with other factors potentially delaying a return to normalcy through the Strait (e.g. mine clearing operations).

Key risks and actions
A severe downside scenario exists if the conflict reignites. An Australian industry response remains important – whether short-term (contracting, diversifying, recycled usage, inventory positioning) or longer-term such as domestic recycling capacity.

Please contact Thomas Westrup (twestrup@oxfordeconomics.com) if you wish to discuss any of the above further or explore how these dynamics may continue to affect your business.

Introduction

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Oxford Economics is the largest private economics consultancy globally with 500+ economists over 45 countries. We combine local industry expertise with the resources of the global firm to quantify the impact of shocks (or BAU) on Australian businesses and supply conditions.

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Session

1. **How the supply chain works**

Who does Australia import from?

2. **The upstream feedstock shock**

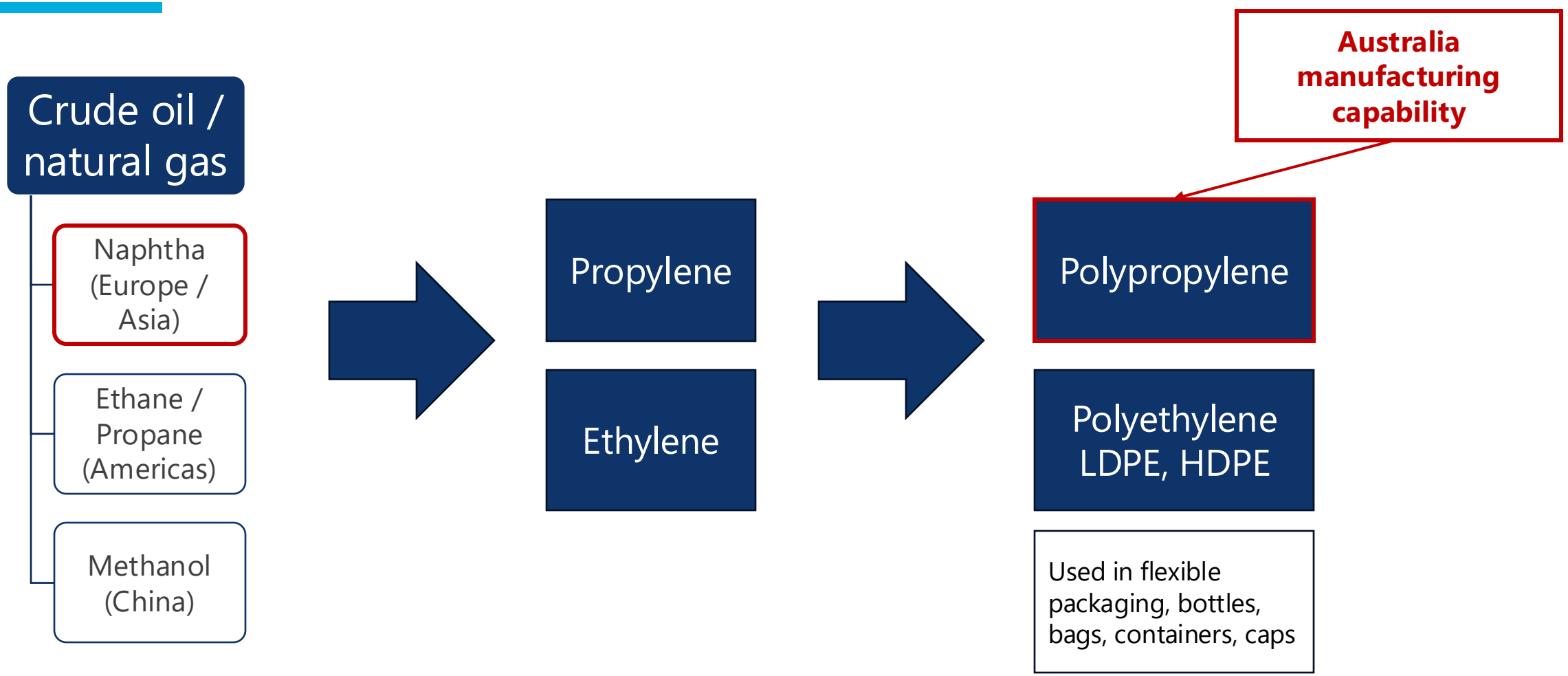
What the Strait closure did to petrochemical production?

3. **Price and supply impact**

Prices, supply availability and exposure

4. **What now?**

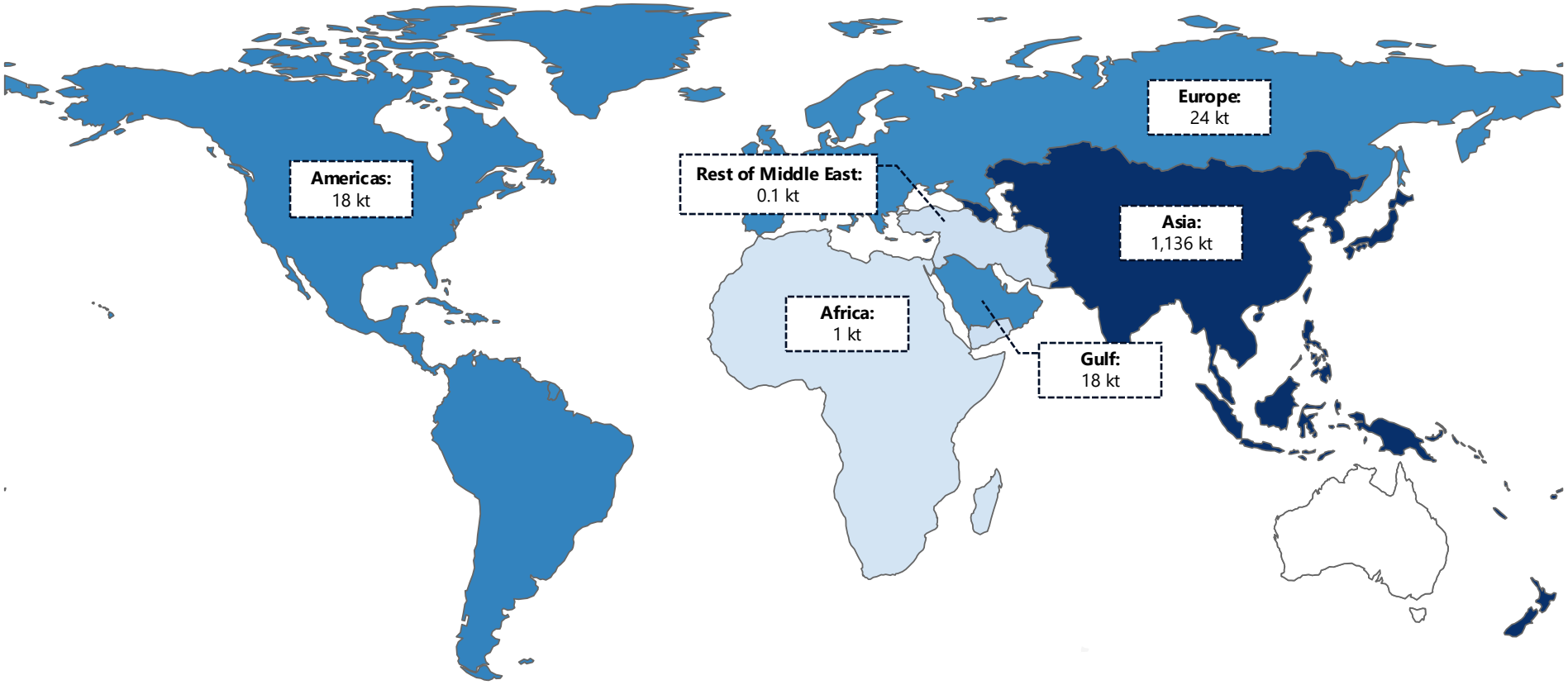
Plastic supply chains tied to crude oil and natural gas



There are other plastics impacted by the conflict but not shown above (PVC, PET, etc). The supply chains for these plastics diverge from the above but remain tied to crude oil / natural gas.

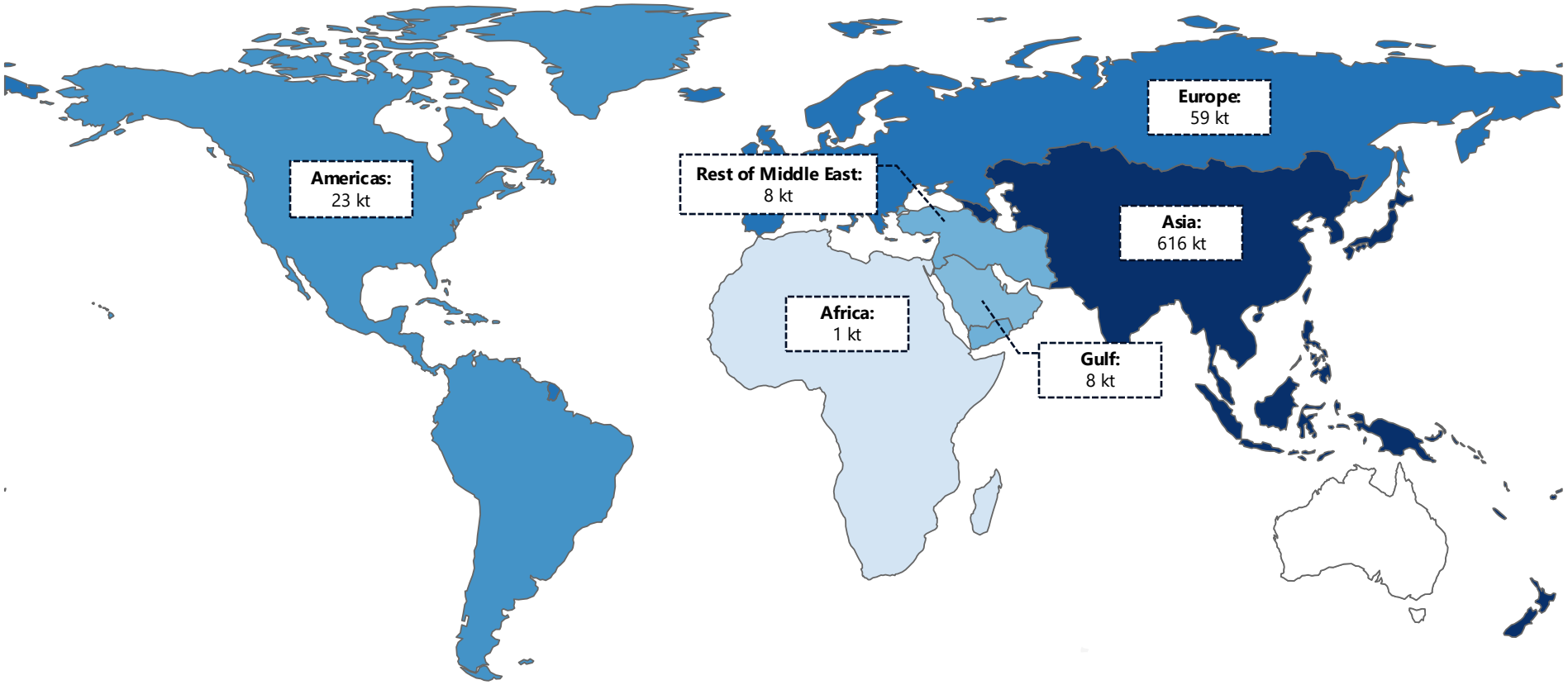
Australian imports of primary plastics/resins (PE, PP, PVC, PET)

Australian imports of primary plastics by region, 2025

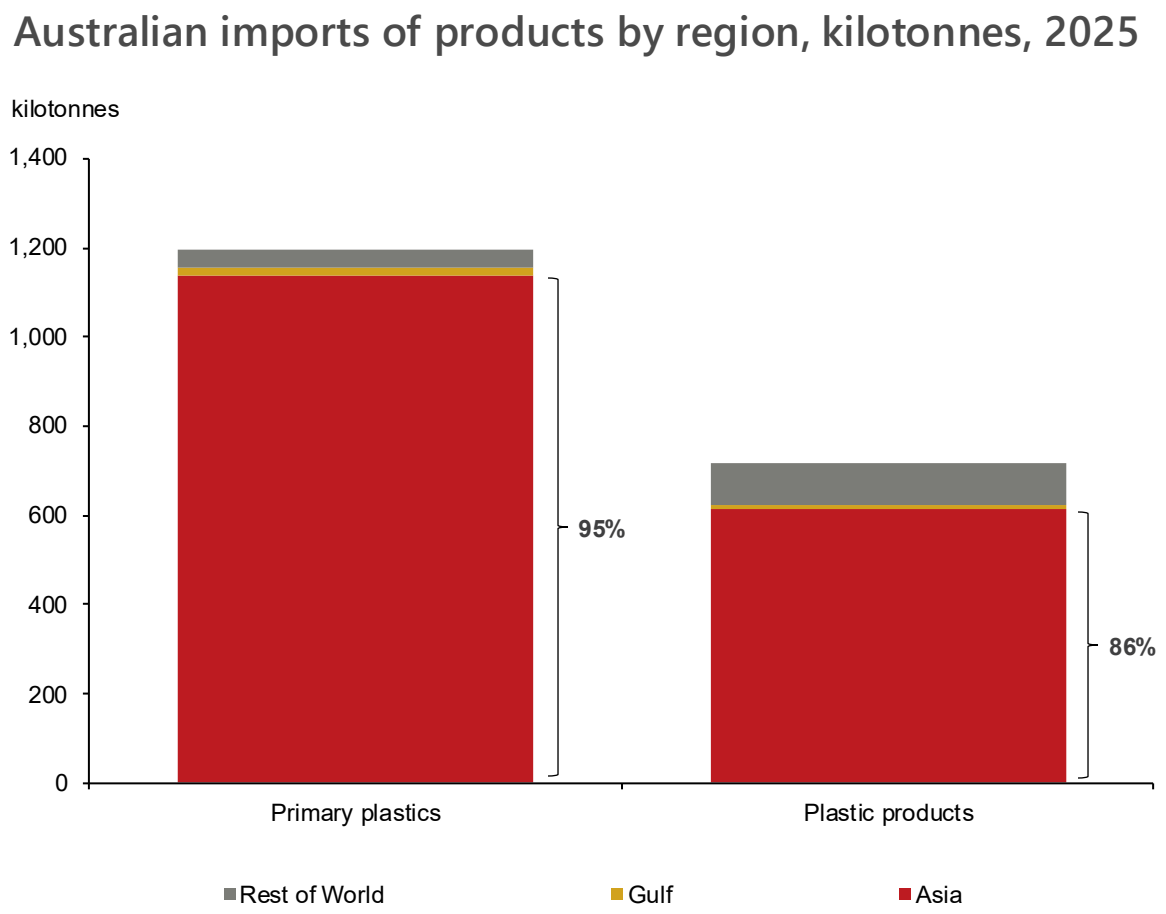


Australian imports of plastic products (sheets, films, pipe, etc)

Australian imports of finished plastic products by region, 2025



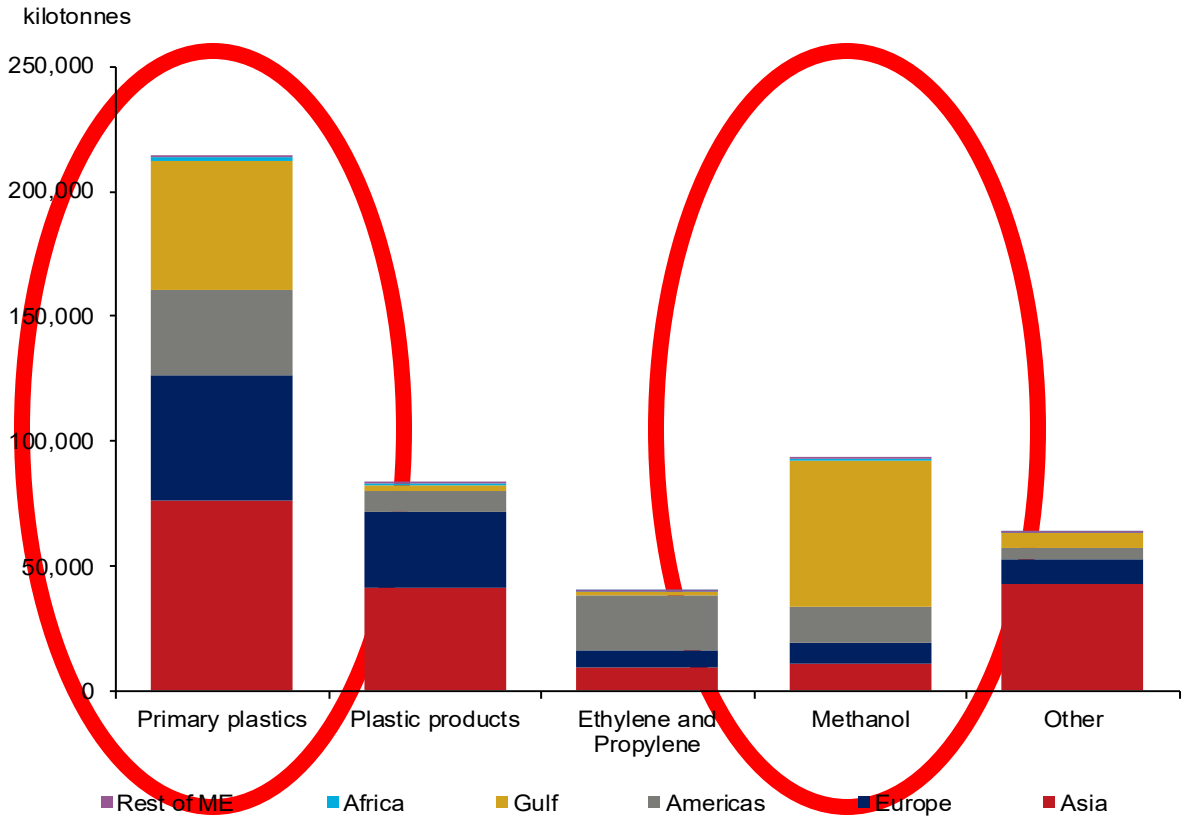
Asia accounts for over 85% of primary plastics & product imports



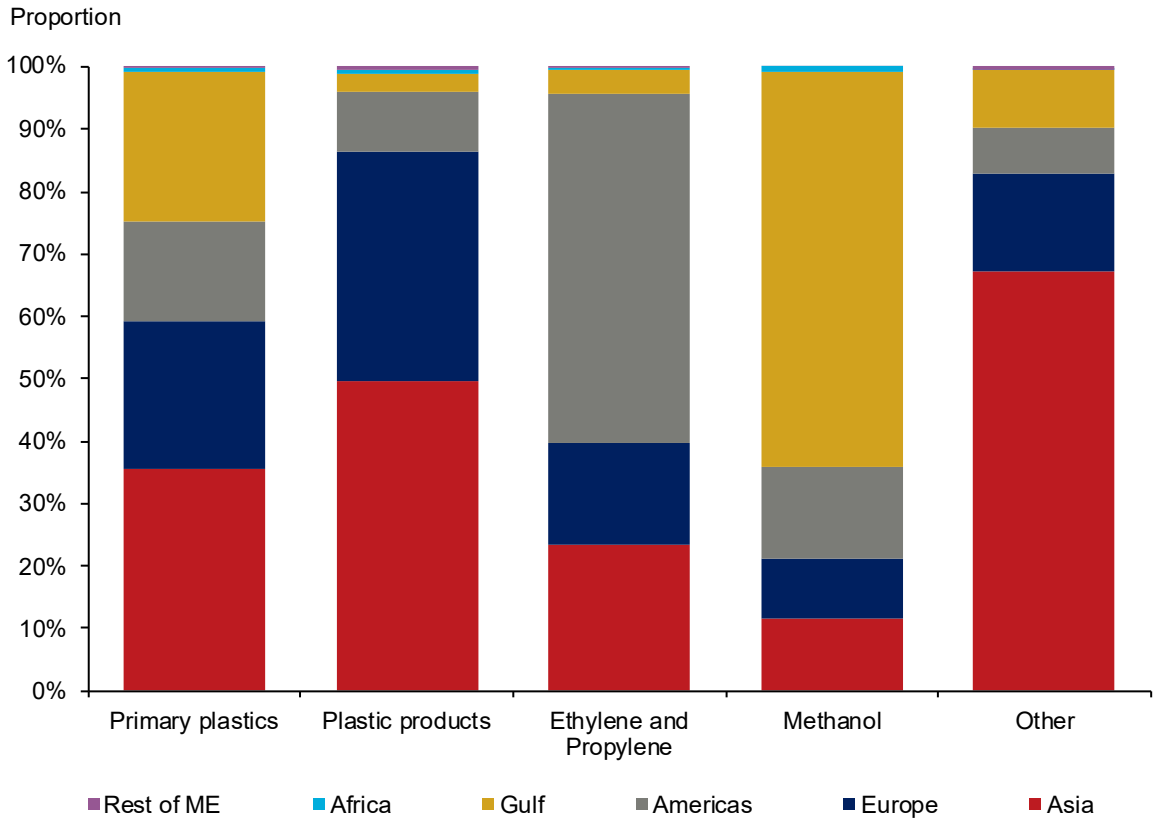
Gulf plays a substantial role in feedstock trade

Significant global exporter of naphtha, methanol, LPG, resins

Global exports of products by region, kilotonnes, 2025



Global exports of products by region, proportion, 2025

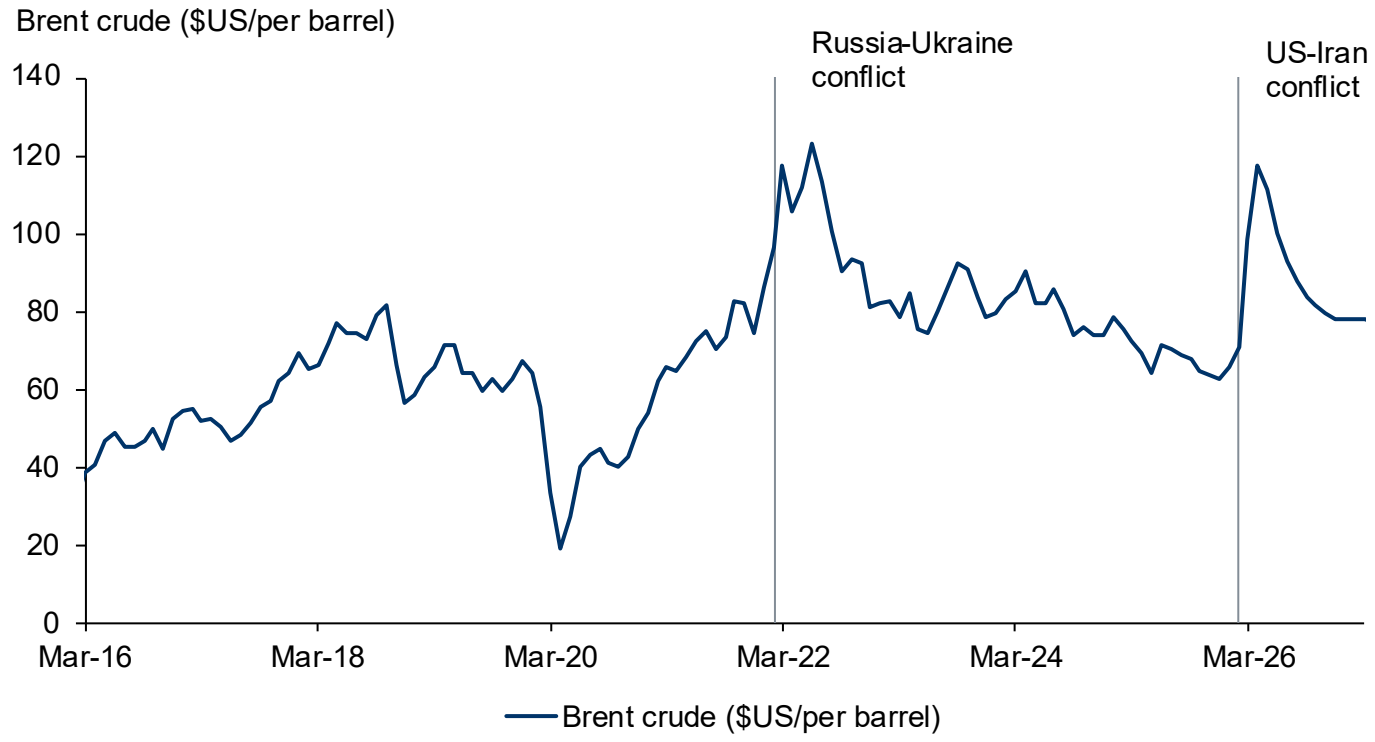


The main issue caused by the closure is upstream supply

- **Naphtha:** 60% of Asian imports of Naphtha secured from the Gulf
- **Methanol:** 70% of Chinese imports sourced from Gulf
- **Polypropylene / Polyethylene / Other:** Gulf accounts for 25% of global resin trade
- **LPG:** 45% of Asian imports of LPG sourced from the Gulf
- **Ethane:** minimal Gulf involvement and not predominant pathway for plastic production. However, China has lifted its resin production in response to the supply disruption by importing increased amounts of Ethane from the US (for polyethylene).

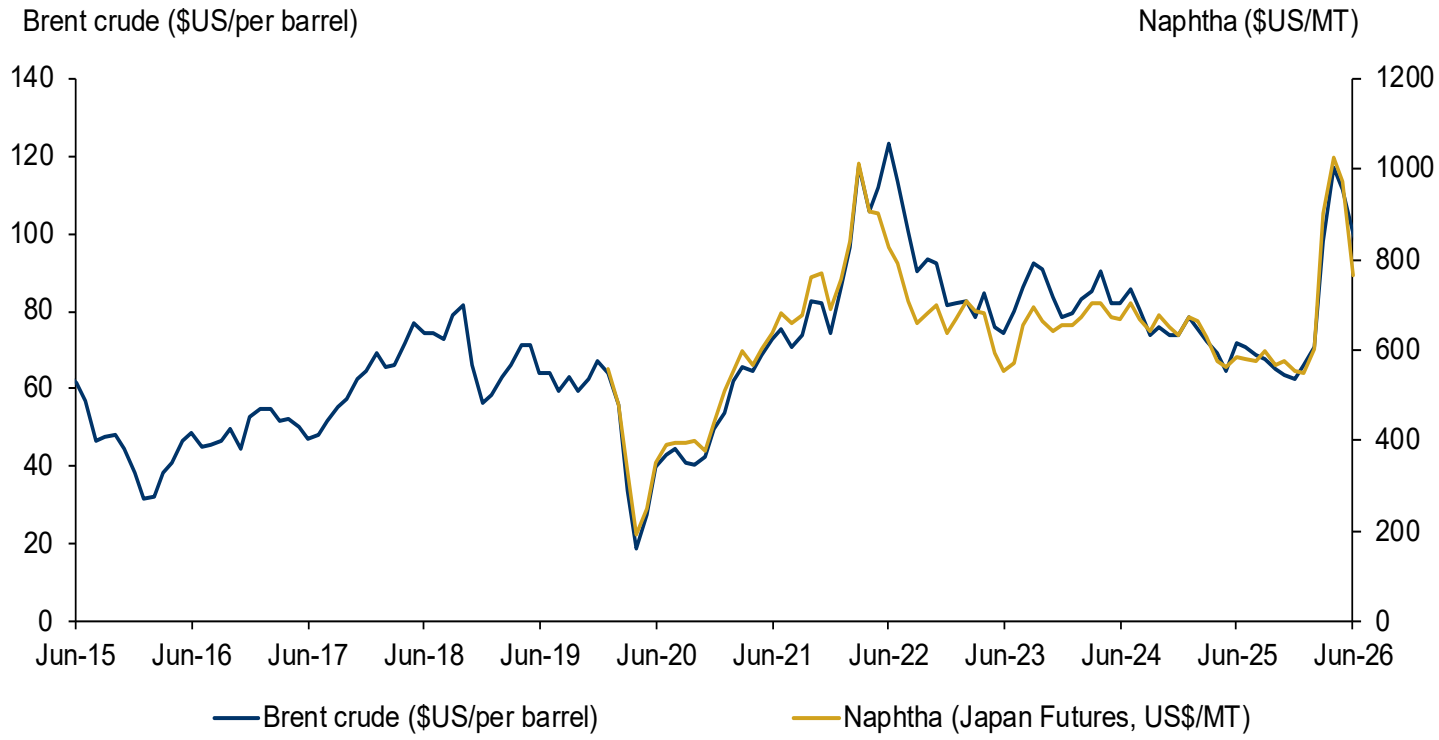
Crude oil prices averaging ~40% higher in Q2 2026

Crude prices won't return to pre-conflict levels until late in the decade



Naphtha prices currently sit around 30% higher than pre-conflict

April 2026 saw Naphtha prices 70% higher than February levels



Price pressures likely to remain as dominant near-term issue

Initially

- Feedstock shortages driving force majeure
- Reduction in Asia utilisation rates (to 50-65%)
- Permanent/extended loss of capacity
- Domestically – Viva rationing of Polypropylene

Recently

- Alternative feedstocks used to maintain supply
- Ramp-up in China production of resins
- Supply continuity, ceased force majeures (Taiwan, Indonesia) and Asia utilisation starting to edge up

Now

- Prices remain elevated and supply tightened
- Alternative feedstocks more expensive
- Crude prices structurally higher

What now?

- A memorandum of understanding has been signed
- Dow CEO has indicated that the resins market will need 275 days to return to normalcy.
- Premium in the market will remain, with supply certainty improving
- A severe downside scenario if the conflict reignites
- Australian industry response to conditions remain relevant